MINNESOTA OFFICE OF HIGHER EDUCATION

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

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 30, 2013

MINNESOTA OFFICE OF HIGHER EDUCATION

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As of and for the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Commissioner
Minnesota Office of Higher Education
St. Paul, Minnesota

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Minnesota Office of Higher Education's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Minnesota Office of Higher Education's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I, the Minnesota Office of Higher Education adopted the provisions of GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective July 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Commissioner
Minnesota Office of Higher Education

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnesota Office of Higher Education's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2013

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, 2013.

Introduction

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

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The Agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Agency 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 63 people of which 20 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 $150 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 enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities. Other core programs are the Student Educational Loan Fund ("SELF"), the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program.

The Agency's publications, 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 position increased $10.2 million or 2.4% from fiscal year 2012 to 2013, mainly as a result of student loan financing activities.
- The Agency received $192 million for fiscal year 2013 state appropriations in addition to the $10.4 million carry forward from the previous year. The Agency received $192.2 million for fiscal year 2012 state appropriations.
- The Loan Capital Fund issued 10,956 and 14,124 new loans in fiscal years 2013 and 2012, respectively, with the average student loan amount of $6,270 and $6,048, respectively.
- Loan Receivables in the Loan Capital Fund shrunk by $38.8 million or 5.6% during fiscal year 2013 and shrunk by $19.3 million or 2.7% during fiscal year 2012.
- On May 20, 2013 the SELF V student loan fixed interest rate was lowered from 7.25% to 6.9%.
- The Agency has 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, 2013 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- The Agency issued $375.0 million in variable rate revenue bonds during fiscal year 2013. Over the course of the fiscal year $8.7 million of Auction Rate Securities bonds were repurchased from investors and subsequently cancelled. The remaining $275.0 million were refunded with the 2012 revenue bonds.

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 Position* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position and the Statement of Activities, we divide the Agency into two kinds of activities:

- ***Governmental Activities*** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the Work Study Program, 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 loan program currently being administered by the Agency is the Student Educational Loan Fund ("SELF") 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 32 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 position increased by $10.2 million or 2.4%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

Table 1
Net Position

	2013			2012		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Assets						
Current and other assets	$ 7,730,754	$ 1,031,349,450	$ 1,039,080,204	$ 14,831,408	$ 973,133,628	$ 987,965,036
Capital assets—net	-	-	-	4,461	2,973	7,434
Total assets	7,730,754	1,031,349,450	1,039,080,204	14,835,869	973,136,601	987,972,470
Liabilities						
Current liabilities	5,614,086	1,653,739	7,267,825	13,275,990	1,222,793	14,498,783
Non-current liabilities	377,205	601,644,615	602,021,820	383,474	553,506,103	553,889,577
Total liabilities	5,991,291	603,298,354	609,289,645	13,659,464	554,728,896	568,388,360
Net position						
Net investment in capital assets	-	-	-	4,461	2,973	7,434
Restricted for grants and licensii	1,279,357	-	1,279,357	860,912	-	860,912
Restricted for debt service	-	428,051,096	428,051,096	-	418,404,732	418,404,732
Unrestricted	460,106	-	460,106	311,032	-	311,032
Total net position	$ 1,739,463	$ 428,051,096	$ 429,790,559	$ 1,176,405	$ 418,407,705	$ 419,584,110

Net position of the Agency's governmental activities increased by $563,058 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 position — the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — increased from $311,032 at June 30, 2012 to $460,106 at the end of this year .

Net loans receivable have decreased by approximately $38.8 million, or 5.6%, to $660 million. Largely due to federal changes in 2009 regarding preferred lender requirements for nonfederal student loans, the Agency continues to see a reduction in annual student loan disbursements and outstanding loans receivable.

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 earnings 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. The Agency had accrued $6,525,062 in excess earnings on the 2005B, and 2006 tax exempt bond issues. This liability was carried over to the Series 2012B bond which refunded the prior bond issues and refinanced the student loans.

Table 2
Changes in Net Position

	2013			2012		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	$ 1,197,497	$ 27,569,165	$ 28,766,662	$ 1,178,175	$ 44,191,954	$ 45,370,129
State appropriations	200,505,516	-	200,505,516	181,688,239	-	181,688,239
Federal appropriations	5,508,896	-	5,508,896	4,839,483	-	4,839,483
Total revenues	207,211,909	27,569,165	234,781,074	187,705,897	44,191,954	231,897,851
EXPENSES						
Program expenses						
General government	596,524	17,925,774	18,522,298	582,595	17,944,572	18,527,167
State appropriations	200,929,341	-	200,929,341	182,025,918	-	182,025,918
Federal grants	5,122,986	-	5,122,986	4,518,201	-	4,518,201
Total expenses	206,648,851	17,925,774	224,574,625	187,126,714	17,944,572	205,071,286
CHANGE IN NET POSITION	$ 563,058	$ 9,643,391	$ 10,206,449	$ 579,183	$ 26,247,382	$ 26,826,565

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) increased by $19.5 million (or 10.4%) to $207.2 million, while total expenses increased by $19.5 million (or 10.4%). The governmental activities revenue increase was due to state appropriation carry forward from fiscal year 2012 to fiscal year 2013 for individual student grants and interstate reciprocity. The expenditures increase was largely due to higher payments for individual student state grants and interstate reciprocity.

- State appropriation expenditures increased by $18.9 million to $200.9 million. $154.6 million was appropriated by 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.

The Agency currently receives federal grant monies from three different programs within the U.S. Department of Education and the U.S. Department of Justice. 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 $9.6 million in fiscal year 2013, which was 53% of expenses. $1.3 million of the increase was due to the repurchase of bonds at a discounted price.

Financial Analysis of the Agency's Major Funds

Governmental Funds

The General Fund is the chief governmental fund of the Agency, approximately 97% of the Agency's governmental spending. At the end of fiscal year 2013, 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 $191 million, a significant increase from $172.6 million in fiscal year 2012. Grant aid to postsecondary institutions and organizations decreased $81,000 to $1.2 million. Employee salaries increased $0.2 million from fiscal year 2012.

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 37.6% and expenses decreased by 0.1%. In fiscal year 2013, there was a slightly higher return for interest and investment interest income. The current interest rate charged to SELF II, SELF III, SELF IV and SELF V program student loans is set at a rate of 2.00%, 3.30%, 3.30% and 3.30%, respectively. Rates for the SELF II program have remained the same over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 0.70% 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 variable interest rate charged to borrowers with the same method as the SELF III program. The interest rate for the SELF V fixed rate program is set at a rate of 6.90% for new loans. For SELF V fixed rate loans made prior to May 20, 2013, the interest rate is set at a rate of 7.25%.

General Fund Budgetary Highlights

Over the course of the fiscal year, changes were made to the Agency's budget. $1.2 million of funds appropriated to the State Grant program were needed to fund the Interstate Reciprocity program. Actual expenditures were $1.95 million 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 up from 2012 by $0.2 million. As of June 30, 2013, the fair value of the Agency's investments was greater than cost by $54,490. 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.

DEBT ADMINISTRATION

At year-end, the Agency had $594,294,000 in bonds outstanding — as shown in Table 3

Outstanding Debt at Year-End
(in millions)

	2013			2012		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Revenue bonds	$ -	$ 594.3	$ 594.3	$ -	$ 547.3	$ 547.3

The 2008 supplemental revenue bonds have a rating of Aa3 by Moody's rating agency and AA- by Fitch rating agency.

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

The 2011A and 2011 B supplemental revenue bonds have a rating of Aa3 by Moody's rating agency.

The 2012 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.F. 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 2014 budget, rates, and fees that will be charged for the business-type activities. Due to federal legislative changes in 2009, 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 SELF loan program has several phases based on changes in calculating interest and other loan terms. For the SELF II phase, the current margin rate is set at 2.0%, the highest margin allowed under the SELF II phase, 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 phase of the loan 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 phase of the loan program began in July 2006 with minor changes. The SELF V phase of the loan program began in October 2010 with a fixed and variable interest rate option. The SELF III, SELF IV, and SELF V current margin is 3.0%.

For the fixed rate option of the SELF V phase of the loan program, the rate is currently set at 6.90% for new loans. For SELF V fixed rate loans made prior to May 20, 2013, the interest rate is set at a rate of 7.25%.

In 2010 the state legislature approved an increase in the annual loan limit to $10,000 for students enrolled in bachelor's degree, post-baccalaureate, or graduate programs. The increased limit became effective October 25, 2010. The undergraduate student annual loan limits for non-four year degree programs have a limit of $7,500.

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 2014. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of $13,000 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 $7,900 for the current biennium. 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.

The maximum annual award for Postsecondary Child Care Grants is set at $2,800 for the current biennium.

The MN Dream Act (also known as The Prosperity Act) was signed into law in May 2013. The following benefits are available for undocumented students who meet eligibility criteria: in-state resident tuition rates at public colleges and universities; state financial aid; and privately funded financial aid through public colleges and universities.

The Minnesota GI Bill provides up to $1,000 per term to eligible Minnesota resident students who are: veterans who have served in the U.S. armed forces at any time, spouses and dependents of veterans who have served in the U.S. armed forces at any time and who died or have a total and permanent disability as a direct result of their military service as well as non-veterans who have served in U.S. armed forces for a total of five years or more cumulatively and some part of that service is on or after September 11, 2001.

The Tribal College Supplemental Grant provides up to $5,300 per year to students enrolled in a tribally controlled college but are not members of a federally recognized Indian tribe.

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.

Funds were appropriated to the Office of Higher Education to improve and expand the Statewide Longitudinal Education System to provide policymakers, education and workforce leaders, researchers, and the public with data, research, and reports regarding students' educational outcomes and the effectiveness of educational and workforce programs.

The Agency's cash and investment balance increased $90.4 million, and the loans receivable – net balance decreased $38.8 million. Over the course of the fiscal year the Agency refinanced the remaining outstanding Auction Rate Securities (ARS) bonds and issued $100 million in new Variable Rate Demand Obligation bonds. The Agency does not intend to issue bonds in fiscal year 2014. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, reimbursing defaulted loans, and administrative expenses.

Contacting the Agency's Financial Management

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

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET POSITION
As of June 30, 2013

ASSETS	Governmental Activities	Business-type Activities	Totals
CURRENT ASSETS			
Cash and investments	$ 6,165,434	$ 201,299,227	$ 207,464,661
Receivables			
Accounts	655,806	1,364,681	2,020,487
Interest	-	2,226,206	2,226,206
Loans receivable - net	-	90,545,099	90,545,099
Due from other governments	909,514	-	909,514
Total Current Assets	7,730,754	295,435,213	303,165,967
NONCURRENT ASSETS			
Restricted cash and investments	-	162,137,032	162,137,032
Loans receivable - net	-	569,423,108	569,423,108
Debt issuance costs, at cost less accumulated amortization of $443,690	-	4,354,097	4,354,097
Total Noncurrent Assets	-	735,914,237	735,914,237
Total Assets	7,730,754	1,031,349,450	1,039,080,204
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	2,761,238	745,267	3,506,505
Accrued liabilities	123,875	36,849	160,724
Accrued interest	-	492,876	492,876
Due to other governments	86,374	-	86,374
Due to primary government - unspent appropriations	532,264	-	532,264
Due to primary government - other	1,000,000	-	1,000,000
Unearned revenue	1,067,685	-	1,067,685
Compensated absences payable	42,650	18,747	61,397
Revenue bonds payable	-	360,000	360,000
Total Current Liabilities	5,614,086	1,653,739	7,267,825
NONCURRENT LIABILITIES			
Compensated absences payable	377,205	158,511	535,716
Arbitrage liability	-	6,525,062	6,525,062
Revenue bonds payable	-	594,961,042	594,961,042
Total Noncurrent Liabilities	377,205	601,644,615	602,021,820
Total Liabilities	5,991,291	603,298,354	609,289,645
NET POSITION			
Restricted for licensing and grant administration	1,279,357	-	1,279,357
Restricted for debt service	-	428,051,096	428,051,096
Unrestricted	460,106	-	460,106
TOTAL NET POSITION	$ 1,739,463	$ 428,051,096	$ 429,790,559

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental Activities						
State appropriations	$ 200,929,341	$ -	$ 200,505,516	$ (423,825)	$ -	$ (423,825)
Federal grants	5,122,986	-	5,508,896	385,910	-	385,910
Registration and licensing fees and other	596,524	1,197,497	-	600,973	-	600,973
Total Governmental Activities	206,648,851	1,197,497	206,014,412	563,058	-	563,058
Business-type Activities						
Loan capital fund	17,925,774	27,569,165	-	-	9,643,391	9,643,391
Totals	$ 224,574,625	$ 28,766,662	$ 206,014,412			
Change in Net Position				563,058	9,643,391	10,206,449
NET POSITION - Beginning of Year				1,176,405	418,407,705	419,584,110
NET POSITION - END OF YEAR				$ 1,739,463	$ 428,051,096	$ 429,790,559

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2013

	General	Other Governmental Funds	Totals
ASSETS			
Cash and investments	$ 4,035,727	$ 2,129,707	$ 6,165,434
Accounts receivable	191,365	464,441	655,806
Due from other governments	172,210	737,304	909,514
Due from other funds	267,712	-	267,712
TOTAL ASSETS	$ 4,667,014	$ 3,331,452	$ 7,998,466
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 2,002,343	$ 758,895	$ 2,761,238
Accrued liabilities	64,722	59,153	123,875
Due to other governments	-	86,374	86,374
Due to primary government - unspent appropriations	532,264	-	532,264
Due to primary government - other	1,000,000	-	1,000,000
Due to other funds	-	267,712	267,712
Deferred revenue	1,067,685	-	1,067,685
Total Liabilities	4,667,014	1,172,134	5,839,148
Fund Balances			
Restricted for licensing and grant administration	-	1,279,357	1,279,357
Assigned	-	879,961	879,961
Total Fund Balances	-	2,159,318	2,159,318
TOTAL LIABILITIES AND FUND BALANCES	$ 4,667,014	$ 3,331,452	$ 7,998,466

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
As of June 30, 2013

Total fund balance - governmental funds		$ 2,159,318
Amounts reported for governmental activities in the statement of net position 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	(60,847)	-
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.		(419,855)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 1,739,463

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, 2013

	General	Other Governmental Funds	Totals
REVENUES			
State appropriations	$ 200,505,516	$ -	$ 200,505,516
Federal grants	-	5,508,896	5,508,896
Registration and licensing fees	-	727,530	727,530
Other revenue	-	469,967	469,967
Total Revenues	200,505,516	6,706,393	207,211,909
EXPENDITURES			
General government	2,724,988	635,413	3,360,401
State and other grants	197,780,528	-	197,780,528
Federal grants	-	5,508,896	5,508,896
Total Expenditures	200,505,516	6,144,309	206,649,825
Excess of revenues over expenditures	-	562,084	562,084
FUND BALANCE - Beginning of Year	-	1,597,234	1,597,234
FUND BALANCE - END OF YEAR	$ -	$ 2,159,318	$ 2,159,318

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, 2013

Net change in fund balances - total governmental funds	$ 562,084
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	(4,461)
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	5,435
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 563,058

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2013

OPERATING REVENUES	
Interest on student loans	$ 25,647,941
OPERATING EXPENSES	
General and administrative	11,194,157
Provision for loans losses - net	836,997
Total Operating Expenses	12,031,154
Operating Income	13,616,787
NONOPERATING REVENUES (EXPENSES)	
Gain on repurchased bonds	1,305,000
Investment income	616,224
Interest expense	(4,189,949)
Amortization expense	(1,704,671)
Total Nonoperating Revenues (Expenses)	(3,973,396)
CHANGE IN NET POSITION	9,643,391
NET POSITION - Beginning of Year	418,407,705
NET POSITION - END OF YEAR	$ 428,051,096

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from loan holders	$ 133,081,270
Cash paid for loan origination	(68,591,432)
Cash paid to employees and suppliers	(11,351,543)
Net Cash Flows From Operating Activities	53,138,295
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(173,897,568)
Proceeds from maturity of investments	159,663,389
Interest received from investments	574,077
Net Cash Flows From Investing Activities	(13,660,102)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from bonds	376,305,000
Bond redemption	(326,731,000)
Capitalized bond issuance costs	(2,288,803)
Interest paid on bonds	(3,849,004)
Net Cash Flows From Noncapital Financing Activities	43,436,193
Net Increase in Cash and Cash Equivalents	82,914,386
CASH AND CASH EQUIVALENTS - Beginning of Year	186,209,141
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 269,123,527
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	$ 201,299,227
Restricted cash and investments per Statement of Net Position	162,137,032
Less: Non-cash equivalents	(94,312,732)
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	$ 269,123,527
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	$ 13,616,787
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income	
Depreciation	2,973
Provision for loan loss	8,110,009
Write-off of loans	(7,312,082)
Increase in fair value of investments	(45,760)
Origination of student loans	(68,591,432)
Principal payments on student loans	106,605,571
Changes in assets and liabilities	
Interest receivable	385,190
Other receivable and prepaid expenses	194,525
Accounts payable and accruals	172,514
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 53,138,295

NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

The agency had a $1,305,000 gain on bonds purchased and cancelled.

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

INDEX TO NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2013

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 Commissioner, 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

In June 2011, the GASB issued statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The Agency made the decision to implement this standard effective July 1, 2012.

The statement of net position 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 position/fund equity, revenues, and expenditure/ expenses.

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

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

Fund Financial Statements (cont.)

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.

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/deferred outflows of resources, liabilities/deferred inflows of resources, 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.

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, SELF IV, and SELF V) 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 position 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.

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.

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.

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

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

Fund Financial Statements (cont.)

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

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the loan capital fund is payment of interest on student loans. Operating expenses for the proprietary fund includes administrative expenses and provision for loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 POSITION 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 POSITION 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

3. 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.

4. 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 position. 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.

5. 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 POSITION OR EQUITY* (cont.)

6. 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, 2013 are determined on the basis of current salary rates.

7. 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 values 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 POSITION OR EQUITY (cont.)

8. 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.

9. Equity Classifications

Government-Wide Statements

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

a. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position that does 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 POSITION OR EQUITY (cont.)

9. 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 Commissioner. 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 Commissioner 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 Commissioner 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.

Propriety fund equity is classified the same as in the government-wide statements.

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, 2012) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2013) 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	$ 162,850,463	$ 162,712,442	None
Commercial paper	97,611,247	97,611,247	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled Cash held by State Treasury	109,139,983	109,139,983	N/A
Total Cash and Investments	$ 369,601,693	$ 369,463,672	

Reconciliation to financial statements	
Per statement of net position	
Cash and investments	$ 207,464,661
Restricted cash and investments	162,137,032
Total Cash and Investments	$ 369,601,693

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 time and savings accounts (including NOW accounts) and $250,000 for demand deposit accounts. However, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of $250,000 for the combined amount of all deposit account.

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, 2013, the Agency did not have any financial institution 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, 2013, the Agency had $48,096,793 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, 2013, the Agency's investments in commercial paper were rated as follows:

Commercial Paper	Standard & Poors	Moody's
US Bank N.A. Open IB Monthly	Aa3	P-1
US Bank N.A. Int Bearing	Aa3	P-1
Union BK CP	A2	P-1
JP Morgan Chase	Aa3	P-1
General Electric Cap	A1	P-1
ING (US)	N/A	P-1
Wells Fargo	Aa3	P-1
Wheels Inc	A	F-1

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, 2013, the Agency's investments in commercial paper were concentrated as follows:

	Percentage of Portfolio
US Bank N.A. Int Bearing	10.2%
Union BK CP	18.9%
JP Morgan Chase	10.2%
General Electric Cap	17.2%
ING (US)	20.5%
Wells Fargo	10.2%
Wheels Inc	12.5%

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, 2013, the Agency's investment of commercial paper had a fair value of $97,611,247 and a weighted average maturity of .42 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	$ 363,575	$ -	$ 363,575	$ -
Loan Capital	674,289,483	10,730,389	663,559,094	569,423,108
Nonmajor Funds	1,201,745	-	1,201,745	-

Loans receivable include amounts due within one year and amounts due in more than one year, based upon loan schedules with each student (loan holder). Approximately 15% of the balance is expected to be collected during fiscal year 2013.

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, 2013.

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 3.3% as of June 30, 2013.

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 3.3% as of June 30, 2013.

SELF V variable rate 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 3.3% as of June 30, 2013.

SELF V fixed rate loans, offered for the first time in October 2010 at a rate originally set at 7.25%, are made to students who meet the eligibility requirements set forth by the Agency. On May 20, 2013 the fixed rate for new loans was lowered to 6.90%. The interest rate will not change over the life of the loan. The Agency has the option to offer a different fixed rate to future borrowers.

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, 2013 was $669,336,325.

SELF 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. The loan capital fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.6% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. 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, 2013 is as follows:

Beginning balance	$ 9,932,462
Provision for loan losses	8,110,009
Write-off of loans	(7,312,082)
Ending Balance	$ 10,730,389

Recovery on defaulted loans of $7,273,012 for the year ended June 30, 2013 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, 2013 was $426,143.

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.

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 loans. This fund is replenished quarterly.

Following is a list of restricted assets at June 30, 2013:

	Restricted Assets
Acquisition account	$ 53,579,191
Revenue account	5,231,537
Surplus account	74,552,675
Debt service reserve account	18,043,240
Bad debt reserve account	10,730,389
Total Restricted Assets	$ 162,137,032

D. *CAPITAL ASSETS*

Capital asset activity for the year ended June 30, 2013 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	(56,386)	(4,461)	-	(60,847)
Capital Assets, Net of Depreciation	$ 4,461	$ (4,461)	$ -	$ -

$4,461 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	(11,613)	(2,973)	-	(14,586)
Net Loan Capital Fund	$ 2,973	$ (2,973)	$ -	$ -

$2,973 of depreciation expense was charged to the loan capital fund.

E. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount
General Fund	Federal Grant Fund	$ 267,712
Less: Fund eliminations		(267,712)
Total – Government-Wide Statement of Net Position		$ -

The interfund payable is expected to be paid within one year. The purpose of the interfund is to cover an overdraft of pooled cash.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

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

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	$ 425,290	$ 283,149	$ 288,584	$ 419,855	$ 42,650
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
Revenue bonds	$ 546,025,000	$ 375,000,000	$ 326,731,000	$ 594,294,000	$ 360,000
Add/(Subtract) Deferred Amounts For:					
(Discounts)/Premiums	1,240,046	-	213,004	1,027,042	-
Subtotal	547,265,046	375,000,000	326,944,004	595,321,042	360,000
Other Liabilities					
Vested compensated absences	166,114	95,364	84,220	177,258	18,747
Arbitrage liability	6,091,708	433,354	-	6,525,062	-
Total Other Liabilities	6,257,822	528,718	84,220	6,702,320	18,747
Total Business-type Activities Long-Term Liabilities	$ 553,522,868	$ 375,528,718	$ 327,028,224	$ 602,023,362	$ 378,747

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 $594,294,000.

Series 2008 Supplemental Student Loan Program Variable Rate Revenue Bonds were issued to provide SELF II, III, and IV student loans to borrowers. Series 2010 Supplemental Student Loan Program Fixed Rate Revenue Bonds and Series 2011 and 2012 Supplemental Student Loan Program Variable Rate Revenue Bonds were issued to provide SELF V student loans to borrowers.

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

F. LONG-TERM OBLIGATIONS (cont.)

	Date of Issue	Final Maturity	6-30-13 Interest Rates	Interest Rates Reset (days)	Original Indebted-ness	Balance 6-30-13
Supplemental Student Loan Program Variable Rate Revenue Bonds						
Series 2008A taxable revenue bonds	Dec 08	Dec 43	.18%	7	$ 66,700,000	$ 66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.16%	7	33,300,000	33,300,000
Series 2011A revenue bonds	Oct 11	Oct 46	.16%	7	35,000,000	35,000,000
Series 2011B revenue bonds	Oct 11	Oct 46	.16%	7	50,000,000	50,000,000
Series 2012A taxable revenue bonds	Sept 12	Aug 47	.14%	7	66,800,000	48,489,000
Series 2012B revenue bonds	Sept 12	Aug 47	.06%	7	308,200,000	308,200,000
Supplemental Student Loan Program Fixed Rate Revenue Bonds						
Series 2010 revenue bonds	Dec 10	Nov 29	2 – 5%	n/a	53,400,000	52,605,000
Total Business-type Activities Revenue Bonds						$ 594,294,000

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2013 rates for variable rate bonds, are as follows:

	Business-type Activities		
Years Ending June 30	Principal	Interest	Total
2014	$ 360,000	$ 2,874,464	$ 3,234,464
2015	1,135,000	2,867,119	4,002,119
2016	1,090,000	2,832,787	3,922,787
2017	3,045,000	2,799,802	5,844,802
2018	4,255,000	2,676,092	6,931,092
2019 - 2023	68,760,000	10,363,073	79,123,073
2024 - 2028	13,765,000	5,119,573	18,884,573
2029 - 2033	6,995,000	2,764,823	9,759,823
2034 - 2038	37,400,000	2,062,563	39,462,563
2039 - 2043	124,000,000	1,825,023	125,825,023
2044 - 2048	333,489,000	983,463	334,472,463
Totals	$ 594,294,000	$ 37,168,782	$ 631,462,782

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

F. LONG-TERM OBLIGATIONS (cont.)

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 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A bonds and Series 2011B bonds cannot exceed 12%. The interest on the Series 2011A bonds and Series 2011B bonds is payable monthly. No principal payments are required until final maturity on the Series 2011A bonds and Series 2011B.

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, 2013.

The rates on the taxable Series 2012A bonds and tax-exempt Series 2012B bonds are determined by a remarketing agent. The rates on Series 2012A bonds and Series 2012B bonds cannot exceed 15% and 12%, respectively. The interest on the Series 2012A and Series 2012B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity on the Series 2012A bonds. The Series 2012B bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

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 maintained insurance coverage as additional collateral for the auction rate bonds that were redeemed during the year. The fees to maintain this coverage were 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 $190,391 for the year ended June 30, 2013.

The Agency maintains unsecured irrevocable direct-pay letters of credit as additional collateral for the Series 2008A, 2008B, 2011A, 2011B, 2012A, and 2012B bonds. The fees to maintain these letters of credit are calculated as 0.9% for the Series 2008A, 2008B, 2011A, and 2001B; and 0.85% for the Series 2012A and 2012B 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 letters of credit and remarketing fees of $4,579,780 for the year ended June 30, 2013. The letters of credit for the Series 2008A, 2008B, 2011A, 2011B, 2012A, and 2012B bonds expire October 1, 2014. The letters of credit for the Series 2012A and 2012B bonds expire October 1, 2015.

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

F. LONG-TERM OBLIGATIONS (cont.)

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

The Series 2008A, 2008B, 2011A, and 2011B bonds require the Agency 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 $3,700,000 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. The Series 2012A and 2012B bonds require the Agency to maintain a debt service account equal to 1% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $3,566,890 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures (see also Note III.C.). The Agency believes it is in compliance with all significant limitations and restrictions.

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 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. For the Series 2011A and 2011B tax-exempt 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 2012A and 2012B bonds, the agency must receive the written consent of the credit provider prior to redemption.

During the year ended June 30, 2013 the Agency used $7,395,000 of available cash to purchase $8,700,000 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
September 2012	2002A	$ 2,200,000
September 2012	2004A	6,500,000
Total Purchased and Cancelled		$ 8,700,000

Arbitrage Regulations

The $47,910,500 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, 2013, the Agency accrued a liability of $6,525,062 resulting from the excess yield on interest rates.

F. LONG-TERM OBLIGATIONS (cont.)

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.

Current Refunding

On September 26, 2012 the Agency issued $375,000,000 of Student Loan Revenue Bonds. The bonds are variable rate demand bonds with a weekly interest rate reset; they mature on August 1, 2047. The bonds were used to current refund $66,800,000 of taxable auction rate security bonds, current refund $208,200,000 of tax-exempt auction rate security bonds, and obtain $100,000,000 of new tax-exempt funding.

Because both the new and refunded bonds have variable interest rates, it is not determinable whether the current refunding resulted in an economic gain or loss.

G. NET POSITION

Certain net positions are classified in the statement of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2013, the business-type activities restricted net position is restricted for debt service.

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

Years Ending June 30,	
2013	$ 475,000,000
2014	500,000,000
2015	525,000,000
2016	550,000,000
2017	575,000,000
2018	600,000,000
2019	625,000,000
2020	650,000,000
2021	675,000,000
2022	700,000,000
2023	725,000,000
2024 and thereafter	750,000,000

As the Agency's net position is less than the required minimum per the bond covenants, the net position is 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, 2013, 2012 and 2011 was $196,539, $179,391 and $186,936, respectively. The total covered payroll of the Agency for the years ended June 30, 2013 and 2012 was $3,862,916 and $3,505,045, 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.

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, 2012 (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, 2012, the SERF had a projected benefit obligation of $9,162,301,000, unfunded liabilities of $1,920,926,000, and net assets available for benefits, at fair value, of $11,083,227,000. As of June 30, 2011, the SERF had a projected benefit obligation of $9,130,011,000, unfunded liabilities of $1,446,470,000, and net assets available for benefits, at fair value, of $10,576,481,000. 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, 2012, 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.

NOTE IV – OTHER INFORMATION (cont.)

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.

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 Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans – and Amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* Application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance With Final
	Original	Final	Actual	Budget
REVENUES				
General Administration	$ 2,493,000	$ 2,199,134	$ 2,199,134	$ -
Safety Office Survivors	100,000	62,677	62,677	-
Child Care Grant Program	6,684,000	5,879,141	5,879,141	-
MN Link Gateway and Minitex Library	5,605,000	5,607,050	5,607,050	-
State Grant Program	154,625,000	161,465,310	161,465,310	-
State Work Study	14,502,000	14,522,654	14,522,654	-
Interstate Reciprocity	3,250,000	5,756,810	5,756,810	-
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	347,000	348,855	348,855	-
United Family Practice	351,000	351,000	351,000	-
MN GI Bill Program	1,464,000	993,124	993,124	-
Intervention College Attendance	671,000	775,785	775,785	-
American Indian Scholarship	1,850,000	2,448,976	2,448,976	-
Total Revenues	192,037,000	200,505,516	200,505,516	-
EXPENDITURES				
General Administration	2,493,000	2,246,810	2,199,134	47,676
Safety Office Survivors	100,000	62,677	62,677	-
Child Care Grant Program	6,684,000	5,879,141	5,879,141	-
MN Link Gateway and Minitex Library	5,605,000	5,607,050	5,607,050	-
State Grant Program	154,625,000	161,965,148	161,465,310	499,838
State Work Study	14,502,000	14,522,654	14,522,654	-
Interstate Reciprocity	3,250,000	7,078,290	5,756,810	1,321,480
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	347,000	396,773	348,855	47,918
United Family Practice	351,000	351,000	351,000	-
MN GI Bill Program	1,464,000	1,034,661	993,124	41,537
Intervention College Attendance	671,000	771,842	775,785	(3,943)
American Indian Scholarship	1,850,000	2,448,976	2,448,976	-
Total Expenditures	192,037,000	202,460,022	200,505,516	1,954,506
NET CHANGE IN FUND BALANCE	$ -	$ (1,954,506)	$ -	$ 1,954,506

See independent 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.

SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2013

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
ASSETS			
Cash and investments	$ 2,129,707	$ -	$ 2,129,707
Accounts receivable	43,295	421,146	464,441
Due from other governments	-	737,304	737,304
TOTAL ASSETS	$ 2,173,002	$ 1,158,450	$ 3,331,452
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 4,080	$ 754,815	$ 758,895
Accrued liabilities	9,604	49,549	59,153
Due to other governments	-	86,374	86,374
Due to other funds	-	267,712	267,712
Total Liabilities	13,684	1,158,450	1,172,134
Fund Balances			
Restricted for licensing and grant administration	1,279,357	-	1,279,357
Assigned	879,961	-	879,961
Total Fund Balances	2,159,318	-	2,159,318
TOTAL LIABILITIES AND FUND BALANCES	$ 2,173,002	$ 1,158,450	$ 3,331,452

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
REVENUES			
Federal grants	$ -	$ 5,508,896	$ 5,508,896
Registration and licensing fees	727,530	-	727,530
Other revenue	469,967	-	469,967
Total Revenues	1,197,497	5,508,896	6,706,393
EXPENDITURES			
General government	635,413	-	635,413
Federal grants	-	5,508,896	5,508,896
Total Expenditures	635,413	5,508,896	6,144,309
Excess of revenues over expenditures	562,084	-	562,084
FUND BALANCE - Beginning of Year	1,597,234	-	1,597,234
FUND BALANCE - END OF YEAR	$ 2,159,318	$ -	$ 2,159,318