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, 2015

MINNESOTA OFFICE OF HIGHER EDUCATION

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As of and for the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the 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, 2015, 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.

To the Commissioner
Minnesota Office of Higher Education

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, 2015 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. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, schedule of net pension liability and schedule of contributions 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.

Supplementary Information

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 as listed in the table of contents 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.

To the 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, 2015 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 the Minnesota Office of Higher Education's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2015

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, 2015.

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 61 full-time equivalent (FTE) staff, of which 23 FTE 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 $176 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 Statewide Longitudinal Education Data System (SLEDS) is a tool to connect existing data from pre-kindergarten through completion of postsecondary education and into the workforce. SLEDS is a partnership between the Agency and the Departments of Education (MDE) and Employment and Economic Development (DEED). By bridging existing data with other incoming data, a range of educational programmatic and delivery questions can be answered to gauge the effectiveness of current programs and design targeted improvement strategies to help students.

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. Minnesota is an approved SARA (State Authorization Reciprocity Agreement) state. An institution authorized under SARA criteria in its home state is considered authorized in all other SARA states.

Financial Highlights

- The Agency's net position increased $15.1 million or 3.4% from fiscal year 2014 to 2015 mainly as a result of student loan financing activities.
- The Agency received $212.0 million for fiscal year 2015 state appropriations in addition to the $12.1 million carry forward from the previous year. Unexpended funds will be canceled back to the state treasury. The Agency received $215.8 million for fiscal year 2014 state appropriations, not including the funds carried forward to fiscal year 2015.
- The Minnesota College Savings Plan has increased to over $1.2 billion in assets.
- The Loan Capital Fund issued 8,350 and 9,416 new loans in fiscal years 2015, and 2014, respectively, with the average student loan amount of $6,521 and $6,375, respectively.
- Loan Receivables in the Loan Capital Fund shrunk by $46.6 million or 7.6% during fiscal year 2015 and shrunk by $44.2 million or 6.7% during fiscal year 2014.
- 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, 2015 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- Over the course of the fiscal year $16.7 million of fixed rate and variable rate bonds were redeemed. No new bonds were issued in fiscal year 2015.
- The Agency implemented GASB Statements 68 and 71 on July 1, 2014. These statements establish new accounting and financial reporting standards related to reporting for pension plans.

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, liabilities, and deferred inflows of resources with the difference between the three 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 state 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 college 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 proprietary 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 and schedules for the state employees retirement fund. This information can be found beginning on page 34 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 $15.1 million or 3.4%. 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

	2015			2014		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Assets						
Current and other assets	$ 20,937,956	$ 976,380,429	$ 997,318,385	$ 16,808,627	$ 979,022,850	$ 995,831,477
Deferred Outflows of Resources						
Pension related amounts	163,510	49,491	213,001	-	-	-
Liabilities						
Current liabilities	17,494,564	2,646,906	20,141,470	2,097,699	2,506,483	4,604,182
Non-current liabilities	1,854,214	519,012,960	520,867,174	394,568	535,489,261	535,883,829
Total liabilities	19,348,778	521,659,866	541,008,644	2,492,267	537,995,744	540,488,011
Deferred Inflows of Resources						
Unearned revenue	366,821	-	366,821	12,070,198	-	12,070,198
Pension related amounts	1,882,282	569,718	2,452,000	-	-	-
Total deferred inflows of resources	2,249,103	569,718	2,818,821	12,070,198	-	12,070,198
Net position						
Restricted for grants and licensing	2,026,961	-	2,026,961	1,678,069	-	1,678,069
Restricted for debt service	-	454,200,336	454,200,336	-	441,027,106	441,027,106
Unrestricted (deficit)	(2,523,376)	-	(2,523,376)	568,093	-	568,093
Total net position	$ (496,415)	$ 454,200,336	$ 453,703,921	$ 2,246,162	$ 441,027,106	$ 443,273,268

Net position of the Agency's governmental activities increased by $819,327 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 — decreased from $568,093 at June 30, 2014 to ($2,523,376) at the end of this year. The large decrease is due to implementation of GASB Statements 68 and 71 in the current year.

Net loans receivable have decreased by approximately $46.6 million, or 7.6%, to $569.2 million. Due partly to federal changes in 2009 regarding preferred lender requirements for nonfederal student loans and an increase in other entities offering loan options at competitive rates for the full cost of attendance, the Agency continues to see a reduction in annual student loan disbursements and outstanding loans receivable. In May 2015 the state legislature passed language allowing the maximum amount of the SELF loan to be determined annually by the Agency, not to exceed cost of attendance less all other financial aid.

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 10 years or reduced through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. The Agency has no current arbitrage or excess yield liability.

Table 2
Changes in Net Position

	2015			2014		
	Governmental Activities	**Business-Type Activities**	**Totals**	**Governmental Activities**	**Business-Type Activities**	**Totals**
REVENUES						
Program revenues						
Charges for services	$ 1,115,392	$ 24,456,259	$ 25,571,651	$ 1,221,235	$ 31,711,919	$ 32,933,154
State appropriations	224,106,656	-	224,106,656	215,866,835	-	215,866,835
Federal appropriations	4,385,659	-	4,385,659	5,525,321	-	5,525,321
Total revenues	229,607,707	24,456,259	254,063,966	222,613,391	31,711,919	254,325,310
EXPENSES						
Program expenses						
General government	617,613	10,204,934	10,822,547	617,135	13,019,541	13,636,676
State appropriations	224,194,449	-	224,194,449	216,404,431	-	216,404,431
Federal grants	3,976,318	-	3,976,318	5,085,126	-	5,085,126
Total expenses	228,788,380	10,204,934	238,993,314	222,106,692	13,019,541	235,126,233
CHANGE IN NET POSITION	$ 819,327	$ 14,251,325	$ 15,070,652	$ 506,699	$ 18,692,378	$ 19,199,077

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) increased by $7.0 million (or 3.1%) to $229.6 million, while total expenses increased by $6.7 million (or 3.0%). The governmental activities revenue increase was due to carryover of unspent funds from fiscal year 2014. The expenditures increase was largely due to higher payments for individual student state grants.

- State appropriation expenditures increased by $7.8 million to $224.2 million. $178.6 million was appropriated by the legislature for the State Grant program. If the appropriation for either year of the biennium is insufficient for the State Grant program, the appropriation for the other year is available for it.

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, improve teacher quality and instructional leadership, and increase college attendance and success of low-income students.

Business-Type Activities

The excess of revenues over expenses of the Agency's business-type activities was $14.3 million in fiscal year 2015, which was 139.7% of expenses.

Financial Analysis of the Agency's Major Funds

Governmental Funds

The General Fund is the chief governmental fund of the Agency representing approximately 97.8% of the Agency's governmental spending. At the end of fiscal year 2015, 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. At the end of the first fiscal year, unused appropriations are deferred to the second fiscal year in the biennium.

For the General Fund, student grant payments were $205.0 million, an increase from $197.4 million in fiscal year 2014. Grant aid to postsecondary institutions and organizations increased $1.7 million to $3.4 million. Employee salaries increased slightly from fiscal year 2014. Interstate reciprocity decreased $2.2 million due to a decrease in the number of Minnesota students attending North Dakota institutions.

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 22.9% and expenses decreased by 21.6%. In fiscal year 2015, there was a slightly lower return for interest and investment interest income. The current variable 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 increased 0.10% over the past fiscal year. Under the SELF IV and SELF V programs, loans have an 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 6.50% for new loans. For SELF V fixed rate loans made between May 20, 2013 and March 31, 2015, the interest rate is set at a rate of 6.90%. 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. Actual expenditures were $2.0 million above the total original budgeted expenditures. This was partly because unspent funding for fiscal year 2014 was deferred to fiscal year 2015 and used for the state grant program and other student summer grant programs.

Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investment. 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 slightly from 2014 by $0.02 million. As of June 30, 2015, the fair value of the Agency's investments was greater than cost by $14,826. 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 $518,905,000 in bonds outstanding — as shown in Table 3

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

	2015			2014		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Revenue bonds	$ -	$ 518.9	$ 518.9	$ -	$ 535.7	$ 535.7

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 compensated absences and net pension liability. More detailed information about the Agency's long-term liabilities is presented in Note II.E. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Agency's officials considered many factors when setting the fiscal year 2016 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 variable rate loans.

For the fixed rate option of the SELF V phase of the loan program, the rate is currently set at 6.50% for new loans. For SELF V fixed rate loans made between May 20, 2013 and March 31, 2015, the interest rate is set at a rate of 6.90%. For SELF V fixed rate loans made prior to May 20, 2013, the interest rate is set at a rate of 7.25%.

For students enrolled in a bachelor's degree, post-baccalaureate, or graduate program the annual loan limit has increased to $20,000. The undergraduate student annual loan limit for non-four-year degree programs is $7,500.

On September 1, 2015 the Agency redeemed $46.8 million of variable rate revenue bonds.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2016. For the current biennium, the private tuition maximums used in the state grant formula are a maximum of $11,334 for students enrolled in four-year programs and $7,282 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 per eligible child for Postsecondary Child Care Grants is set at $2,800 for the fiscal year 2016.

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 for 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 and, who has applied and is eligible for other existing state and federal scholarship and grant programs.

The Greater Minnesota Internship Tax Credit program provides a tax credit to eligible employers who employ eligible student interns at locations in greater Minnesota. Eligible employers can apply for a tax credit of up to $2,000 per student intern who completes an eligible internship experience.

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 Minnesota legislature authorized new programs for the Agency to administer including:

- The MnSCU College Occupational Scholarship Pilot Program provides last dollar financial aid to recent high school, ABE, or GED graduates who are pursuing a Perkins-eligible certificate or associates program in a "high need" program area as designated by the Department of Employment and Economic Development.
- The Spinal Cord and Traumatic Brain Injury Research Grant Program provides $1 million for medical research grants over the biennium.
- The Dual Training Competency Grants provide grants to institutions or programs that enter into agreements with employers to provide training to their employees. Competency standards are established in key occupations fields.

The Agency's cash and investment balance increased $48.0 million, and the loans receivable – net balance decreased $46.6 million. 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, 2015

ASSETS	Governmental Activities	Business-type Activities	Totals
CURRENT ASSETS			
Cash and investments	$ 19,379,150	$ 174,513,116	$ 193,892,266
Receivables			
Accounts	366,044	1,375,257	1,741,301
Interest	-	1,944,934	1,944,934
Loans receivable - net	-	85,020,909	85,020,909
Due from other governments	1,192,762	-	1,192,762
Total Current Assets	20,937,956	262,854,216	283,792,172
NONCURRENT ASSETS			
Restricted cash and investments	-	229,347,393	229,347,393
Loans receivable - net	-	484,178,820	484,178,820
Total Noncurrent Assets	-	713,526,213	713,526,213
Total Assets	20,937,956	976,380,429	997,318,385
DEFERRED OUTFLOWS OF RESOURCES			
Pension related amounts	163,510	49,491	213,001
Total Deferred Outflows of Resources	163,510	49,491	213,001
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	3,946,900	1,231,530	5,178,430
Accrued liabilities	153,187	40,558	193,745
Accrued interest	-	264,826	264,826
Due to other governments	59,413	-	59,413
Due to primary government - unspent appropriations	13,290,556	-	13,290,556
Compensated absences payable	44,508	19,992	64,500
Revenue bonds payable	-	1,090,000	1,090,000
Total Current Liabilities	17,494,564	2,646,906	20,141,470
NONCURRENT LIABILITIES			
Revenue bonds payable	-	518,425,905	518,425,905
Compensated absences payable	372,646	138,623	511,269
Net pension liability	1,481,568	448,432	1,930,000
Total Noncurrent Liabilities	1,854,214	519,012,960	520,867,174
Total Liabilities	19,348,778	521,659,866	541,008,644
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	366,821	-	366,821
Pension related amounts	1,882,282	569,718	2,452,000
Total Deferred Inflows of Resources	2,249,103	569,718	2,818,821
NET POSITION			
Restricted for licensing and grant administration	2,026,961	-	2,026,961
Restricted for debt service	-	454,200,336	454,200,336
Unrestricted (deficit)	(2,523,376)	-	(2,523,376)
TOTAL NET POSITION	$ (496,415)	$ 454,200,336	$ 453,703,921

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

		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	$ 224,194,449	$ -	$ 224,106,656	$ (87,793)	$ -	$ (87,793)
Federal grants	3,976,318	-	4,385,659	409,341	-	409,341
Registration and licensing fees and other	617,613	1,115,392	-	497,779	-	497,779
Total Governmental Activities	228,788,380	1,115,392	228,492,315	819,327	-	819,327
Business-type Activities						
Loan capital fund	10,204,934	24,456,259	-	-	14,251,325	14,251,325
Totals	$ 238,993,314	$ 25,571,651	$ 228,492,315			
Change in Net Position				819,327	14,251,325	15,070,652
NET POSITION (DEFICIT) - Beginning of Year (as restated)				(1,315,742)	439,949,011	438,633,269
NET POSITION (DEFICIT) - END OF YEAR				$ (496,415)	$ 454,200,336	$ 453,703,921

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2015

	General	Other Governmental Funds	Totals
ASSETS			
Cash and investments	$ 16,269,768	$ 3,109,382	$ 19,379,150
Accounts receivable	253,165	112,879	366,044
Due from other governments	193,445	999,317	1,192,762
Due from other funds	67,307	-	67,307
TOTAL ASSETS	$ 16,783,685	$ 4,221,578	$ 21,005,263
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	$ 3,049,914	$ 896,986	$ 3,946,900
Accrued liabilities	76,394	76,793	153,187
Due to other governments	-	59,413	59,413
Due to primary government - unspent appropriations	13,290,556	-	13,290,556
Due to other funds	-	67,307	67,307
Total Liabilities	16,416,864	1,100,499	17,517,363
Deferred Inflows of Resources			
Unearned revenue	366,821	-	366,821
Total Deferred Inflows of Resources	366,821	-	366,821
Fund Balances			
Restricted for licensing and grant administration	-	2,026,961	2,026,961
Assigned	-	1,094,118	1,094,118
Total Fund Balances	-	3,121,079	3,121,079
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 16,783,685	$ 4,221,578	$ 21,005,263

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, 2015

Total fund balance - governmental funds	$ 3,121,079
Amounts reported for governmental activities in the statement of net position are different because:	
Some deferred outflows of resources and deferred inflows of resources are not reported in the fund statements. These consist of:	
Deferred outflow - pension related amounts	163,510
Deferred inflow - pension related amounts	(1,882,282)
Certain liabilities are not due in the current period and, therefore, are not reported in the fund statements. These liabilities at year end consist of:	
Compensated absences payable	(417,154)
Net pension liability	(1,481,568)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	$ (496,415)

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, 2015

	General	Other Governmental Funds	Totals
REVENUES			
State appropriations	$ 224,106,656	$ -	$ 224,106,656
Federal grants	-	4,385,659	4,385,659
Registration and licensing fees	-	752,635	752,635
Other revenue	-	362,757	362,757
Total Revenues	224,106,656	5,501,051	229,607,707
EXPENDITURES			
General government	4,156,283	682,292	4,838,575
State and other grants	219,950,373	-	219,950,373
Federal grants	-	4,385,659	4,385,659
Total Expenditures	224,106,656	5,067,951	229,174,607
Excess of revenues over expenditures	-	433,100	433,100
FUND BALANCE - Beginning of Year	-	2,687,979	2,687,979
FUND BALANCE - END OF YEAR	$ -	$ 3,121,079	$ 3,121,079

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, 2015

Net change in fund balances - total governmental funds	$ 433,100
Amounts reported for governmental activities in the statement of activities are different because:	
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	24,663
Net pension liability (and pension related deferred outflows and inflows)	361,564
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 819,327

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, 2015

OPERATING REVENUES	
Interest on student loans	$ 23,642,275
OPERATING EXPENSES	
General and administrative	10,827,828
Provision for loans losses - net	(1,860,261)
Total Operating Expenses	8,967,567
Operating Income	14,674,708
NONOPERATING REVENUES (EXPENSES)	
Investment income	813,984
Interest expense	(1,237,367)
Total Nonoperating Revenues (Expenses)	(423,383)
CHANGE IN NET POSITION	14,251,325
NET POSITION - Beginning of Year (as restated)	439,949,011
NET POSITION - END OF YEAR	$ 454,200,336

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from loan holders	$ 127,256,754
Cash paid for loan origination	(54,468,788)
Cash paid to employees and suppliers	(11,263,644)
Net Cash Flows From Operating Activities	61,524,322
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(69,304,407)
Proceeds from maturity of investments	108,381,070
Interest received from investments	808,209
Net Cash Flows From Investing Activities	39,884,872
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Bond redemption	(16,749,000)
Interest paid on bonds	(1,424,317)
Net Cash Flows From Noncapital Financing Activities	(18,173,317)
Net Increase in Cash and Cash Equivalents	83,235,877
CASH AND CASH EQUIVALENTS - Beginning of Year	306,776,160
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 390,012,037
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	$ 174,513,116
Restricted cash and investments per Statement of Net Position	229,347,393
Less: Non-cash equivalents	(13,848,472)
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	$ 390,012,037
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	$ 14,674,708
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income/expense	
Provision for loan loss	4,869,912
Write-off of loans	(5,627,055)
Net pension liability	(665,212)
Decrease in fair value of investments	21,061
Origination of student loans	(54,468,788)
Principal payments on student loans	101,796,054
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Interest receivable	112,110
Other receivables	104,116
Deferred outflows - pension related amounts	(13,943)
Accounts payable and accruals	151,641
Deferred inflows - pension related amounts	569,718
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 61,524,322

NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

None.

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, 2015

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

In June 2012, the GASB issued statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. In November 2013, the GASB issued statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These statements establish accounting and financial reporting standards related to reporting for pension plans. These standards were implemented effective July 1, 2014.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government entity 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/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 unavailable revenues. Amounts received prior to the entitlement period are also recorded as deferred inflows.

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.

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

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

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

Fund Financial Statements (cont.)

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 revenue of the Loan Capital Fund is payment of interest on student loans. Operating expenses for the proprietary fund include 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, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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. 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 II.A for further information.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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 include 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 had no capital assets at year-end.

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. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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, of continuous State of Minnesota service (depending on employment contract terms) 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 275 to 280 hours (depending on employment contract terms), except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2015 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, accrued compensated absences and pension liability.

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, discounts are reported as other financing uses, 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 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 balance at year end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for gains/losses is shown as a deferred outflow/inflow in the statement of net position.

The Agency is restricted on the amount of interest that can be earned on loans pledged as collateral to nontaxable bonds compared to interest expense. This limit is 2% and in the current year, the yield did not exceed this limit. An arbitrage liability was not recorded.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

8. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

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 positions that do not meet the definitions of “restricted” or “net investment in capital assets.”

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 and displayed 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.

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.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

9. Equity Classifications (cont.)

Fund Statements (cont.)

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.

Proprietary 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 balances are 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 – 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	$ 223,127,709	$ 223,078,562	None
Demand deposits	78,728	80,536	Custodial credit risk
Commercial paper	24,047,246	24,047,246	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled Cash held by State Treasury	175,985,976	175,985,976	N/A
Total Cash and Investments	$ 423,239,659	$ 423,192,320	

Reconciliation to financial statements	
Per statement of net position	
Cash and investments	$ 193,892,266
Restricted cash and investments	229,347,393
Total Cash and Investments	$ 423,239,659

NOTE II – 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 (interest-bearing and noninterest-bearing). In addition, 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 accounts.

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

Custodial Credit Risk

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

As of June 30, 2015, 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, 2015, the Agency had $14,605,893 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, 2015, the Agency's investments in commercial paper were rated as follows:

Commercial Paper	S&P	Moody's
US Bank N.A. Open IB Monthly	A-1+	P-1
Abbey National	A-1	P-1
ING (US)	A-1	P-1

NOTE II – 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, 2015, the Agency's investments in commercial paper were concentrated as follows:

	Percentage of Portfolio
US Bank N.A. Open IB Monthly	20.4%
Abbey National	42.4
ING (US)	37.2

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, 2015, the Agency's investment of commercial paper had a fair value of $24,047,246 and a weighted average maturity of .37 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	$ 446,610	$ -	$ 446,610	$ -
Loan Capital	581,789,510	9,269,590	572,519,920	484,178,820
Nonmajor Funds	1,112,196	-	1,112,196	-

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 16% of the balance is expected to be collected during fiscal year 2015.

NOTE II – 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, 2015.

SELF III loans are no longer being issued by the Agency. The interest rate on the loans is equal to the three month average of the London InterBank Offered Rate (LIBOR) plus a current margin of 3.0%. 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, 2015.

SELF IV loans are no longer being issued by the Agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 3.0%. 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, 2015.

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 3.0%. 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, 2015.

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 and April 1, 2015 the fixed rate for new loans was lowered to 6.90% and 6.5%, respectively. 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 when the borrower drops below less than half time enrollment. The balance of SELF II, SELF III, SELF IV, and SELF V loans at June 30, 2015 was $578,469,319.

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 Fund as revenue in the year received.

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

B. RECEIVABLES (cont.)

The activity for the allowance for uncollectible loans on all loan types for the year ended June 30, 2015 is as follows:

Beginning balance	$ 10,026,733
Provision for loan losses	4,869,912
Write-off of loans	(5,627,055)
Ending Balance	$ 9,269,590

Recovery on defaulted loans of $6,730,172 for the year ended June 30, 2015 is recognized as a reduction in the provision for loan losses.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

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.

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.

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

C. RESTRICTED ASSETS (cont.)

Following is a list of restricted assets (long term debt and bad debt reserve accounts) at June 30, 2015:

	Restricted Assets
Revenue account	$ 7,204,622
Surplus account	200,789,059
Debt service reserve account	12,084,122
Bad debt reserve account	9,269,590
Total Restricted Assets	$ 229,347,393

D. 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	$ 67,307
Less: Fund eliminations		(67,307)
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 II – DETAILED NOTES ON ALL FUNDS (cont.)

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	$ 441,817	$ 289,174	$ 313,837	$ 417,154	$ 44,508
Net pension liability	3,679,355	37,615	2,235,402	1,481,568	-
Total Governmental Activities Long-Term Liabilities	$ 4,121,172	$ 326,789	$ 2,549,239	$ 1,898,722	$ 44,508
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
Revenue bonds	$ 535,654,000	$ -	$ 16,749,000	$ 518,905,000	$ 1,090,000
Add/(Subtract) Amounts For:					
(Discounts)/Premiums	815,166	-	204,261	610,905	-
Subtotal	536,469,166	-	16,953,261	519,515,905	1,090,000
Other Liabilities					
Vested compensated absences	175,660	62,065	79,110	158,615	19,992
Net pension liability	1,113,644	11,385	676,597	448,432	-
Subtotal	1,289,304	73,450	755,707	607,047	19,992
Total Business-type Activities Long-Term Liabilities	$ 537,758,470	$ 73,450	$ 17,708,968	$ 520,122,952	$ 1,109,992

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 $518,905,000.

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 II – DETAILED NOTES ON ALL FUNDS (cont.)

E. LONG-TERM OBLIGATIONS (cont.)

	Date of Issue	Final Maturity	Interest Rate as of 6-30-15	Interest Rates Reset (days)	Original Indebtedness	Balance 6-30-15
Supplemental Student Loan Program Variable Rate Revenue Bonds						
Series 2008A taxable revenue bonds	Dec 08	Dec 43	.12%	7	$66,700,000	$ 66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.08	7	33,300,000	33,300,000
Series 2011A revenue bonds	Oct 11	Oct 46	.08	7	35,000,000	35,000,000
Series 2011B revenue bonds	Oct 11	Oct 46	.08	7	50,000,000	50,000,000
Series 2012B revenue bonds	Sept 12	Aug 47	.08	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	25,705,000
Total Business-type Activities Revenue Bonds						$ 518,905,000

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2015 rates for variable rate bonds, are as follows:

	Business-type Activities		
Years Ending June 30	Principal	Interest	Total
2016	$ 1,090,000	$ 1,537,341	$ 2,627,341
2017	3,045,000	1,504,640	4,549,640
2018	4,255,000	1,476,142	5,731,142
2019	4,905,000	1,214,814	6,119,814
2020	4,600,000	977,066	5,577,066
2021 - 2025	54,610,000	2,456,205	57,066,205
2026 - 2030	-	1,919,000	1,919,000
2031 - 2035	-	1,919,000	1,919,000
2036 - 2040	93,400,000	1,837,480	95,237,480
2041 - 2045	168,000,000	1,275,520	169,275,520
2046 - 2048	185,000,000	376,000	185,376,000
Totals	$ 518,905,000	$ 16,493,208	$ 535,398,208

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

E. 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 paid semi-annually. No principal payments are required until final maturity on the Series 2011A bonds and Series 2011B bonds.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2% to 5%. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.34% for the year ended June 30, 2015.

The rates on the tax-exempt Series 2012B bonds are determined by a remarketing agent. The rate cannot exceed 12% and is payable semi-annually. The 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 maintains unsecured irrevocable direct-pay letters of credit as additional collateral for the Series 2008A, 2008B, 2011A, 2011B, and 2012B bonds. The fees to maintain these letters of credit are calculated as 0.85% for the Series 2008A, 2008B, 2011A, 2011B, 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 $5,060,620 for the year ended June 30, 2015. The letters of credit for the Series 2008A, 2008B, 2011A, and 2011B bonds expire October 1, 2017. The letter of credit for the Series 2012B bonds expires October 15, 2015.

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

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

E. LONG-TERM OBLIGATIONS (cont.)

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 $4,905,000 and the Agency met this requirement. The Series 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 $3,082,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures (see also Note II.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 not 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 not greater than 60 days, prior to the redemption date. For the Series 2012B bonds, the Agency must receive the written consent of the credit provider prior to redemption.

During the year ended June 30, 2015, the Agency used available trust cash to redeem $15,614,000 of outstanding bonds at par value. Details of these transactions are as follows:

Date Redeemed	Bond Issue Series	Amount Redeemed
November 2014	2012A	$ 15,254,000
May 2015	2012A	360,000
Total Redeemed		$ 15,614,000

On September 1, 2015, the Agency redeemed $46,800,000 of outstanding Series 2012B bonds.

Arbitrage Regulations

The $452,205,000 of tax-exempt bonds issued by the Agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield plus 2% must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2015, the Agency accrued no liability resulting from the excess yield on interest rates.

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

E. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information

Estimated payments of vested compensated absences and net pension liability are not included in the debt service requirement schedules. These liabilities that are attributable to governmental activities will be liquidated by the general, miscellaneous grant, and federal grant funds. See Note III.A for additional disclosures related to the net pension liability.

F. 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, 2015, 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) is restricted for debt service according to bond financial covenants. The amount subject to the restriction increases each year and is as follows:

Years Ending June 30,	
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 entire net position is shown as restricted for Loan Capital Fund use, as required in the bond financial covenants.

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

G. RESTATEMENT OF NET POSITION

Net position has been restated as a result of the implementation of GASB statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and implementation of GASB statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These statements require the net pension liability and related deferred outflows and deferred inflows, if any, to be reported in government-wide financial statements. The details of this restatement are as follows:

	Governmental Activities	Business-Type Activities – Loan Capital Fund
Net position – June 30, 2014 (as reported)	$ 2,246,162	$ 441,027,106
Less: Net pension liability	(3,679,355)	(1,113,644)
Add: Deferred outflows – pension related amounts	117,451	35,549
Net Position – June 30, 2014 (as restated)	$ (1,315,742)	$ 439,949,011

NOTE III – OTHER INFORMATION

A. PENSION

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS), and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Benefits Provided

MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.0 percent of their annual covered salary in fiscal year 2014. Effective July 1, 2014, member and employer rates increased to 5.5 percent of total compensation. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2015 was $182,084. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent per year
Active Member Payroll Growth	3.50 percent per year
Investment Rate of Return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0 percent every January 1st through 2015 and 2.5 percent thereafter.

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Actuarial Assumptions (cont.)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9 percent. The rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2014, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2013, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 4.63 percent. The projection showed that assets would be available to pay benefits only through 2045, with a resulting single discount rate of 6.63 percent, and an increase of 1.27 percent between the beginning and the end of the measurement period.

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Net Pension Liability

At June 30, 2015, the Agency reported a liability of $1,930,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2014, the Agency's proportion was .1608 percent.

Two changes in benefit provisions affected the measurement of the total pension liability since the prior measurement date. Member and employer contribution rates increased from 5 percent to 5.5 percent of pay effective the first day of the first full pay period beginning after July 1, 2014. Beginning July 1, 2014, the funding ratio threshold that must be attained to pay a 2.5 percent post-retirement benefit increase to benefit recipients was changed from 90 percent for one year to 90 percent for two consecutive years.

Two changes in assumptions affected the measurement of the total pension liability since the prior measurement date. The single discount rate changed from 6.63 percent to 7.90 percent. The post-retirement benefit increase changed from 2 percent indefinitely, to 2 percent through 2015, and 2.5 percent thereafter.

Pension Liability Sensitivity

The following presents the agency's proportionate share of the net pension liability, calculated using the discount rate disclosed in the discount rate paragraph above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Agency's proportionate share of the net pension liability:	$3,898,000	$1,930,000	$297,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website (www.msrs.state.mn.us/financial-information).

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Agency recognized pension expense of $(297,000). At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$-	$42,000
Changes of assumptions	$-	$1,408,000
Net difference between projected and actual earnings on investments	$-	$1,002,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	$39,001	$-
Contributions paid to MSRS subsequent to the measurement date	$174,000	$-
Total	$213,001	$2,452,000

Amounts reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2016	$(482,600)
2017	$(482,600)
2018	$(482,600)
2019	$(482,600)
2020	$(482,599)

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 III – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES

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 proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

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. 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 the following:

- Statement No. 72, *Fair Value Measurements*
- Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*

When they become effective, 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, 2015

	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
REVENUES				
General Administration	$ 2,491,000	$ 2,475,597	$ 2,475,597	$ -
Prosperity Act	-	23,014	23,014	-
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
American Indian Scholarship	3,100,000	3,559,830	3,559,830	-
Tribal College Grant	150,000	118,508	118,508	-
High School to College	100,000	84,517	84,517	-
State Grant Program	176,781,000	178,612,830	178,612,830	-
Child Care Grants	6,684,000	5,922,003	5,922,003	-
Safety Office Survivors	100,000	51,506	51,506	-
Interstate Reciprocity	11,018,000	5,699,587	5,699,587	-
State Work Study	14,502,000	15,462,583	15,462,583	-
MN GI Bill Program	1,600,000	1,408,884	1,408,884	-
MN GI Bill Administration	100,000	83,979	83,979	-
Student Parent Information	122,000	106,603	106,603	-
MN Minority Education Partners	45,000	20,110	20,110	-
Get Ready	180,000	1,622,938	1,622,938	-
Intervention College Attendance	671,000	907,943	907,943	-
Statewide Longitudinal Data	882,000	449,224	449,224	-
College Possible	750,000	750,000	750,000	-
Midwest Compact	95,000	95,000	95,000	-
United Family Practice	351,000	263,250	263,250	-
HCMC Program	645,000	483,750	483,750	-
Total Revenues	226,272,000	224,106,656	224,106,656	-
EXPENDITURES				
General Administration	2,491,000	2,475,597	2,475,597	-
Prosperity Act	-	23,014	23,014	-
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
American Indian Scholarship	3,100,000	3,559,830	3,559,830	-
Tribal College Grant	150,000	118,508	118,508	-
High School to College	100,000	157,035	84,517	72,518
State Grant Program	176,781,000	182,347,934	178,612,830	3,735,104
Child Care Grants	6,684,000	5,923,041	5,922,003	1,038
Safety Office Survivors	100,000	68,975	51,506	17,469
Interstate Reciprocity	11,018,000	5,699,587	5,699,587	-
State Work Study	14,502,000	15,464,357	15,462,583	1,774
MN GI Bill Program	1,600,000	1,408,884	1,408,884	-
MN GI Bill Administration	100,000	83,979	83,979	-
Student Parent Information	122,000	106,603	106,603	-
MN Minority Education Partners	45,000	45,000	20,110	24,890
Get Ready	180,000	1,629,109	1,622,938	6,171
Intervention College Attendance	671,000	922,185	907,943	14,242
Statewide Longitudinal Data	882,000	449,224	449,224	-
College Possible	750,000	750,000	750,000	-
Midwest Compact	95,000	95,000	95,000	-
United Family Practice	351,000	351,000	263,250	87,750
HCMC Program	645,000	645,000	483,750	161,250
Total Expenditures	226,272,000	228,228,862	224,106,656	4,122,206
NET CHANGE IN FUND BALANCE	$ -	$ (4,122,206)	$ -	$ 4,122,206

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

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF NET PENSION LIABILITY
STATE EMPLOYEES RETIREMENT FUND
For the Year Ended June 30, 2015

		2015
Agency's proportion of the net pension liability		0.1608%
Agency's proportionate share of the net pension liability	$	1,930,000
Agency's covered employee payroll	$	3,365,517
Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll		57.35%
Plan fiduciary net position as a percentage of the total pension liability		87.64%

The measurement date is June 30 of the prior fiscal year.

The agency is required to present the above information for 10 years. Additional years will be displayed as they become available.

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

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND
For the Year Ended June 30, 2015

	2015
Contractually required contributions	$ 182,084
Contributions in relation to the contractually required contributions	(182,084)
Contribution deficiency (excess)	$ -
Agency's covered employee payroll	$ 3,365,517
Contributions as a percentage of covered employee payroll	5.41%

The agency is required to present the above information for 10 years. Additional years will be displayed as they become available.

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.

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, 2014) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2015) 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.

SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2015

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
ASSETS			
Cash and investments	$ 3,109,382	$ -	$ 3,109,382
Accounts receivable	59,897	52,982	112,879
Due from other governments	-	999,317	999,317
TOTAL ASSETS	$ 3,169,279	$ 1,052,299	$ 4,221,578
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 33,616	$ 863,370	$ 896,986
Accrued liabilities	14,584	62,209	76,793
Due to other governments	-	59,413	59,413
Due to other funds	-	67,307	67,307
Total Liabilities	48,200	1,052,299	1,100,499
Fund Balances			
Restricted for licensing and grant administration	2,026,961	-	2,026,961
Assigned	1,094,118	-	1,094,118
Total Fund Balances	3,121,079	-	3,121,079
TOTAL LIABILITIES AND FUND BALANCES	$ 3,169,279	$ 1,052,299	$ 4,221,578

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
REVENUES			
Federal grants	$ -	$ 4,385,659	$ 4,385,659
Registration and licensing fees	752,635	-	752,635
Other revenue	362,757	-	362,757
Total Revenues	1,115,392	4,385,659	5,501,051
EXPENDITURES			
General government	682,292	-	682,292
Federal grants	-	4,385,659	4,385,659
Total Expenditures	682,292	4,385,659	5,067,951
Excess of revenues over expenditures	433,100	-	433,100
FUND BALANCE - Beginning of Year	2,687,979	-	2,687,979
FUND BALANCE - END OF YEAR	$ 3,121,079	$ -	$ 3,121,079