# OFFICIAL STATEMENT DATED DECEMBER 1, 2010

NEW ISSUE: DTC BOOK-ENTRY ONLY

EXPECTED RATINGS: S&P: "AA"
Fitch: "AA-"
See "RATINGS" herein

In the opinion of Best & Flanagan LLP, of Minneapolis, Minnesota, Bond Counsel, under federal and State of Minnesota laws, regulations, rulings and decisions in effect on the date of delivery of the Series 2010 Bonds, assuming compliance with the covenants set forth in the Indenture, the interest on the Series 2010 Bonds is not includable in gross income for federal income tax purposes or in taxable net income for the purpose of Minnesota income taxes, except for Minnesota corporate and bank excise taxes measured by income. Interest on the Series 2010 Bonds is <u>not</u> an item of tax preference for purposes of federal and State of Minnesota alternative minimum tax ("AMT") applicable to the recipient.

Minnesota Office of Higher Education
reach higher

# $53,400,000
# Minnesota Office of Higher Education
# Supplemental Student Loan Program Revenue Bonds
# 2010 Series

**Dated: Date of Delivery** **Due: November 1, as shown on the inside front cover**

The Minnesota Office of Higher Education (the "Issuer") will issue its $53,400,000 Supplemental Student Loan Program Revenue Bonds, 2010 Series (the "Series 2010 Bonds") pursuant to a General Indenture dated as of December 1, 2010 (the "General Indenture"), as supplemented by a First Supplemental Indenture dated as of December 1, 2010 (the "First Supplemental Indenture," and together with the General Indenture, the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee").

The Series 2010 Bonds will be issued in fully registered form without coupons in denominations of $5,000 or integral multiples thereof. Interest will be payable by the Trustee to the registered owners of the Series 2010 Bonds on each May 1 and November 1, commencing May 1, 2011. As originally issued, the Series 2010 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC is to act as securities depository for the Series 2010 Bonds. Individual purchases of the Series 2010 Bonds are to be made in Book-Entry Form only. Purchasers of the Series 2010 Bonds will not receive certificates representing their interest in Series 2010 Bonds purchased. So long as DTC is the registered owner of the Series 2010 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2010 Bonds will be made directly to DTC. Disbursements of such payments to DTC participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants and Indirect Participants. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM" herein. U.S. Bank National Association will serve as Trustee as well as Paying Agent and Registrar for the Series 2010 Bonds.

The Series 2010 Bonds are being issued to provide the Issuer with moneys to (i) originate or refinance fixed rate student loans under its SELF V Program and (ii) fund a portion of the Debt Service Reserve Fund. See "SOURCES AND USES OF FUNDS" herein.

The Series 2010 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2010 BONDS – Redemption Provisions" herein.

The Series 2010 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture. The Indenture permits the issuance of Additional Bonds under the Indenture payable on a parity with the Series 2010 Bonds.

The Series 2010 Bonds are payable solely from the Student Loans, money and investments held by the Trustee under the Indenture. The Series 2010 Bonds may also benefit from amounts payable to the Issuer by the State of Minnesota (the "State") with respect to the Debt Service Reserve Fund or otherwise with respect to the Series 2010 Bonds pursuant to Minnesota Statutes Section 136A.1787, subject to and dependent upon annual appropriations by the legislature of the State for such purpose, as more fully described herein. See "SECURITY AND SOURCE OF REPAYMENT – Statutory Provisions Providing for Legislative Appropriations" herein. Such provision does not constitute a legally enforceable obligation on the part of the State or create a debt or liability on behalf of the State enforceable against the State.

THE SERIES 2010 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER. THE SERIES 2010 BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OR ANY AGENCY (EXCEPT THE ISSUER, TO THE EXTENT PROVIDED IN THE INDENTURE) OR POLITICAL SUBDIVISION THEREOF. NEITHER THE ISSUER NOR THE STATE SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010 BONDS, EXCEPT FROM THE ISSUER'S MONEYS AND FUNDS PLEDGED UNDER THE INDENTURE. NEITHER THE FAITH NOR CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF (INCLUDING THE ISSUER) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2010 BONDS. THE ISSUER HAS NO TAXING POWER.

The Series 2010 Bonds are offered when, as and if issued and received by the underwriters named below (the "Underwriters"), subject to prior sale and to the approval of legality by Best & Flanagan LLP, Minneapolis, Minnesota, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Underwriters by their counsel, Dorsey & Whitney LLP, Minneapolis, Minnesota. It is expected that the Series 2010 Bonds will be available for delivery at DTC on or about December 9, 2010 (the "Closing Date").

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## Morgan Stanley
**(Sole Lead Manager)**

**US Bancorp**

**$53,400,000**
**Minnesota Office of Higher Education**
**Supplemental Student Loan Program Revenue Bonds**
**2010 Series**

| Maturity Date (November 1) | Principal Amounts | Interest Rate | Price | Yield | CUSIP©* |
|---|---|---|---|---|---|
| 2013 | $ 360,000 | 2.00% | 101.410 | 1.50% | 60416M AH6 |
| 2014 | $1,135,000 | 3.00% | 103.727 | 2.00% | 60416M AJ2 |
| 2015 | $1,090,000 | 3.00% | 103.456 | 2.25% | 60416M AK9 |
| 2016 | $1,925,000 | 3.50% | 104.664 | 2.64% | 60416M AL7 |
| 2016 | $1,120,000 | 5.00% | 112.801 | 2.64% | 60416M AV5 |
| 2017 | $2,315,000 | 3.00% | 99.689 | 3.05% | 60416M AM5 |
| 2017 | $1,940,000 | 5.00% | 112.039 | 3.05% | 60416M AW3 |
| 2018 | $ 500,000 | 3.50% | 100.684 | 3.40% | 60416M AT0 |
| 2018 | $4,405,000 | 5.00% | 110.993 | 3.40% | 60416M AN3 |
| 2019 | $1,500,000 | 4.50% | 106.168 | 3.68% | 60416M AU7 |
| 2019 | $3,100,000 | 5.00% | 109.931 | 3.68% | 60416M AP8 |
| 2020 | $4,185,000 | 4.50% | 104.715 | 3.92% | 60416M AQ6 |
| 2021 | $3,625,000 | 4.00% | 99.038 | 4.11% | 60416M AR4 |

$26,200,000 5.00% Term Bonds due November 1, 2029 – Yield 5.00% – Price 100.000 – CUSIP©* 60416M AS2

This Official Statement does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Underwriters to subscribe for or purchase, any of the Series 2010 Bonds in any circumstances or in any state or other jurisdiction where such offer or invitation is unlawful. Except as set forth herein, no action has been taken or will be taken to register or qualify the Series 2010 Bonds or otherwise to permit a public offering of the Series 2010 Bonds in any jurisdiction where actions for that purpose would be required. The distribution of this Official Statement and the offering of the Series 2010 Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Official Statement comes are required by the Issuer and the Underwriters to inform themselves about and to observe any such restrictions. This Official Statement has been prepared by the Issuer solely for use in connection with the proposed offering of the Series 2010 Bonds described herein.

No dealer, broker, sales representative or other person has been authorized by the Issuer or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer or the Underwriters. The information contained in this Official Statement has been obtained from the Issuer, DTC, Firstmark Services LLC (the "Servicer" or "Firstmark") and other sources that are believed to be reliable. Except for information concerning the Issuer, such information is not to be construed as a representation by the Issuer. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the nature, contents, accuracy, fairness or completeness of the information set forth in this Official Statement or other offering materials.

The information in this Official Statement concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system has been obtained from DTC. None of the Issuer, any its advisors or the Underwriters has independently verified, makes any representation regarding or takes any responsibility for the accuracy, completeness or adequacy of such information.

References in this Official Statement to laws, rules, regulations, agreements and any other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices hereto, they will be available for inspection at the principal corporate trust office of the Trustee.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING AND WEIGH THE MERITS AND RISKS INVOLVED WITH OWNERSHIP OF THE SERIES 2010 BONDS.

Prospective investors are not to construe the contents of this Official Statement, or any prior or subsequent communications from the Issuer or the Underwriters or any of their officers, employees or agents as investment, legal, accounting, regulatory or tax advice. Prior to any investment in the Series 2010 Bonds, a prospective investor should consult with its own advisors to determine the appropriateness and consequences of such an investment in relation to that investor's specific circumstances.

The Series 2010 Bonds have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Series 2010 Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Series 2010 Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. No jurisdiction or any agency of any jurisdiction has passed upon the merits of the Series 2010 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain of the parties involved in this financing have agreed to indemnify certain other parties for any untrue statement of a material fact contained in this Official Statement or any omission to state a material fact necessary to be stated in this Official Statement in order to make the statements contained herein not misleading.

There currently is no secondary market for the Series 2010 Bonds. There are no assurances that any market will develop or, if it does develop, how long it will last. The Issuer does not intend to list the Series 2010 Bonds on any exchange, including any exchange in either Europe or the United States.

The Series 2010 Bonds are being offered subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to the approval of certain legal matters by counsel and certain other conditions. No Series 2010 Bonds may be sold without delivery of this Official Statement.

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES 2010 BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT SPEAKS ONLY AS OF ITS DATE SHOWN ON THE COVER PAGE HEREOF, AND THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SERIES 2010 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET FOR A LIMITED PERIOD. HOWEVER, THERE IS NO OBLIGATION TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

**IRS CIRCULAR 230 NOTICE**

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, THE BONDHOLDERS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY BONDHOLDER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH BONDHOLDER UNDER THE INTERNAL REVENUE CODE; (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE SERIES 2010 BONDS OR MATTERS ADDRESSED IN THIS OFFICIAL STATEMENT; AND (III) BONDHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Official Statement contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “intend,” “potential,” and the negative of such terms or other similar expressions. Such forward-looking statements include, among others, statements in this Official Statement under the headings “BONDHOLDERS’ RISKS” and “SECURITY AND SOURCE OF REPAYMENT – Anticipated Sufficiency of Revenues.”

The forward-looking statements reflect the Issuer’s current expectations and views about future events. The forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Issuer’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on the forward-looking statements.

You should read this Official Statement and the documents that are referenced in this Official Statement completely and with the understanding that the Issuer’s actual future results may be materially different from what the Issuer expects. The Issuer may not update the forward-looking statements, even though the Issuer’s situation may change in the future, unless the Issuer has obligations under the federal securities laws to update and disclose material developments related to previously disclosed information. All of the forward-looking statements are qualified by these cautionary statements.

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## SUMMARY STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the Series 2010 Bonds and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement.*

**Issuer:** The Minnesota Office of Higher Education, an executive branch agency of the State.

**Series 2010 Bonds:** $53,400,000 Supplemental Student Loan Program Revenue Bonds, 2010 Series (the "Series 2010 Bonds").

**Interest Payments:** Interest on the Series 2010 Bonds is payable on May 1 and November 1 commencing May 1, 2011.

**Security and Source of Repayment:** The Series 2010 Bonds, as well as all other Bonds that may be issued under the Indenture, are payable solely from and secured by the Issuer's pledge to the Trustee under the Indenture of (i) Student Loans; (ii) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans, (iii) all proceeds of the Series 2010 Bonds, Revenues and any other amounts contained in the Funds and Accounts until their use or release from the Funds and Accounts, including amounts in the Capitalized Interest Fund and the Debt Service Reserve Fund; (iv) all rights of the Issuer in and to the Servicing Agreement as it relates to Student Loans; (v) any and all other real or personal property, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture; and (vi) all proceeds of the foregoing.

The Series 2010 Bonds may also benefit from amounts payable to the Issuer by the State of Minnesota (the "State") with respect to the Debt Service Reserve Fund or otherwise with respect to the Series 2010 Bonds pursuant to Minnesota Statutes Section 136A.1787, subject to and dependent upon annual appropriations by the legislature of the State for such purpose, as more fully described herein. See "SECURITY AND SOURCE OF REPAYMENT – Statutory Provisions Providing for Legislative Appropriations" herein. Such provision does not constitute a legally enforceable obligation on the part of the State or create a debt or liability on behalf of the State of Minnesota enforceable against the State.

**Use of Bond Proceeds:** The Series 2010 Bond proceeds are to be applied to (i) originate or refinance fixed rate student loans made under the Issuer's SELF V Program (See "THE SUPPLEMENTAL STUDENT LOAN PROGRAM" herein), and (ii) fund a portion of the Debt Service Reserve Fund. See "SOURCES AND USES OF FUNDS" herein.

**Redemption:** The Series 2010 Bonds maturing November 1, 2029 are subject to cumulative sinking fund redemption, at a Redemption Price of 100% of principal, without premium, to the extent moneys are available therefor under the Indenture, as described herein. All Series 2010 Bonds are subject to redemption, at a Redemption Price of 100% of principal, without premium, plus, in the case of the redemption of Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds, from certain unexpended proceeds of the Series 2010 Bonds and certain other amounts remaining in the Series 2010 Account of the

Acquisition Fund (including the Issuer contribution thereto referred to under "SOURCES AND USES OF FUNDS"), if any, as of the end of the Loan Origination Period. Series 2010 Bonds maturing on November 1, 2029 are also subject to special optional redemption and special mandatory redemption, in each case at a Redemption Price of 100% of principal, without premium, from certain excess revenues available therefor under the Indenture. Series 2010 Bonds maturing on or after November 1, 2021, are also subject to optional redemption as described herein at a Redemption Price of 100% of principal, without premium, plus, in the case of the redemption of Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds. See "THE SERIES 2010 BONDS – Redemption Provisions" herein.

**Additional Bonds and Other Obligations:** The Series 2010 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture. The Indenture permits the issuance of Additional Bonds under the Indenture payable on a parity with the Series 2010 Bonds.

**Special Limited Obligations:** THE SERIES 2010 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER. THE SERIES 2010 BONDS AND INTEREST THEREON DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OR ANY AGENCY (EXCEPT THE ISSUER, TO THE EXTENT PROVIDED IN THE INDENTURE) OR POLITICAL SUBDIVISION THEREOF. NEITHER THE FAITH NOR CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF (INCLUDING THE ISSUER) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2010 BONDS. THE ISSUER HAS NO TAXING POWER.

**Ratings:** The Series 2010 Bonds are expected to be rated "AA" by Standard and Poor's Credit Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and "AA-" by Fitch, Inc. ("Fitch"). Both ratings are based, in part, on the moral obligation of the State to make certain appropriations with respect to the Series 2010 Bonds as described under "SECURITY AND SOURCE OF REPAYMENT – Statutory Provisions Providing for Legislative Appropriations" herein. In addition, Fitch has separately determined, based on its review of certain cashflow projections and the underlying structure, that the Series 2010 Bonds meet Fitch's requirements for an "A" rating without the benefit of the State's moral obligation. Such ratings reflect only the view of each respective rating agency and an explanation of the significance of such ratings can only be obtained from the respective rating agency. See "RATINGS" herein.

**$53,400,000**
**MINNESOTA OFFICE OF HIGHER EDUCATION**
**SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**
**SERIES 2010**

## INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the $53,400,000 Supplemental Student Loan Program Revenue Bonds, 2010 Series (the "Series 2010 Bonds") to be issued by the Minnesota Office of Higher Education (the "Issuer"). The Series 2010 Bonds will be issued pursuant to a General Indenture dated as of December 1, 2010 (the "General Indenture") , as supplemented by a First Supplemental Indenture dated as of December 1, 2010 (the "First Supplemental Indenture," and together with the General Indenture, the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and in accordance with the provisions of Minnesota Statutes, Sections 136A.15 to 136A.1787, as amended (the "Act").

The Issuer will use the proceeds of the sale of the Series 2010 Bonds to (i) originate or refinance fixed rate student loans made under the Issuer's SELF V Program and (ii) fund a portion of the Debt Service Reserve Fund. The Issuer will fund the Capitalized Interest Fund and the balance of the Debt Service Reserve Fund, and pay Costs of Issuance, from sources other than Series 2010 Bond proceeds. See "SOURCES AND USES OF FUNDS" herein.

The student loans originated or refinanced with proceeds of the Series 2010 Bonds (together with all other student loans originated or refinanced with moneys under the Indenture, collectively the "Student Loans") will be fixed rate loans originated by the Issuer under its SELF V Program (together with any additional programs authorized under the Indenture, collectively the "Program") that require a co-signer. In addition, the SELF V Program will offer variable rate loans that will not be financed under this Indenture. The Student Loans are not insured or guaranteed. See "THE SUPPLEMENTAL STUDENT LOAN PROGRAM – Program Terms and Conditions" herein. The Revenues derived from repayments of Student Loans held in the Student Loan Fund, amounts on deposit in the Debt Service Reserve Fund, the Revenue Fund, the Acquisition Fund, the Capitalized Interest Fund, the Redemption Fund, and the Surplus Fund, and the investment income on these Funds are pledged to the payment of the Series 2010 Bonds and any other Bonds issued under the Indenture.

The Series 2010 Bonds are the first series of bonds to be issued by the Issuer under the Indenture. Additional bonds may hereafter be issued under the Indenture on a parity with the Series 2010 Bonds. Any such additional bonds, together with the Series 2010 Bonds, are referred to herein as the "Bonds." See "SECURITY AND SOURCE OF REPAYMENT" herein.

The principal amount of Bonds that may be issued under the Indenture is not limited. The Issuer may, from time to time, issue additional Bonds in one or more series, subject to the limitation under the Act that the aggregate amount of revenue bonds issued by the Issuer that are outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000 (under current law). The Issuer has and may also issue bonds pursuant to other trust indentures.

The Series 2010 Bonds are special, limited obligations of the Issuer payable solely from the Student Loans, money and other investments held by the Trustee and pledged by the Issuer as part of the Trust Estate pursuant to the Indenture.

This Official Statement and the Appendices hereto contain descriptions of, among other matters, the Series 2010 Bonds, the Issuer, the SELF V Program, and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the documents referred to above are qualified in their entirety by reference to such documents, and references herein to the Series 2010 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of such documents and other documents described herein will be available for inspection at the principal corporate trust office of the Trustee.

All capitalized terms used herein that are not otherwise defined shall have the meanings ascribed thereto in the Indenture and as described in "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE."

## BONDHOLDERS' RISKS

This Official Statement, including all Appendices hereto, should be read in its entirety for an understanding of the security for and the risks that may be associated with ownership of the Series 2010 Bonds. There follows under this heading a brief summary of selected factors that may be of particular significance to an investor in making an investment decision with respect to the Series 2010 Bonds. Such factors are not intended to be a complete list of all factors which may be material to such decision.

Defaults and Delinquencies on the Student Loans. The Revenues derived by the Issuer from payments of principal of and interest on the Student Loans could be materially and adversely affected by increases in defaults and delinquencies on payments of principal of and interest on the Student Loans. Significant increases in college tuition experienced over the last several years have significantly increased the average amount of outstanding loans for each student. The Issuer has no obligation to replace any Student Loan that becomes delinquent or goes into default.

Sufficiency and Timing of Receipt of Revenues. Upon issuance of the Series 2010 Bonds, it is anticipated that the initial Parity Ratio will be approximately 120%, which is based on the net amount of cash and Investment Securities on deposit in the Funds and Accounts under the Indenture derived from the net proceeds of the Series 2010 Bonds plus moneys contributed by the Issuer over the aggregate principal amount of the outstanding Series 2010 Bonds. In addition, the Issuer expects, and the cash flows indicate, that the Revenues to be derived from the Student Loans and other amounts on deposit under the Indenture should be sufficient to pay the principal of and interest on the Series 2010 Bonds when due. This expectation is based upon an analysis of cash flow projections, using assumptions which the Issuer believes are reasonable, regarding (i) the characteristics and expected performance of the Student Loans, (ii) amounts to be deposited in the Debt Service Reserve Fund and Capitalized Interest Fund, (iii) investment earnings on amounts on deposit in the Funds and Accounts under the Indenture (excluding the Rebate Fund and the Excess Interest Fund), and (iv) the amount and timing of Program Expenses. The assumptions regarding expected performance of the Student Loans are derived in part from the Issuer's experience in the administration of its historical supplemental student loan programs. There can be no assurance, however, that the Student Loans anticipated to be financed with the proceeds of the Series 2010 Bonds will be financed as anticipated, that interest and principal payments from such Student Loans and from Student Loans financed with additional Bonds will be received as anticipated or that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized. Furthermore, future events over which the Issuer has no control may adversely affect the Issuer's actual receipt of Revenues and other amounts pursuant to the Indenture.

Receipt of principal of and interest on Student Loans may occur earlier than anticipated, causing an unanticipated redemption of Series 2010 Bonds, due to various factors, including, without limitation: (i) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Issuer's Student Loan portfolio expected to be held pursuant to the Indenture; (ii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Issuer's Student Loan portfolio expected to be held pursuant to the Indenture; and (iii) economic conditions that induce borrowers to refinance or repay their loans prior to maturity.

Delay in the receipt of principal of and interest on Student Loans may adversely affect payment of the principal of and interest on the Series 2010 Bonds when due. Receipt of principal of and interest on Student Loans may be delayed due to numerous factors including, without limitation: (i) additional extended grace periods for up to 24 additional months (during which interest, but not principal, payments are required to be made) occurring after grace periods granted automatically for the first 12 months after the borrower leaves school, (ii) borrowers entering into interest only payment periods due to a return to school or other eligible purposes; (iii) forbearance being granted to borrowers; (iv) loans in delinquency for periods longer than assumed; (v) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Issuer's Student Loan portfolio expected to be held pursuant to the Indenture; and (vi) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Student Loan portfolio expected to be held pursuant to the Indenture.

If actual receipt of the Revenues and other amounts under the Indenture or actual expenditures (including, without limitation, Program Expenses) vary materially from those projected, the Issuer may be unable to pay the principal of and interest on the Series 2010 Bonds. In the event that Revenues and other amounts to be received under the Indenture are insufficient to pay the principal of and interest on the Bonds when due, the Indenture authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, sell the Student Loans and all other assets comprising the Trust Estate and accelerate maturity of the Bonds. It is possible, however, that the Trustee would not be able to sell the Student Loans and the other assets comprising the Trust Estate in a timely manner or for an amount sufficient to permit payment of the principal of and accrued interest on all Outstanding Bonds when due.

Early Redemption of the Series 2010 Bonds. The Series 2010 Bonds maturing on November 1, 2029 are subject to cumulative sinking fund redemption, at a Redemption Price of 100% of principal, without premium, to the extent moneys are available therefor under the Indenture, as described herein. All Series 2010 Bonds are subject to redemption, at a Redemption Price of 100% of principal, without premium, plus, in the case of the redemption of Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds, from certain unexpended proceeds of the Series 2010 Bonds and certain other amounts remaining in the Series 2010 Account of the Acquisition Fund (including the Issuer contribution thereto referred to under "SOURCES AND USES OF FUNDS"), if any, as of the end of the Loan Origination Period. Series 2010 Bonds maturing on or after November 1, 2021, are subject to optional redemption as described herein at a Redemption Price of 100% of principal, without premium, plus, in the case of the redemption of Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds. Series 2010 Bonds maturing on November 1, 2029 are also subject to special optional redemption and special mandatory redemption, in each case at a Redemption Price of 100% of principal, without premium, from certain Excess Revenues available therefor under the Indenture. Excess Revenues may result from Student Loan portfolio payment performance that exceeds assumptions utilized by the Issuer for purposes of structuring the Series 2010 Bonds. Student Loans are subject to prepayment, without penalty. Numerous sources of such prepayment, including loans from lenders other than the Issuer, are available to Student Loan borrowers. See "THE SERIES 2010 BONDS – Redemption Provisions" herein.

Risk of Non-Origination. Student Loans to be funded by the Issuer with the proceeds of the Series 2010 Bonds are expected to bear effective interest rates and to offer other terms and conditions that are competitive with fixed rate education loans that are currently made available by other lenders. However, interest rates applicable to fixed rate loans made to fund the costs of post-secondary education, or interest rates applicable to other loans available to borrowers, may decline significantly during the Loan Origination Period, or other material changes may occur in competing education loan programs. In addition, Student Loans compete with variable rate loans, including variable rate SELF V Loans offered by the Issuer (see "BONDHOLDERS' RISKS – Competition from Variable Rate SELF V Loans") as well as other student loan programs. There is no assurance that the Issuer will be able to apply the full amount of Series 2010 Bond proceeds and allocable Revenues which are currently expected to be made available therefor to the purchase of Student Loans. The demand for education loans is affected by a number of factors, including general economic conditions, student perceptions of the value of post-secondary education and their ability to participate in post-secondary education programs on at least a half-time basis, factors affecting the costs of post-secondary education and the availability of other forms of financial assistance, the ability of borrowers and cosigners to satisfy credit criteria and the schedule upon which students and their families must pay post-secondary education costs, which is generally based upon an academic year commencing in September, or upon semesters commencing in September and January. See "BONDHOLDERS' RISKS – General Economic Conditions."

The Loan Origination Period will expire on November 1, 2012, subject to extension (i) to January 31, 2013 with respect to Student Loans partially, but not fully, disbursed prior to November 1, 2012 and (ii) thereafter upon satisfaction of the requirements of a Rating Agency Notification with respect to such extension. If the Issuer is unable to fully apply all amounts available to purchase Student Loans prior to expiration of the Loan Origination Period, unexpended and uncommitted moneys in the Series 2010 Account of the Acquisition Fund would be transferred to the Redemption Fund and used to redeem Series 2010 Bonds. The Issuer reserves the right to apply moneys in the Series 2010 Account of the Acquisition Fund and other moneys available to it to originate Student Loans in the manner it deems most advantageous to Student Loan borrowers and the Issuer. See "THE SERIES 2010 BONDS – Redemption Provisions – Mandatory Redemption Resulting from Non-Origination" herein.

Limited Obligations of the Issuer. The Series 2010 Bonds are special, limited obligations of the Issuer payable solely from the Student Loans, money and investments held by the Trustee, and pledged by the Issuer, as part of the Trust Estate pursuant to the Indenture. The Series 2010 Bonds and interest thereon do not constitute or give rise to a pecuniary liability of the State or any agency (other than the Issuer, to the extent provided in the Indenture) or political subdivision thereof. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision of the State (including the Issuer) is pledged to the payment of the principal of or the interest on the Series 2010 Bonds. The Issuer has no taxing power.

No assurance can be given that sufficient Revenues will be derived from the Student Loans, or any other moneys or investments held under the Indenture which are part of the Trust Estate and available for such purpose, to make payments of the principal of and interest on the Series 2010 Bonds. The Student Loans held under the Indenture are not subject to acceleration of principal in the event of any such deficiency. See "SECURITY AND SOURCE OF REPAYMENT – Cash Flow Projections" herein.

Statutory Provisions Providing for Legislative Appropriations. Section 136A.1787 of the Act provides for a specific budgetary procedure with respect to bonds issued by the Issuer, under which the Issuer is required to annually determine and certify to the Governor of the State on or before December 1, the amount, if any, (1) needed to restore the Issuer's Loan Capital Fund to the minimum amount required by its indentures, not to exceed the maximum amount of principal and interest to become due and payable in any subsequent year on all outstanding bonds and notes of the Issuer, (2) determined by the Issuer to be needed in the immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, to pay principal and interest due and payable in that year on all outstanding bonds and notes of the Issuer, and (3) needed to restore any debt service reserve fund securing any outstanding bonds or notes of the Issuer. The Governor is required to include and submit all such certified amounts to the State legislature in the Governor's budget for the following fiscal year, or in the Governor's supplemental budget if the regular budget has previously been approved.

These provisions of the Act would permit the Issuer to ask the State for amounts sufficient to (1) cure any deficiency in the Debt Service Reserve Fund as of December 1 in a given year, and (2) cover any expected shortfall in the moneys available to pay principal and interest on the Series 2010 Bonds in the following fiscal year. These amounts, if appropriated by the legislature and made available to the Issuer, would be paid to the Issuer on or after the following July 1, which is the beginning of the next fiscal year. No such amounts would be available to cure any additional deficiency in the Debt Service Reserve Fund occurring after such December 1, nor to cover any shortfalls in moneys available to pay principal and interest on the Series 2010 Bonds during the current fiscal year, although any such shortfalls then existing or expected to occur should be considered in determining the expected shortfall for the following fiscal year.

The Act contains no provision establishing any right of owners of the Series 2010 Bonds to require the legislature to make the specified appropriations or limiting the ability of the State to amend or repeal Section 136A.1787 of the Act or, by other legislative, executive, or judicial action, to adversely affect the timely transfer of any such appropriations. All moneys paid to the Issuer pursuant to the provisions of Section 136A.1787 are subject to appropriation by the State legislature for such purpose. Section 136A.1787 does not constitute a legally enforceable obligation on the part of the State nor does it create a debt or liability of the State.

However, any appropriations so made to the Issuer are subject to the unallotment process of the State under certain conditions. Minnesota Statutes provide that if the Commissioner of Minnesota Management and Budget determines that probable receipts for the State's general fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, shall, after first reducing the amount in the State's budget reserve account, address any additional budget deficit by reducing unexpended allotments of any prior appropriation or transfer. The law empowers the Commissioner to defer or suspend prior statutorily created obligations which would prevent effecting such reductions. The statutory duty to reduce allotments is mandatory to the extent needed to make up a projected deficit not solved by use of the budget reserve account. The Commissioner has fairly broad authority to reduce allotments as necessary to make up a deficit: no programs are exempt from the unallotment authority; the Commissioner is not required to make across-the-board cuts; and no maximum percentage limits how much the Commissioner can cut from any program.

The unallotment process is not automatically triggered under a determination of a revenue shortfall. The timing of revenue and expenditure forecasts for the general fund under Minnesota Statutes is such that the Governor may propose an amended budget for consideration by the legislature prior to the end of a biennium in order to address a shortfall legislatively. Absent the enactment of appropriate legislation, the Commissioner and the Governor would act in order to maintain a positive balance in the State's general fund at the end of a biennium as required under the State's constitution.

There is no statutory limitation on the amount of bonds which may be issued by the Issuer that would be subject to the provisions of Section 136A.1787 of the Act.

See "SECURITY AND SOURCE OF REPAYMENT – Statutory Provisions Providing for Legislative Appropriations" herein.

Financial Condition of the Issuer. The Issuer's audited basic financial statements as of and for the years ended June 30, 2010 and June 30, 2009 are attached hereto as APPENDIX A. An investor, in making an investment decision with respect to the Series 2010 Bonds, should examine this financial information carefully with the knowledge that none of the assets of the Issuer (other than the Trust Estate held under the Indenture) have been pledged to be used by the Issuer to make principal and interest payments in respect of the Series 2010 Bonds. However, the Indenture requires that the Issuer pay for costs of issuance of the Series 2010 Bonds from sources other than the Trust Estate.

Condition of Servicer. The Revenues derived by the Issuer from payments of principal of and interest on the Student Loans are dependent upon the ability of the Servicer to properly and promptly collect such amounts. In the event that the Servicer is unable for any reason to properly service the Student Loans, the Revenues to the Issuer could be materially and adversely affected and the Issuer would be required to retain a substitute servicer, whose ability to properly service the student loans cannot be assured.

Dependence on Third-Party Servicer. The Issuer is currently dependent on a third-party to service its SELF Loans, including the Student Loans to be originated or refinanced with proceeds of the Series 2010 Bonds. As of the date of this Official Statement, Firstmark Services, LLC, a subsidiary of Nelnet, Inc. is acting as servicer with respect to all SELF Loans pursuant to an agreement subject to expiration on April 30, 2013, subject to automatic annual renewals for one-year periods through April 30, 2018 unless 180 calendar days notice of termination is given by either party to the other. The Issuer has the right, under the Indenture, to appoint a different or successor servicer of the Student Loans, subject to satisfaction of the requirements of a Rating Agency Notification. The cash flow projections relied upon by the Issuer in structuring the Series 2010 Bond issue provide for the payment of all anticipated Program Expenses (including the fees and expenses of the Servicer) from moneys in the Trust Estate, and include certain assumptions with respect to servicing costs which were based upon this current agreement. No assurance can be given that the Issuer will be able to extend the term of such agreement, or to enter into an agreement with another servicer acceptable to the Rating Agencies at the assumed level of servicing cost upon expiration of the current agreement. Furthermore, provisions of the First Supplemental Indenture restrict payment of Program Expenses (which includes the fees and expenses of the Servicer) from moneys in the Trust Estate to those assumed in the cash flow projections delivered to the Trustee on the date of issuance of the Series 2010 Bonds. See "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE – The First Supplemental Indenture – Limitation on Program Expenses Paid from Revenue Fund" herein.

Enforceability of Remedies. The Series 2010 Bonds are payable from the moneys and investments held under the Indenture and available for such purpose. The ability to compel payment under the Indenture and otherwise to enforce the terms and agreements of the Indenture will depend upon the exercise of various remedies specified by the Indenture. The exercise of these remedies may in many instances require judicial actions, which are often subject to discretion and delay. Under existing law, the remedies specified in the Indenture may not be readily available or may be limited. For example, a court may decide not to order the specific performance of covenants contained in the Indenture. The various legal opinions to be delivered concurrently with the delivery of the Series 2010 Bonds will be qualified as to the enforceability of the Indenture by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights generally.

Lack of Perfection of Security Interest in Student Loans. The Indenture creates a security interest in favor of the Trustee in all of the assets comprising the Trust Estate, including the Student Loans, to secure payment of, among other things, the principal of and interest on the Series 2010 Bonds. To perfect such security interest in the Student Loans, the Trustee must take (a) possession and/or control of the promissory notes evidencing such Student Loans, either directly or constructively through a custodian or bailee, or (b) file a financing statement. The Servicer will hold or control the original promissory note with respect to each Student Loan as bailee for the Trustee for purposes of perfecting the Trustee's security interest therein and a financing statement will be filed. For all Student Loans financed or refinanced under the Indenture, the Servicer will hold the related promissory note as agent for the Trustee. The Servicer shall release the promissory note to the Issuer only if such Note has been paid in full, a death or disability claim has been filed or if any payment under such promissory note is 120 days or more delinquent; provided that no such delinquent promissory note held as part of the Trust Estate shall be so released if the Default Rate (as defined in the Bailment Agreement) exceeds 10% on any Default Rate Calculation Date (as defined in the Bailment Agreement). If a third-party purchaser for value and without notice obtains possession of the promissory note, the third-party purchaser's interest would have priority over the security interest of the Trustee.

Prepayment of Student Loans. Student Loans may be prepaid by borrowers at any time. For this purpose the term "prepayments" includes repayments in full or in part and liquidations due to default. The rate of prepayments on the loans may be influenced by a variety of economic, social, and other factors affecting borrowers, including interest rates, the availability of alternative financing and the general job market for graduates of institutions of higher education. To the extent that Student Loans are prepaid or liquidated, the proceeds of such prepayments or liquidations may be used to redeem Series 2010 Bonds which would otherwise not have been redeemed or which would have been redeemed at a later date. See "THE SERIES 2010 BONDS – Redemption Provisions" herein.

Redemption of the Series 2010 Bonds May Create Reinvestment Risks. Student Loans may be prepaid by borrowers at any time without penalty and the Issuer may use such prepayments to prepay the Series 2010 Bonds pursuant to the special optional redemption or optional redemption provisions of the Indenture. See "THE SERIES 2010 BONDS – Redemption Provisions" herein. If the Series 2010 Bonds are redeemed prior to their respective stated maturities, Bondholders may not be able to reinvest their funds at the same yield as the yield on the Series 2010 Bonds and may suffer adverse effects if such Bonds were purchased at a premium or discount. The Issuer cannot predict the prepayment rate of any Student Loans originated or acquired with proceeds of the Series 2010 Bonds, and reinvestment risks or reductions in yield resulting from prepayment will be borne entirely by the affected Bondholders. The rate of prepayments may be influenced by economic and other factors, such as interest rates, the availability of other financing and the general job market.

Additional Bonds. The principal amount of Bonds that the Issuer may issue under the Indenture is not limited. However, under the Act, the aggregate amount of revenue bonds issued by the Issuer and outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000 (under current law). As of September 30, 2010, the Issuer had outstanding $590.1 million of bonds. See "MINNESOTA OFFICE OF HIGHER EDUCATION – Financial Information – Prior Financing Activities" herein.

In order to (i) originate or refinance Student Loans, (ii) refund obligations of the Issuer, (iii) fund the Capitalized Interest Fund, and (iv) set aside amounts for a reserve, and to pay costs of issuance or Program Expenses, the Issuer is authorized to issue Bonds under the Indenture from time to time in one or more series. The Issuer has not previously issued any Bonds under the Indenture. The Issuer may issue additional Bonds on a parity with the Series 2010 Bonds. The Issuer has previously issued bonds under separate trust indentures (see "MINNESOTA OFFICE OF HIGHER EDUCATION – Financial Information" herein) and can issue bonds in the future under separate trust indentures. Such bonds would not be secured under the Indenture, nor will the assets securing those bonds secure Bonds issued under the Indenture.

Possibility of Reduced Payments from Borrowers Called to Active Military Service. The response of the United States to the terrorist attacks on September 11, 2001, and the current military operations have increased the number of citizens who are in active military service, including persons in reserve status who have been called or will be called to active duty. The Servicemembers Civil Relief Act (the "Relief Act") limits the ability of a lender to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three-month period thereafter. The Relief Act prevents a creditor from obtaining a default judgment in court and may limit the interest rate on an alternative loan to 6.00% per annum while the borrower is in military service if the loan was incurred before the borrower's entry into military service. In addition, as described herein under "THE SUPPLEMENTAL STUDENT LOAN PROGRAM – Program Terms and Conditions – Borrower Benefits," at the election of the Issuer under certain circumstances, the interest rate on certain student loans, including those held under the Indenture, may be reduced still further to 3.00%.

Lack of Liquidity. There currently is no secondary market for the Series 2010 Bonds. There is no assurance that any market will develop or, if it does develop, that it will continue or will provide investors with a sufficient level of liquidity of investment. If a secondary market for the Series 2010 Bonds does develop, the spread between the bid price and the asked price for the Series 2010 Bonds may widen, thereby reducing the net proceeds to the investor from the sale of its Series 2010 Bonds. The Issuer does not intend to list the Series 2010 Bonds on any exchange, including any exchange in either Europe or the United States. Under current market conditions, an investor may not be able to sell its Series 2010 Bonds when it wants to do so (it may be required to bear the financial risks of an investment in the Series 2010 Bonds for an indefinite period of time) or it may not be able to obtain the price that it wishes to receive. The market values of the Series 2010 Bonds may fluctuate and movements in price may be significant.

Market Disruption. Since the end of 2007, there have been severe disruptions in the United States financial markets. Certain aspects of this market disruption have negatively impacted issuers of bonds backed by student loans, such as the Issuer, including the deterioration of the auction rate securities market, the downgrade of national bond insurers and the limited availability of credit and liquidity support in the market. These events have caused the Issuer to recognize a need to change its debt financing structure. If the Issuer cannot refund or convert the interest rate for its auction rate securities affected by this market disruption, it could experience higher financing costs under the general indentures under which such bonds were issued.

Additionally, in light of this market dislocation including, specifically, the disruption of credit markets, the Issuer may not be able to obtain financing in the future for its Program. If the Issuer is unable to procure financing for its future needs, the Issuer would be limited in its ability to fund new Student Loans. These limitations could result in students and educational institutions borrowing from other sources. These circumstances may adversely impact the long-term viability of the Issuer's Program and, thus, impair the ability of the Issuer to pay principal of and interest on the Series 2010 Bonds.

Principal Amount of Bonds Outstanding May Exceed Principal Amount of Assets in the Trust Estate; Possible Loss after an Event of Default. The principal amount of Bonds outstanding at any time may exceed the principal amount of Student Loans and other assets in the Trust Estate held by the Trustee under the Indenture. If an Event of Default occurs and the assets in the Trust Estate are liquidated, the Student Loans might have to be sold at a premium in order for the Bondholders to avoid a loss. The Issuer cannot predict the rate or timing of accelerated payments of principal or the occurrence of an Event of Default or when the aggregate principal amount of the Bonds may be reduced to the aggregate principal amount of the Student Loans. Payment of principal of and interest on the Series 2010 Bonds is dependent upon collections on the Student Loans. If the income from the financed Student Loans does not generally exceed the interest expense on the Bonds and Program Expenses, funds available therefor in the Trust Estate may be insufficient to repay the Bonds.

Competition May Reduce Demand or Increase Prepayments on Student Loans. In addition to the Program, there are a number of other sources available to students and/or their parents to originate or refinance the costs of higher education. Such other sources include, but are not limited to, loans offered pursuant to the Federal Direct Student Loan Program and by other education lenders generally. The terms and availability of education loan financing, and of education loan consolidation financing, from sources other than the Issuer vary and are subject to change from time to time. Although the Issuer believes that Student Loans will be competitive in the current prevailing market for education loans, the availability of such other lending sources in general and of the federal programs described herein in particular may impact adversely the number and amount of loans which may be financed under the Program. In addition, the availability of education loan consolidation financing from other sources may materially increase the rate of prepayment actually experienced by the Issuer with respect to Student Loans. There can be no assurance as to the availability to students of other forms of financial assistance that may reduce demand for Student Loans. Potential sources of such financial assistance include the state and federal government, as well as public and private educational institutions. See "THE SUPPLEMENTAL STUDENT LOAN PROGRAM" herein.

Competition from Variable Rate SELF V Loans. The variable rate SELF V Loan has an interest rate that is currently lower than the SELF V fixed rate loan. There is a risk that borrowers will select the variable rate loan over the fixed rate loan, which may result in the inability of the Issuer to apply the full amount of Series 2010 Bond proceeds and other amounts (including, without limitation, the Issuer contribution to the Acquisition Fund referred to under "SOURCES AND USES OF FUNDS") which are currently expected to be made available under the Indenture for the origination or refinancing of Student Loans. See "BONDHOLDERS' RISKS – Risk of Non-Origination." The SELF V variable rate is set at (1) an index rate of the prior calendar quarter three-month London Interbank Offered Rates ("LIBOR") rounded to the nearest one-tenth of one percent plus (2) a margin set by the Issuer, which the Issuer may reset as of the first day of each calendar quarter, and which currently is 3.45%. The fourth quarter 2010 SELF V variable rate is 3.85%.

Anticipated Geographic Concentration of Borrowers and Co-Signers. Due to the eligibility requirements for obtaining a loan under the Program, it is expected that the geographic distribution of borrowers and co-signers of Student Loans will be significantly concentrated in Minnesota. As a result, the performance of the Student Loans may be more influenced by employment trends and other economic factors affecting Minnesota than by broader national trends and factors.

Performance of Student Loans May Differ from Historical Performance of Previous SELF Loans. This Official Statement contains information with respect to the origination and payment experience of previously originated SELF Loans, all of which bear interest at variable rates. Such information is included for general reference purposes only and is not intended as a representation that the origination and payment experience of the Student Loans (which will bear interest at a fixed rate) will be similar to that of previously originated SELF Loans during any period or over the respective lives of such loans.

There can be no assurance that the performance of the Student Loans will in fact be consistent with that of previously originated SELF Loans. Previously originated SELF Loans have a variety of variable interest rates. In addition, the Issuer has, from time to time, modified the credit criteria and certain other origination and repayment terms applicable to such SELF Loans. As a result, previously originated SELF Loans were originated on the basis of credit criteria that differ, and bear terms that differ, in certain respects from those expected to be applicable to the Student Loans. Although the Issuer believes that such differences have proven to not have a material effect on the overall performance to date of SELF Loans that have been originated during different periods, there can be no assurance that no such effect will result in the future. There can be no assurance that the ability of borrowers of Student Loans to repay such loans, or the likelihood that they would prepay such loans, may not differ materially from that of borrowers of previously originated SELF Loans. The 2010-2011 academic year is the first for which the Issuer will offer the Student Loans.

Consumer Protection Lending Laws. Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. In some cases, this liability could affect an assignee's ability to enforce consumer finance contracts such as the Student Loans.

Currently, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 preserves the changes made in the 1998 amendments to the Bankruptcy Code which had removed one of the two exceptions to non-dischargeability of student loans making it more difficult to discharge a student loan in bankruptcy. Bankruptcy reform legislative proposals to alter the non-dischargeability of student loans have been discussed and/or introduced in the Congress of the United States among which include proposals to allow private student loans to be dischargeable in bankruptcy. No assurance can be given as to whether these or any alternative bankruptcy reform legislative proposals will be enacted at the federal level or whether State loan programs such as the SELF V Program would be affected.

General Economic Conditions. A continued downturn in the economy resulting in increasing unemployment either regionally or nationally may result in increased defaults by borrowers in repaying eligible loans. Failures by borrowers to pay timely the principal of and interest on the Student Loans or an increase in grace periods or forbearances could affect the timing and amount of available funds for any monthly collection period and the ability to pay principal of and interest on the Series 2010 Bonds. See "BONDHOLDERS' RISKS – Sufficiency and Timing of Receipt of Revenues" herein. The effect of these factors, including the effect on the timing and amount of available funds for any monthly collection period and the ability to pay principal of and interest on the Series 2010 Bonds, is impossible to predict.

**Certain Amendments to Indenture and Other Actions upon Rating Agency Notification or Consent of Fewer than All Bondholders**

Certain changes may be made to the Indenture or other actions taken upon satisfaction of the requirements of a Rating Agency Notification and without the consent of the Bondholders. Such changes include amendments to the definition of "Investment Securities," a change in the Servicer, the sale of Student Loans, a decrease in the Excess Coverage percentage, changes to certain criteria for the Student Loans set forth in the First Supplemental Indenture and extensions of the Loan Origination and Recycling Periods with respect to amounts in the Series 2010 Account of the Acquisition Fund See "THE SERIES 2010 BONDS – Redemption Provisions – Mandatory Redemption Resulting from Non-Origination," "SECURITY AND SOURCE OF REPAYMENT – Pledged Funds – Surplus Fund," "LOAN SERVICING AND COLLECTIONS – The Servicer" and "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE" herein.

"Rating Agency Notification" means, with respect to Fitch, that such Rating Agency shall have been given notice (the "Event Notice") of a proposed action, failure to act, or other event specified in the notice at least 10 days prior to the occurrence of such event and Fitch shall not have issued any written notice during such 10-day period that the occurrence of such event will cause Fitch to downgrade any of its ratings then applicable to the Bonds or cause Fitch to suspend, withdraw or qualify its ratings then applicable to the Bonds; provided that such 10-day period shall be extended by up to 20 days if the Issuer has received notice that the proposed action, failure to act, or other event specified in the Event Notice is under review by Fitch and Fitch cannot complete its review during the 10-day period (and the Issuer will give prompt written notice to the Trustee of any such notice of review received by it). Such inaction by Fitch cannot be viewed as an approval of the requested action of the Issuer by Fitch. Furthermore, such inaction would not limit the ability of Fitch to downgrade its rating on the basis of such action by the Issuer.

Under the Indenture, registered owners of specified percentages of the aggregate principal amount of the Bonds may amend or supplement or waive provisions of the Indenture without the consent of the other registered owners. There is no recourse to non-consenting registered owners if the requisite percentage of registered owners have consented on these matters. The registered owners may vote in a manner which impairs the ability to pay principal and interest on other Bonds. See "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE – The General Indenture – Supplemental Indentures Requiring Consent of Owners" herein

**The Ratings of the Bonds Are Not a Recommendation to Purchase; Ratings May Change**

The ratings are not a recommendation to purchase, hold, or sell the Bonds, inasmuch as the ratings do not comment as to the market price or suitability for a potential purchaser as an investor. An additional rating agency may rate the Bonds, and that rating may not be equivalent to the initial ratings described in this Official Statement. Ratings may be increased, lowered or withdrawn by any Rating Agency at any time if, in the Rating Agency's judgment, circumstances so warrant. A downgrade in the rating of the Bonds is likely to decrease the price a subsequent purchaser will be willing to pay for the Bonds.

## THE SERIES 2010 BONDS

**General**

The Series 2010 Bonds are to be dated and will bear interest from their dated date. Interest will be payable on May 1 and November 1 of each year, commencing May 1, 2011, to the registered owners of the Series 2010 Bonds as of the record date, which is the April 15 or October 15 immediately preceding each Interest Payment Date. The Series 2010 Bonds will bear interest at the interest rates per annum, and will mature on November 1 in each of the years and in the principal amounts shown on the inside front cover of this Official Statement.

The Series 2010 Bonds are to be issued in fully registered form, without coupons, and when issued are to be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2010 Bonds. Individual purchases of the Series 2010 Bonds will be made in Book-Entry Form only in the principal amount of authorized denominations. Purchasers of the Series 2010 Bonds will not receive certificates representing their interests in the Series 2010 Bonds purchased. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

The Series 2010 Bonds are subject to redemption as described below under "Redemption Provisions."

**Places of Payment**

So long as Cede & Co. is the registered owner of the Series 2010 Bonds, all payments of principal of and interest on the Series 2010 Bonds are to be made to Cede & Co. as nominee for DTC. Such payments are to be remitted by DTC to its Direct Participants for subsequent disbursements to the Beneficial Owners as defined in APPENDIX C. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

The principal of all Series 2010 Bonds shall be payable at the designated office of the Trustee upon presentation and surrender of the Series 2010 Bonds, and payment of the interest on each Series 2010 Bond shall be made on each Interest Payment Date by the Trustee to the Person appearing on the registration records of the Issuer as the registered owner thereof, except as otherwise described below under "APPENDIX C – BOOK-ENTRY ONLY SYSTEM," by check or draft mailed on the Interest Payment Date to the registered owner at such owner's address as it appears on such registration records at the close of business on the respective Record Date for such Interest Payment Date. Registered owners owning at least $1,000,000 aggregate principal amount of the Series 2010 Bonds may arrange to be paid by wire transfer to the bank account number within the United States filed with the Trustee for such purpose.

**Exchange and Transfer of Bonds**

At the option of the registered owner, Series 2010 Bonds may be exchanged at the designated office of the Trustee for a like aggregate principal amount of fully registered Bonds of the same series, interest rate and Stated Maturity in authorized denominations. Upon surrender for transfer of any Series 2010 Bond at the designated office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his attorney duly authorized in writing, a new Series 2010 Bond or Series 2010 Bonds of the same interest rate and of like series and aggregate principal amount of the same Stated Maturity are to be delivered in the name of the transferee or transferees.

The Trustee shall require the payment by any registered owner requesting exchange or transfer of any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Trustee shall not be required to transfer or exchange any Series 2010 Bond during the period of fifteen days next preceding the giving of notice of redemption. After the giving of such notice of redemption, the Trustee shall not be required to transfer or exchange any Series 2010 Bond, which Series 2010 Bond or portion thereof has been called for redemption.

Notwithstanding the above, it should be understood that while the Series 2010 Bonds are in the book-entry system, (i) all rights of ownership must be exercised through DTC and the book-entry system and (ii) notices that are to be given to registered owners by the Issuer or the Trustee will be given only to DTC. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM" below.

**Redemption Provisions**

The Indenture sets forth the provisions for the acceleration of the Series 2010 Bonds and for the redemption of certain of the Series 2010 Bonds prior to maturity, as described below. The Issuer may elect to redeem such Bonds, as described below, upon notice to the Trustee of the Redemption Date, Series, principal amounts and maturities of such Bonds to be redeemed, and the moneys to be applied to the payment of the Redemption Price. In the event that the Series 2010 Bonds of any Series and maturity are to be redeemed in part, they are to be redeemed only in multiples of then Authorized Denominations, and are to be selected by lot or such other manner as the Trustee shall determine in accordance with the Indenture.

Optional Redemption. The Series 2010 Bonds maturing prior to November 1, 2021 are not subject to optional redemption prior to maturity. The Series 2010 Bonds maturing on and after November 1, 2021 are subject to redemption prior to maturity at the option of the Issuer, in whole or in part, in such amounts as the Issuer may direct, on any date on or after November 1, 2020 at a Redemption Price equal to the principal amount thereof being redeemed, without premium, plus (1) accrued interest, if any, to the Redemption Date, and (2) in the case of the redemption of the Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds. Such redemption shall only be made to the extent moneys are available therefor after taking into account amounts necessary to make specified payments from the Revenue Fund pursuant to the Indenture. If such Interest Payment Date is a May 1, the Issuer shall also have available one-half of the principal due and payable on the next succeeding November 1.

Series 2010 Premium Bonds are those Series 2010 Bonds with an offering price in excess of 100%, as set forth in the inside front cover of this Official Statement. "Unamortized Premium" means, with respect to a Series 2010 Premium Bond, the unamortized portion of the amount by which the offering price of such Series 2010 Premium Bond, as set forth in the inside front cover of this Official Statement, exceeded 100%; provided that the Unamortized Premium shall be $0 with respect to any Series 2010 Premium Bond redeemed on or after November 1, 2020. The methodology to calculate the unamortized portion of such amount for a given Series 2010 Premium Bond will use the yield of such Series 2010 Premium Bond stated on the inside front cover of this Official Statement to calculate a price based on the Redemption Date, semiannual compounding and a 360-day year consisting of twelve 30-day months and assuming that such Series 2010 Premium Bond matures on the earlier of its Stated Maturity or November 1, 2020. The excess of the calculated price over 100% will be the unamortized portion.

Special Optional Redemption from Excess Revenues. The Series 2010 Bonds maturing on November 1, 2029 are subject to optional redemption prior to Stated Maturity, in whole or in part, on each Interest Payment Date that is a Potential Special Optional Excess Revenues Redemption Date, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest, if any, to the Redemption Date, in such amounts as the Issuer may direct, from any Excess Revenues derived from or allocable to any Series of Bonds.

"Potential Special Optional Excess Revenues Redemption Date" means each Interest Payment Date (i) which occurs during the Recycling Period, or (b) on which the Parity Ratio exceeds 121%.

"Excess Revenues" means, as of the second-to-last Business Day of the second month preceding each Interest Payment Date occurring on or after the end of the Recycling Period, any funds remaining in the Revenue Fund and the Surplus Fund, after taking into account amounts necessary to (a) if such Interest Payment Date is also a Principal Payment Date, pay the principal and interest due and payable on the Bonds on such Interest Payment Date, (b) if such Interest Payment Date is other than a Principal Payment Date, pay the interest due and payable on the Bonds on such Interest Payment Date and one-half of the principal due and payable on the next succeeding Principal Payment Date, and (c) make all other payments or transfers required to be made from the Revenue Fund pursuant to clauses (1) through (6) of the second paragraph under "SECURITY AND SOURCE OF REPAYMENT – Pledged Funds – Revenue Fund" herein (determined without respect to any special redemption of Bonds from Excess Revenues pursuant to the applicable Supplemental Indenture) and from the Surplus Fund pursuant to clauses (a) and (b) of the second paragraph set forth under "SECURITY AND SOURCE OF REPAYMENT – Pledged Funds – Surplus Fund" herein, on or prior to such Interest Payment Date

Cumulative Sinking Fund Redemption. The Series 2010 Bonds maturing on November 1, 2029 (the "Series 2010 Term Bonds") are subject to cumulative sinking fund redemption to the extent that moneys are available therefor pursuant to the Indenture, and shall be redeemed at par plus accrued interest on the mandatory dates and in the principal amounts as follows:

| Due November 1: | Amount |
|---|---|
| 2022 | $4,645,000 |
| 2023 | $5,280,000 |
| 2024 | $5,670,000 |
| 2025 | $2,300,000 |
| 2026 | $ 255,000 |
| 2027 | $ 260,000 |
| 2028 | $ 270,000 |
| 2029† | $7,520,000 |

† Stated Maturity

Each such payment is referred to as a "Sinking Fund Payment" and the due date for each Sinking Fund Payment is referred to as a "Sinking Fund Payment Date." If, on the second to last Business Day of the second calendar month preceding any Sinking Fund Payment Date, prior to the Stated Maturity, the amounts available to make the Sinking Fund Payment are less than the scheduled Sinking Fund Payment, the amount of the insufficiency will be due on the next Sinking Fund Payment Date, to the extent funds are available therefor, until paid in full. Any such failure to make a full Sinking Fund Payment prior to the Stated Maturity is not a default and will not give rise to an Event of Default under the Indenture. The amounts which would otherwise be available for a Sinking Fund Payment may be applied, prior to notice of cumulative sinking fund redemption, to the purchase for cancellation, of Series 2010 Term Bonds subject to such purchase at prices not exceeding par, plus accrued interest to the date of purchase, in which event the principal amount of Series 2010 Term Bonds scheduled to be redeemed on the immediately succeeding Sinking Fund Payment Date will be reduced by the principal amount of Series 2010 Term Bonds so purchased.

Any retirement of Series 2010 Term Bonds other than by redemption pursuant to these provisions or purchase and delivery by the Issuer to the Trustee for cancellation, shall result in the reduction of the remaining Sinking Fund Payments of the Series 2010 Term Bonds in reverse order of Sinking Fund Payment Dates.

Mandatory Redemption Resulting from Non-Origination. The Series 2010 Bonds are subject to redemption prior to Stated Maturity, in whole or in part, on any date, at a Redemption Price equal to the principal amount thereof being redeemed, without premium, plus (1) accrued interest, if any, to the Redemption Date, and (2) in the case of the redemption of Series 2010 Premium Bonds, the Unamortized Premium with respect to such Bonds, from original proceeds of the Series 2010 Bonds and all other amounts initially available to originate or refinance Student Loans upon issuance of the Series 2010 Bonds remaining in the Series 2010 Account of the Acquisition Fund at the expiration of the Loan Origination Period (including the Issuer contribution thereto referred to under "SOURCES AND USES OF FUNDS"). The Loan Origination Period starts on the date of issuance of the Series 2010 Bonds and ends on November 1, 2012; provided that this period (i) will end on January 31, 2013 with respect to Student Loans partially, but not fully, disbursed prior to November 1, 2012 and (ii) the period may be further extended thereafter upon satisfaction of the requirements of a Rating Agency Notification with respect to such extension.

Special Mandatory Redemption from Excess Revenues. The Series 2010 Bonds maturing on November 1, 2029 are subject to mandatory redemption prior to Stated Maturity, in whole or in part, on each Interest Payment Date that is not a Potential Special Optional Excess Revenues Redemption Date, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest, if any, to the Redemption Date, from all Excess Revenues derived from or allocable to any Series of Bonds. Any such redemption of Series 2010 Bonds of a Stated Maturity that is subject to redemption pursuant to Cumulative Sinking Fund Redemption is to be credited against Sinking Fund Payments applicable to such Stated Maturity as described above under "Cumulative Sinking Fund Redemption."

Notice and Effect of Redemption. On the date designated for redemption by notice as provided under the Indenture, the Series 2010 Bonds so called for redemption shall become due and payable at the stated redemption price and, to the extent moneys are available therefor, interest shall cease to accrue on such Bonds and such Bonds shall no longer be entitled to any benefit or security under the Indenture. Notice is to be given not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption.

If at the time of mailing of any notice of optional redemption there shall not be on deposit with the Trustee moneys sufficient to redeem all the Series 2010 Bonds called for redemption, such notice shall state that such redemption shall be conditioned upon receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of and interest on such Series 2010 Bonds to be redeemed and that if such moneys shall not have been so received by the redemption date, said notice shall be of no force and effect and the Issuer shall not be required to redeem such Series 2010 Bonds. In the event that such moneys are not so received by the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, one time, in the same manner in which the notice of redemption was given, that such moneys were not so received.

Acceleration. Upon any declaration of acceleration of the Series 2010 Bonds after an Event of Default under the Indenture, the principal and the accrued interest on such Bonds through the date of acceleration shall, without further action, become and be immediately due and payable.

Selection of Series 2010 Bonds to be Redeemed. Moneys available for any redemption of the Series 2010 Bonds shall be applied to the redemption of Series 2010 Bonds as follows: Series 2010 Bonds shall be selected by the Trustee pro rata from each Stated Maturity of Series 2010 Bonds based upon the principal balance of such Stated Maturity and the principal balance of all other Stated Maturities, or in such other manner as the Issuer may direct by

Issuer Order, provided that the Issuer has provided the Trustee with a Cash Flow Projection demonstrating that such other manner of selection will not adversely affect the Issuer's ability to pay Debt Service on the Outstanding Bonds or Program Expenses, or to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund.

Subject to DTC procedures relating to redemption of bonds, if less than all of a Stated Maturity of the Series 2010 Bonds is to be redeemed, the Trustee shall select the portions thereof to be redeemed by lot or by such other method deemed fair and reasonable by the Trustee.

## SECURITY AND SOURCE OF REPAYMENT

### Limited Obligations

The Series 2010 Bonds are special, limited obligations of the Issuer payable solely from the Student Loans, money, and investments held by the Trustee, and pledged by the Issuer, as part of the Trust Estate pursuant to the Indenture. The Series 2010 Bonds do not constitute or give rise to a pecuniary liability of the State or any agency or political subdivision thereof. Neither the Issuer nor the State shall be obligated to pay the principal of or interest on the Series 2010 Bonds, except from the Issuer's moneys and funds pledged under the Indenture. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision thereof (including the Issuer) is pledged to the payment of the principal of or the interest on the Series 2010 Bonds. The Issuer has no taxing power.

### Statutory Provisions Providing for Legislative Appropriations

The State in 2009 enacted the following statute creating a moral obligation on the part of the State specifically related to the financing of the Issuer's SELF Loans:

> 136A.1787 SELF LOAN REVENUE BONDS ANNUAL CERTIFICATE OF NEED.
>
> (a) In order to ensure the payment of the principal of and interest on bonds and notes of the office and the continued maintenance of the loan capital fund under section 136A.1785, the office shall annually determine and certify to the governor, on or before December 1, the amount, if any:
>
> (1) needed to restore the loan capital fund to the minimum amount required by a resolution or indenture relating to any bonds or notes of the office, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding;
>
> (2) determined by the office to be needed in the immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all outstanding bonds and notes; and
>
> (3) needed to restore any debt service reserve fund securing any outstanding bonds or notes of the office to the amount required in a resolution or indenture relating to such outstanding bonds or notes.
>
> (b) The governor shall include and submit the amounts certified by the office in accordance with this section to the legislature in the governor's budget for the following fiscal year, or in a governor's supplemental budget if the regular budget for that year has previously been approved.

The Issuer each year shall calculate its need for amounts pursuant to clauses (a)(2) and (3) above with respect to the Bonds prior to December 1 in each year. Its need for amounts under clause (a)(2) will be determined based on its projections with respect to the sufficiency of the revenues and other amounts available under the Indenture to pay all principal and interest due and payable on all outstanding Bonds during the fiscal year beginning the following July 1. Its need for amounts under clause (a)(3) will be determined based on any deficiency in the amount required to be on deposit in the Debt Service Reserve Fund as of such December 1. The State's fiscal year starts on July 1 of a given calendar year, and ends on June 30 of the following year. The State legislature adopts a budget for each fiscal year of a biennium (consisting of each two-year period commencing on July 1 of odd-numbered years) in May preceding the start of such biennium. If the Issuer delivers a certificate prior to December 1 in the year preceding commencement of a biennium, the Governor is to include the Issuer's needed amount with respect to the Bonds in the budget for the fiscal year starting the following July 1. The legislature, if it determines to provide funds for this purpose, will appropriate the amounts in the budget for such fiscal year in May. If the Issuer delivers a certificate prior to December 1 in the year preceding the second year of a biennium, the Governor is to include the Issuer's needed amount with respect to the Bonds in a supplemental budget for the fiscal year starting the following July 1. The legislature, if it determines to provide funds for this purpose, will appropriate the amounts in the supplemental budget for such fiscal year in April.

These provisions of the Act would permit the Issuer to ask the State for amounts sufficient to (1) cure any deficiency in the Debt Service Reserve Fund as of December 1 in a given year, and (2) cover any expected shortfall in the moneys available to pay principal and interest on the Series 2010 Bonds in the following fiscal year. These amounts, if appropriated by the legislature and made available to the Issuer, would be paid to the Issuer on or after the following July 1, which is the beginning of the next fiscal year. No such amounts would be available to cure any additional deficiency in the Debt Service Reserve Fund occurring after such December 1, nor to cover any shortfalls in moneys available to pay principal and interest on the Series 2010 Bonds during the current fiscal year, although any such shortfalls then existing or expected to occur should be considered in determining the expected shortfall for the following fiscal year.

Section 136A.1787 contains no provision establishing any right of owners of the Series 2010 Bonds to require the Legislature to make the specified appropriations or limiting the ability of the State to amend or repeal Section 136A.1787 of the Act or, by other legislative, executive, or judicial action, to adversely affect the timely transfer of any such appropriations. All moneys paid to the Issuer pursuant to the provisions of Section 136A.1787 are subject to appropriation by the State legislature for such purpose. Section 136A.1787 does not constitute a legally enforceable obligation on the part of the State nor does it create a debt or liability of the State. In addition, even though an appropriation has been made to the Issuer, the Commissioner of Minnesota Management and Budget, with the approval of the Governor, has the ability under Minnesota law to reduce any portion, or all, of such appropriation that has not been paid to the Issuer under circumstances where a State budget deficit is anticipated. See "BONDHOLDERS' RISKS — Statutory Provisions Providing for Legislative Appropriations" herein.

There is no statutory limitation on the amount of "moral obligation" bonds which may be issued by the Issuer.

**Anticipated Sufficiency of Revenues**

The Issuer expects that the Revenues to be derived from the Student Loans and other amounts on deposit under the Indenture should be sufficient to pay the principal of and interest on the Series 2010 Bonds when due. This expectation is based upon an analysis of cash flow projections, using assumptions which the Issuer believes are reasonable, regarding (i) the characteristics and expected performance of the Student Loans to be deposited to the Student Loan Fund, (ii) amounts to be deposited in the Debt Service Reserve Fund and the Capitalized Interest Fund, (iii) investment earnings on amounts on deposit in the Funds and Accounts under the Indenture (excluding the Rebate Fund and the Excess Interest Fund), and (iv) the amount and timing of Program Expenses (the "Cash Flow Projections"). The assumptions regarding expected performance of the Student Loans are derived from the Issuer's experience in the administration of its historical supplemental student loan programs. See, however, "BONDHOLDERS' RISKS – Sufficiency and Timing of Receipt of Revenues" herein.

Under the Indenture, Program Expenses are required to be paid prior to the payment of principal of or interest on the Bonds. See "SECURITY AND SOURCE OF REPAYMENT – Pledged Funds – Revenue Fund" below. Such Program Expenses consist of (1) the fees and expenses of the Servicer, the Trustee and any other Indenture Agent, together with any required late fees or interest thereon, and (2) expenses incurred for the Issuer's maintenance and operation of the Program as a direct consequence of the Indenture, the Bonds or the Student Loans acquired by the Issuer under the Indenture, including the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation. The Cash Flow Projections performed in connection with the issuance of the Series 2010 Bonds demonstrate that funds expected to be available under the Indenture should be sufficient to pay both these Program Expenses (in the amounts and timing assumed in the Cash Flow Projections) and the principal of and interest on the Series 2010 Bonds. However, provisions of the First Supplemental Indenture restrict payment of Program Expenses from moneys in the Trust Estate. See "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE – The First Supplemental Indenture – Limitation on Program Expenses Paid from Revenue Fund" herein.

**Pledged Funds**

The Series 2010 Bonds are secured by the Issuer's pledge to the Trustee under the Indenture of (i) all Student Loans; (ii) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans; (iii) all proceeds of the Series 2010 Bonds, Revenues and any other amounts contained in the Funds and Accounts until their use or release from the Funds and Accounts, including amounts in the Debt Service Reserve Fund; (iv) all State Debt Service Reserve Fund Payments and State Shortfall Payments; (v) all rights of the Issuer in and to the Servicing Agreement as it relates to Student Loans; (vi) any and all other real or personal property, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture; and (vii) all proceeds of the foregoing. See "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE."

Revenue Fund. The Revenue Fund shall receive amounts described in the Supplemental Indentures, any amounts required to be transferred thereto from another Fund, any other amounts deposited thereto on the Issuer's order, any State Shortfall Payments received from the State, and all Revenues, which include all payments, proceeds, charges, and other income received by the Issuer on account of any Student Loan and all interest earned or gain realized from the investment of money in the Funds and Accounts (with certain exceptions provided in the Indenture). The Revenue Fund shall also receive all payments of principal and interest, if any, together with any tuition refunds, funds transferred to the Trustee from the Servicer's or Servicers' separate bank accounts maintained pursuant to any Servicing Agreement, insurance and guaranty payments and proceeds from the sale of Student Loans.

On each Monthly Payment Date, money in the respective series accounts of the Revenue Fund shall be applied to the respective series according to the terms of the Indenture in the following order of priority, to pay:

1. amounts necessary (if any) to maintain the Rebate Fund and the Excess Interest Fund at their respective required levels;
2. any unpaid Program Expenses (subject to the limitations described in "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE – The First Supplemental Indenture – Limitation on Program Expenses Paid from Revenue Fund" herein, as well as any other limitations contained in a subsequent Supplemental Indenture);
3. interest payable on each Series of Bonds during the related Monthly Period, and thereafter to increase the balance in the Revenue Fund in respect of interest due and payable on each series of Bonds on the next applicable Interest Payment Date;
4. principal due and payable on each Series of Bonds at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Bonds during the related Monthly Period, and thereafter, to increase the balance in the Revenue Fund in respect of principal due and payable at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Bonds on the next applicable Principal Payment Date;
5. any amount necessary to maintain the Debt Service Reserve Fund at the Debt Service Reserve Requirement;
6. all other principal due on each Series of Bonds during the related Monthly Period and thereafter to increase the balance in the Revenue Fund in respect of all other principal due and payable on each Series of Bonds on the next Principal Payment Date; and
7. to the Surplus Fund any remaining balance.

In the event amounts are payable to more than one Person pursuant to any of the preceding clauses, and the money available is insufficient to pay all amounts pursuant to such clause, the available money shall be applied pro rata to the payment to each Person based upon the amount payable thereto, except that any amounts due and payable to the Trustee shall be paid prior to payment to any other Person and prior to any proration of payments.

Capitalized Interest Fund. On the Closing Date, the Trustee will deposit $4,710,000.00 into the Capitalized Interest Fund from a contribution made by the Issuer. That amount will be reduced to $2,480,000.00 on November 1, 2011 and to $0 on November 1, 2012. Amounts deposited to the credit of the Capitalized Interest Fund shall be transferred to the Revenue Fund on each Monthly Payment Date to the extent amounts available therefor in the Revenue Fund (after taking into account any transfers from the Surplus Fund but not from the Acquisition Fund or the Debt Service Reserve Fund) are not sufficient to pay (i) all Program Expenses required to be paid pursuant to the Indenture, and (ii) if such Monthly Payment Date immediately precedes an Interest Payment Date, all interest due and payable on the Series 2010 Bonds on such Interest Payment Date.

Debt Service Reserve Fund. On the Closing Date, the Trustee will deposit into the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement from net proceeds of the sale of the Series 2010 Bonds and from a contribution made by the Issuer. See "SOURCES AND USES OF FUNDS" herein. The Debt Service Reserve Requirement is the maximum amount of debt service scheduled to be due in respect of Bonds then Outstanding during the then-current or any future Fiscal Year, which, upon issuance of the Series 2010 Bonds, will be $7,708,000.00.

Amounts in the Debt Service Reserve Fund will be invested in Investment Securities (as defined in the Indenture).

Amounts held in the Debt Service Reserve Fund shall be applied as necessary to make up on a Bond Payment Date any deficiency in the amounts to pay Bond principal or interest and the other purposes listed above as items (1) through (4) and (other than with respect to Cumulative Sinking Fund Term Bonds), item (6) under "Revenue Fund," but only after application of moneys from, in order, the Revenue Fund, the Surplus Fund, the Capitalized Interest Fund, and the Acquisition Fund. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement (other than as a result of a State Debt Service Reserve Fund Payment), as required under a Supplemental Indenture, the Issuer shall direct the Trustee to transfer the excess and all earnings thereon to the Revenue Fund. To the extent monies on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Fund Requirement as a result of a State Debt Service Reserve Fund Payment, the Issuer shall by Issuer Order direct the Trustee to transfer an amount equal to such excess (excluding any portion of the State Debt Service Reserve Fund Payment) to the Revenue Fund. The Debt Service Reserve Fund may also be used to pay final installments of principal of and interest on the Bonds. On or before each Interest Payment Date (or any other date at the Issuer's request), the Trustee shall value the Debt Service Reserve Fund to determine whether the Debt Service Reserve Requirement has been satisfied and shortfalls shall be replenished from amounts on deposit in the Revenue Fund as described above in "Revenue Fund" from the Surplus Fund or from State Debt Service Reserve Fund Payments received by the Trustee. If the Revenue Fund has insufficient funds to so replenish the Debt Service Reserve Fund, moneys available for that purpose in the Surplus Fund may be used. See also "APPENDIX B – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE."

Acquisition Fund. On the Closing Date, after making the deposits described above to the Debt Service Reserve Fund, remaining net proceeds from the sale of the Series 2010 Bonds, together with certain moneys to be contributed by the Issuer, will be deposited to the Series 2010 Account of the Acquisition Fund. See "SOURCES AND USES OF FUNDS" herein. Such moneys are expected to be used throughout the Loan Origination Period to originate or refinance Student Loans.

Student Loan Fund. All Student Loans transferred to the Trustee by the Issuer, including those financed or refinanced with proceeds from the Series 2010 Bonds or acquired from any Revenues under the Indenture, will be deposited to the related accounts of the Student Loan Fund. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever.

Surplus Fund. The Trustee shall deposit in the Surplus Fund all amounts required to be transferred thereto from the Revenue Fund and, except as directed in any Supplemental Indenture, all amounts transferred from any other trust estate of the Issuer. The moneys in the Surplus Fund shall be invested in Investment Securities (as defined in the Indenture). Any earnings on or income from such investments shall be deposited in the Revenue Fund. The Trustee shall use the moneys in the Surplus Fund for the following purposes in the following order of priority, as described in the Indenture:

(a) to make deposits to the Excess Interest Fund and the Rebate Fund to the extent required;
(b) to the extent there is a required deposit or transfer on any date from the Revenue Fund and the moneys therein are not sufficient therefor, the moneys in the Surplus Fund shall be utilized to satisfy such deficiency;
(c) to the extent any such moneys constitute Excess Coverage, on any date, to pay any amounts payable by the Issuer to the Underwriters of a Series of Bonds pursuant to the indemnification provisions of the related Bond Purchase Agreement;

(d) on any date, to originate or refinance Student Loans, subject to certain restrictions contained in the Indenture. Under the First Supplemental Indenture, moneys from the Series 2010 Account of the Surplus Fund can only be used to originate or refinance Student Loans during the Recycling Period, which is the period beginning on the date of delivery of the Series 2010 Bonds and ending on November 1, 2012; provided that (i) this period ends on January 31, 2013 with respect to Student Loans partially, but not fully, disbursed from moneys are on deposit in the Series 2010 Account of the Surplus Fund prior to November 1, 2012, (ii) this period may be extended thereafter upon satisfaction of the requirements of a Rating Agency Notification with respect to such extension; and (iii) with respect to any period extended pursuant to clause (ii), if, as of the last day of such period, any moneys are on deposit in the Series 2010 Account of the Surplus Fund that are scheduled to be used to make the final disbursement on or refinance Student Loans within 15 days thereafter, this period shall be extended by an additional 15 days with respect to such moneys;

(e) on any date, to redeem Bonds as required by and as provided in any applicable Supplemental Indenture; and

(f) to transfer money to the Issuer if permitted.

The Issuer may elect to create two or more subaccounts in the Surplus Fund, each for Gross Proceeds derived from a Series of Bonds (or portion thereof) as determined by the Issuer. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof from that Series' subaccount and, to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' subaccount. Notwithstanding the foregoing, in the event there are insufficient funds in the Revenue Fund subaccount and Surplus Fund subaccount for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund subaccount or Surplus Fund subaccount for another Series of Bonds, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to subaccounts) prior to the amount due, in the order of priority established in the Indenture.

On any Monthly Payment Date preceding any Interest Payment Date, the Issuer may deliver to the Trustee an Issuer Order evidencing that there is Excess Coverage on deposit in the Surplus Fund and specifying the amount thereof. The Trustee shall thereupon release such amount to the Issuer for any of the Issuer’s governmental purposes. Excess Coverage is the amount by which (i) the Value of (a) all Student Loans credited to the Student Loan Fund plus (b) all cash and Investment Securities held in the Funds and Accounts (except for the Rebate Fund and the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds), exceeds (ii) 121% (or such lesser percentage as to which the requirements of a Rating Agency Notification have been satisfied) of the sum of (a) the principal and accrued interest on outstanding Series 2010 Bonds plus (b) accrued and unpaid Program Expenses.

**Financial Covenants**

The Issuer will covenant and agree to pay and discharge as the same become due an payable all its material obligations and liabilities (including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets (including, without limitation, any Rebate Amounts or Excess Interest (as defined in the Indenture)), unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Issuer; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such indebtedness).

The Issuer will also covenant that so long as Bonds shall remain outstanding the Issuer will comply with the following:

Tangible Net Worth. So long as the Bonds shall remain outstanding, the Issuer shall not permit its Tangible Net Worth less any loans to the State of Minnesota to be less than the following designated amounts on and after the corresponding designated dates; provided that failure to comply with this covenant shall not be an Event of Default unless the Issuer has withdrawn money from its Loan Capital Fund for a purpose other than to pay expenses related to the administration of loans made by the Issuer, to make loans under the Issuer's supplemental student loan programs under the Act or to repurchase defaulted student loans held under an indenture:

| (June 30) | Tangible Net Worth |
|---|---|
| 2011 | $425,000,000 |
| 2012 | $450,000,000 |
| 2013 | $475,000,000 |
| 2014 | $500,000,000 |
| 2015 | $525,000,000 |
| 2016 | $550,000,000 |
| 2017 | $575,000,000 |
| 2018 | $590,000,000 |
| 2019 | $605,000,000 |
| 2020 | $620,000,000 |
| 2021 and thereafter | $635,000,000 |

For purposes of this provision "Tangible Net Worth" means, as of any date of determination, the aggregate net worth of the Issuer determined in accordance with GAAP, less the book value of all assets of the Issuer that are treated as intangibles under GAAP.

Limitation on Student Loans. The Issuer shall not use monies in the Series 2010 Account of the Acquisition Fund or the Surplus Fund to originate or refinance Student Loans that are or were made to pay the costs of attending (i) any school that is not a four-year college or a graduate school (a "Non-Four-Year School"), or (ii) a vocational or proprietary school (a "Vocational or Proprietary School") to the extent:

a. in the case of a Non-Four-Year School, it would cause the aggregate of the Original Principal Balances of such Student Loans originated or refinanced during the Loan Origination Period to exceed 25% of the aggregate of the Original Principal Balances of all Series 2010 Financed Student Loans originated or refinanced during the Loan Origination Period; or

b. in the case of a Vocational or Proprietary School, it would cause the aggregate of the Original Principal Balances of such Student Loans originated or refinanced during the Loan Origination Period to exceed 15% of the aggregate of the Original Principal Balances of all Series 2010 Financed Student Loans originated or refinanced during the Loan Origination Period.

**Bondholder Consent to Certain Actions under Indenture**

Whenever in this Official Statement the requirements of a Rating Agency Notification must be satisfied with respect to any proposed action, failure to act or other event, to the extent that the Bonds no longer carry a rating from Fitch, such proposed action, failure to act or other event will require the written consent of the registered owners of not less than a majority of the principal amount of Bonds then Outstanding.

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## SOURCES AND USES OF FUNDS

The following tables set forth the sources and uses of the proceeds of the Series 2010 Bonds, together with certain other available funds provided by the Issuer:

| | |
|---|---|
| **Sources of Funds** | |
| Principal Amount of Series 2010 Bonds | $53,400,000.00 |
| Net Premium | 1,595,050.90 |
| Issuer Contribution[1] | 9,122,949.10 |
| Total | $64,118,000.00 |
| **Use of Funds** | |
| Deposit to Acquisition Fund | $51,700,000.00 |
| Deposit to Capitalized Interest Fund[2] | 4,710,000.00 |
| Deposit to Debt Service Reserve Fund[3] | 7,708,000.00 |
| Total | $64,118,000.00 |

[1] $2,208,494.91 of which is to be deposited into the Series 2010 Account of the Debt Service Reserve Fund, $4,710,000.00 of which is to be deposited into the Series 2010 Account of the Capitalized Interest Fund, and the balance of which is to be deposited into the Series 2010 Account of the Acquisition Fund.

[2] The balance in the Capitalized Interest Fund will be reduced to $2,480,000.00 on November 1, 2011 and to $0 on November 1, 2012.

[3] $2,208,494.91 of which is to be deposited from the Issuer Contribution and the balance of which is to be deposited from proceeds of the Series 2010 Bonds.

Costs of issuance, including the fees and certain expenses of the Underwriters, the Financial Advisor, the Trustee, the Rating Agencies, Bond Counsel, and printing and other miscellaneous costs, will be paid from separate funds provided by the Issuer.

## MINNESOTA OFFICE OF HIGHER EDUCATION

### Description of the Issuer

The Issuer is an executive branch agency of the State responsible for the coordination and administration of higher education programs among the various public and private institutions of higher education in the State. In addition to its private loan program, known as the Student Educational Loan Fund ("SELF"), the Issuer manages financial aid programs for the State, including scholarship, grant, work study and reciprocity programs.

The Issuer currently has a staff of 67 people, of which 14 full-time equivalent employees are assigned to the administration of the SELF Program. The remaining 53 employees are involved with the Issuer's administration of other financial aid programs, as well as research and facilitation of higher education programs in the State and communication of information to parents and students regarding higher education.

### History

In 1965, the Minnesota State Legislature created the Minnesota Liaison and Facilities Commission for Higher Education. In 1967, the name was changed to Coordinating Commission, and in 1975 it became the Minnesota Higher Education Coordinating Board ("MHECB"). In 1995 the agency was restructured and renamed the Minnesota Higher Education Services Office ("MHESO"). In 2003 the Minnesota Legislature gave MHESO cabinet level status as an executive branch agency with a director appointed by the Governor and confirmed by the Senate. In order to better reflect its role as an executive branch agency, effective July 1, 2005, MHESO changed its name to the Minnesota Office of Higher Education.

In 1973, the Coordinating Commission, and subsequently MHECB, was authorized by the State Legislature to establish and operate a statewide program for making federally insured and guaranteed student loans. From 1973 to 1988, MHECB coordinated the State's participation in the Federal Guaranteed Student Loan Program ("GSL"), serving as the State's lender of last resort. During this time MHECB provided funding for over $640 million of loans to students under the GSL Program. MHECB ceased providing new loans under the GSL Program in 1988, as participation by the private sector lenders and secondary markets had gradually replaced the need for the lender of last resort function. There are no outstanding GSL Loans.

In 1983, MHECB was authorized by the State Legislature to establish and supervise loan programs other than the federally guaranteed programs. In June 1985, MHECB established a loan program known as the Student Educational Loan Fund I ("SELF I"). Approximately $52.3 million of loans were originated under the SELF I Program, of which none are outstanding.

In September 1988, MHECB ceased originating SELF I Loans and new loans were made as SELF II Loans. Approximately $654 million of loans have been originated under the SELF II Program. No new loans are being originated under the SELF II Program. Approximately $50 million of such loans were outstanding as of September 30, 2010.

In May 2002, MHESO established its SELF III Program. Approximately $490 million of loans have been originated under the SELF III Program. No new loans are being originated under the SELF III Program. Approximately $229 million of such loans were outstanding as of September 30, 2010.

In July 2006, the Issuer established its SELF IV Program. Approximately $513 million of loans have been originated under the SELF IV Program. Approximately $465 million of such loans were outstanding as of September 30, 2010.

In October 2010 the Issuer established its SELF V Program. See "THE SUPPLEMENTAL STUDENT LOAN PROGRAM – SELF Program Overview" herein.

**The Issuer's Management Team**

The individuals primarily responsible for the overall management and operations of the Issuer's financial aid and student loan programs are as follows:

<u>Dr. David Metzen, Director, Minnesota Office of Higher Education</u>. Dr. Metzen was appointed as Director in March 2009 and serves as the Governor's chief advisor on higher education policies and issues. He is a past two-term member of the University of Minnesota Board of Regents and was chair of the Board from 2003 to 2005. He served the South St. Paul School District as superintendent from 1982 to 2000 and was previously an elementary school teacher, principal and assistant superintendent specializing in curriculum for the district. Dr. Metzen graduated from the University of Minnesota with a bachelor's degree in elementary education and later earned a master's degree and doctorate in educational administration from the University. He was captain of the Minnesota Gophers hockey team and was a member of two U.S. hockey teams. In addition to his education roles, he served as Executive Director of the Dodge Nature Center from 2001 to 2004, worked as a leadership consultant and has served on several non-profit boards.

<u>Dr. Mark R. Misukanis, Director of Finance and Research</u>. Dr. Misukanis has been with the Issuer since November 2004. His responsibilities include the direction of higher education policy development and research for the Issuer, oversight of the analytical aspects of state grant program and other related aid programs, supervisory responsibilities for the financial management and auditing obligations of the Issuer, and communications concerning policy issues with the State Legislature. Prior to this time he was the Director of the Office of Fiscal Policy in the Minnesota Senate for eight years culminating a total of 20 years in the Senate in related capacities. In that position he managed a staff of eight analysts responsible for the development of a budget of about $48 billion for the State for a biennial period. This work also included capital budget development.

Dr. Misukanis holds a Ph.D. in Education Administration with a focus on the economics of higher education from the University of Minnesota, has completed masters' coursework in economics at the University of Wisconsin, and holds a B.A. in economics from the University of St. Thomas.

<u>Dr. Cheryl K. Maplethorpe, Director, Division of Student Financial Aid Services</u>. Dr. Maplethorpe has been Director of Student Financial Aid Services for the Issuer since November 1991, after serving as the manager of Minnesota's financial aid, grant, work study and reciprocity programs since 1980. She is responsible for implementation of aid programs established under Minnesota Statutes and efficient operation of the infrastructure

supporting the programs. From 1976 to 1980, Dr. Maplethorpe was Assistant Director for the Financial Aid Office at the University of Iowa. Prior to that she taught science at the American School in Kuwait.

Dr. Maplethorpe holds a Baccalaureate Degree in Science Education and a Master's Degree in Counseling, both from the University of Iowa, and a Ph.D. in Higher Education Policy and Administration from the University of Minnesota. Dr. Maplethorpe served as the 2000-2001 President of the National Association of State Student Grant and Aid Programs (NASSGAP). NASSGAP has been in existence since 1966 and is an association of state grant agencies from across the nation. The association works with the federal government to coordinate student services in areas such as development of financial aid forms that can be utilized at both federal and state levels. NASSGAP also works to influence the federal government to provide increased federal grant aid to students.

Timothy M. Geraghty, Chief Financial Officer. Mr. Geraghty has been employed by the Issuer since February of 1976. He was Accounting Director from November 1989 to December 1997; was the Issuer's Director of Financial Services from 1998 to 2004 and named Chief Financial Officer in 2005. Mr. Geraghty is currently responsible for the accounting functions, agency budget preparation and control, fiscal analysis and data regarding revenue bond issues for the Issuer's supplemental loan programs and internal controls of administrative policies for the Issuer.

Mr. Geraghty received an Associate of Arts Degree from Anoka-Ramsey Community College and a Bachelor's Degree in Business Administration from the University of Minnesota.

Marilyn A. Kosir, Student Loan Programs Manager. Ms. Kosir temporarily assumed the responsibilities of Student Loan Manager in March 1995 and assumed those duties on a permanent basis in September of 1995. She is currently responsible for program operation and administrative responsibilities of the Issuer's supplemental student loan programs, which involves formulation and implementation of rules, regulations, policies and procedures, bond issue preparation and supervision of staff in the loan origination and loan default collection areas. Ms. Kosir is also responsible for overseeing the activities and performance of the Issuer's loan servicer. Prior to assuming her current responsibilities, Ms. Kosir was the Issuer's Senior Accounting Officer from July 1990 to September 1995, and prior to that was a Financial Institutions Examiner for the Minnesota Department of Commerce for seven years.

Ms. Kosir holds a Bachelor's Degree in Finance from St. Cloud State University.

Danette M. Jerry, Financial Services Manager. Ms. Jerry is responsible for the management of records for the Issuer's Loan Capital Fund. Ms. Jerry's responsibilities include preparation of financial statements and bond compliance reports, management of the Issuer's investment portfolio and monitoring cash needs for the Loan Capital Fund. Ms. Jerry also supervises the Issuer's Accounts Payable and Payroll staff and the Graduated Repayment Income Protection Program. Prior to joining the Issuer in October 1995, Ms. Jerry worked as an Account Technician for the Minnesota Department of Corrections.

Ms. Jerry attended Northwestern College in Roseville, Minnesota and completed the Accounting Program at Brainerd Technical College.

**Financial Information**

Prior Financing Activities. MHECB has issued $1.5 billion in aggregate principal amount of revenue bonds under its various loan programs since 1973, almost half relating to its previous lending activities under the GSL Program. MHECB discontinued originating federal loans in 1988, and as of September 30, 2010, there are no outstanding revenue bonds related to the GSL program in the Loan Capital Fund.

Approximately $828.5 million of the revenue bonds previously issued by MHECB, MHESO, and the Issuer is related to its supplemental student loan programs. Of this amount, eleven series of bonds aggregating $590.1 million in principal amount remained outstanding as of September 30, 2010 (the "Prior Outstanding Bonds"). These issues are:

- $53,500,000 Supplemental Student Loan Program Revenue Bonds 1999 Series A (Taxable),
- $68,000,000 Supplemental Student Loan Program Revenue Bonds 2002 Series A (Taxable),
- $27,100,000 Supplemental Student Loan Program Revenue Bonds 2002 Series B (Tax Exempt),
- $56,600,000 Supplemental Student Loan Program Revenue Bonds 2003 Series A (Taxable),

- $10,300,000 Supplemental Student Loan Program Revenue Bonds 2003 Series B (Tax Exempt),
- $46,100,000 Supplemental Student Loan Program Revenue Bonds, 2004 Series A (Taxable),
- $88,500,000 Supplemental Student Loan Program Revenue Bonds, 2004 Series B (Tax Exempt)
- $70,000,000 Supplemental Student Loan Program Revenue Bonds, 2005 Series B (Tax Exempt),
- $70,000,000 Supplemental Student Loan Program Revenue Bonds, 2006 Series (Tax Exempt),
- $66,700,000 Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable), and
- $33,300,000 Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt).

The Prior Outstanding Bonds issued from 1999 through 2006 are under the 1999 General Indenture. The Prior Outstanding Bonds issued in 2008 are under the 2008 General Indenture.

The Issuer is authorized to have outstanding an aggregate $850 million of revenue bonds, exclusive of refunded and defeased bonds. Neither bonds issued by the Issuer, nor bonds previously issued by MHECB or MHESO, constitute debt of the State.

Operating Budget. The Issuer's 2010-2011 operating budget, exclusive of its supplemental student loan programs, is $155,034,271, of which it is anticipated $3,629,371 will come from federal appropriations, $150,762,000 from State appropriations, and $642,900 from miscellaneous special appropriations. None of these funds are available for use in the Supplemental Student Loan Program or any other student loan programs. None of these funds are available for the payment of the outstanding bonds referenced above.

General Financial Information. The Loan Capital Fund ("LCF'), which is maintained as an Enterprise Fund of the Issuer, is the funding source for the Issuer's student loan activities, both present and future. Certain summary financial information for the LCF for the past three years is presented in the table below. The Issuer has no obligation to pay any amounts with respect to the Bonds or any other amounts payable under the Indenture from the LCF or any other source other than the Trust Estate.

SUMMARY FINANCIAL DATA FOR THE LOAN CAPITAL FUND

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Total assets | $972,404,608 | $990,546,780 | $871,303,988 |
| Total cash and investments | 231,476,944 | 267,530,080 | 168,732,424 |
| Total loans outstanding | 744,386,556 | 722,871,187 | 691,860,016 |
| Allowance for loan losses | 10,476,316 | 8,676,026 | 6,938,074 |
| Total revenues | 35,357,613 | 41,956,119 | 61,055,693 |
| Total expenses | 17,471,123 | 22,909,686 | 43,610,880 |
| Excess of revenues over expenses | 17,866,490 | 19,046,433 | 17,444,813 |
| Unrestricted fund balance | -- | -- | -- |
| Restricted net assets | $377,810,211 | $359,923,721 | $340,877,287 |

For more detailed information concerning the LCF, please refer to "APPENDIX A – "BASIC FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION" attached hereto.

## THE SUPPLEMENTAL STUDENT LOAN PROGRAM

### SELF Program Overview

Background. MHECB, MHESO, and subsequently the Issuer, were authorized by the State Legislature in 1985 to establish and supervise loan programs other than the Guaranteed Student Loan Program ("GSL"). MHECB began originating supplemental loans in June of 1985 under its Student Educational Loan Fund I Program ("SELF I") and completed originations under SELF I in September of 1988. At that time MHECB began originating loans under its SELF II Program ("SELF II"). In May 2002 MHESO established its SELF III Program ("SELF III") and in July 2006 the Issuer established its SELF IV Program ("SELF IV"). SELF I through SELF IV Loans are all variable rate loans. The Issuer made the SELF V Program available and began offering fixed rate and variable rate loans under SELF V in October, 2010. Currently, all student loans originated by the Issuer are made pursuant to its SELF IV and SELF V Programs. See "MINNESOTA OFFICE OF HIGHER EDUCATION – History" herein.

Together, MHECB, MHESO, and the Issuer have originated approximately $1,734 million of loans under the SELF Program through September 30, 2010. The following table shows the outstanding principal balance of SELF Loans at the dates indicated:

| | ($ in Thousands) | | | | |
|---|---|---|---|---|---|
| | SELF I | SELF II | SELF III | SELF IV | Total |
| As of September 30, 2010 | $ 0 | $50,152 | $229,205 | $464,540 | $743,897 |
| As of June 30, | | | | | |
| 2010 | 0 | 56,037 | 240,259 | 446,156 | 742,452 |
| 2009 | 0 | 83,012 | 283,864 | 353,916 | 720,792 |
| 2008 | 0 | 114,250 | 328,321 | 248,630 | 691,201 |
| 2007 | 0 | 151,527 | 375,487 | 120,613 | 647,627 |
| 2006 | 0 | 194,312 | 412,123 | -- | 606,435 |
| 2005 | 0 | 240,386 | 322,308 | -- | 562,694 |
| 2004 | .1 | 284,895 | 205,913 | -- | 490,808 |
| 2003 | 2 | 330,223 | 99,346 | -- | 429,571 |
| 2002 | 9 | 369,839 | 1,524 | -- | 371,372 |
| 2001 | 32 | 314,508 | -- | -- | 314,540 |
| 2000 | 198 | 260,922 | -- | -- | 261,120 |
| 1999 | 849 | 209,876 | -- | -- | 210,725 |
| 1998 | 2,962 | 172,788 | -- | -- | 175,750 |
| 1997 | 4,093 | 168,812 | -- | -- | 172,905 |
| 1996 | 7,113 | 168,740 | -- | -- | 175,853 |
| 1995 | 11,021 | 169,468 | -- | -- | 180,489 |
| 1994 | 14,909 | 162,976 | -- | -- | 177,885 |
| 1993 | 20,428 | 154,088 | -- | -- | 174,516 |
| 1992 | 24,240 | 122,809 | -- | -- | 147,049 |
| 1991 | 34,286 | 85,686 | -- | -- | 119,972 |

The Issuer finances the origination of SELF Loans with the proceeds of revenue bond issues and amounts available in the Loan Capital Fund. Although the Issuer receives State and Federal appropriations, the SELF Program is required by statute to be self-sustaining, and such appropriations are neither available for use in the SELF Program nor available for the payment of principal of and interest on any of the associated revenue bonds (including the Series 2010 Bonds). Notwithstanding the foregoing, appropriations that may be made under Minnesota Statute Section 136A.1787 may be applied to debt service and/or debt service reserve funds. See "SECURITY AND SOURCE OF PAYMENT – Statutory Provisions Providing for Legislative Appropriations" herein.

**Program Terms and Conditions**

The Issuer has promulgated rules and regulations for the administration of the SELF Program, including provisions specifying eligible institutions, eligible students, loan size, costs to the borrower, loan disbursement, loan repayment, security for loan repayment and collections. Many of the terms and conditions relating to SELF Loans are set forth in Minnesota Statutes and Minnesota Regulations.

The following paragraphs describe the initial terms, conditions and applicable rules and regulations pertinent to the SELF V Program. In the past, the Issuer has modified and supplemented terms, conditions, rules and regulations on its SELF Program and reserves the right to modify and supplement them relating to the SELF V Program in the future with regard to all Student Loans pledged to secure payment of the Series 2010 Bonds.

Fixed Rate Loans. SELF V is a continuation of the Issuer's SELF programs that began in 1985. Unlike previous SELF programs, although the SELF V Program will offer both fixed rate and variable rate loans, only fixed rate SELF V Loans will be originated or refinanced with moneys under the Indenture.

Loan Size. The size of individual loans is determined by the appropriate campus financial aid administrator after giving consideration to: (i) the cost of attendance as defined by the institution, (ii) other Federal financial aid, including both loans and grants, that have been accepted by the student, (iii) other state and institutional financial aid that the student is eligible to receive, and (iv) other financial aid known to have been awarded to or received by the student from private sources (i.e. private foundations, unions, corporations, etc.). The amount of the SELF Loan, in combination with student aid from all known sources, will not be allowed to exceed the cost of attendance as defined by the enrolling institution.

Loan Limits. The minimum SELF V Loan amount is $500. The maximum SELF V Loan amounts, which are prescribed by statute, are designed to protect students from accumulating unreasonable levels of debt burden, while also providing the students with an incentive to defer borrowing until absolutely necessary. Such maximum loan amounts are set as follows:

- $10,000 per year for undergraduates in four-year schools; subject to a cumulative maximum of $50,000;

- $10,000 per year for graduate students, subject to a cumulative maximum of $70,000 (the maximum to be comprised of SELF loans graduate students incur for both undergraduate and graduate studies), and

- $7,500 per year for undergraduates in non-four-year schools, subject to a cumulative maximum of $37,500.

Borrower Benefits. Although the Issuer has not previously offered borrower benefits under its previous SELF programs, the Issuer has the option to offer borrower benefits to eligible borrowers. Borrowers may be eligible for multiple borrower benefits. For all SELF Loans, the Issuer may offer (a) a reduction of 0.25% in the interest rate on student loans for those borrowers who make automatic ("ACH") payments; or (b) a reduced interest rate of 3.00% for borrowers who are called to active military service. For SELF IV and SELF V Loans only, the Issuer may offer a reduction of 0.25% in the interest rate on student loans for those borrowers who make on-time payments for a designated period of time. The Issuer may choose to offer additional borrower benefits in the future. The Issuer anticipates that any borrower benefits offered will be offered to borrowers in all SELF programs. Under the Indenture, the Issuer shall not offer any borrower benefits with respect to the Student Loans financed with proceeds of the Series 2010 Bonds for two years after the delivery date of the Series 2010 Bonds. Thereafter, any borrower benefits so offered shall not exceed the amounts assumed in the Cash Flow Projection provided to the Trustee on the delivery date of the Series 2010 Bonds.

Loan Disbursement. SELF Loans are disbursed in accordance with applicable periods of enrollment. For example, an applicant eligible to receive a $7,500 SELF Loan and attending a 2-semester school would receive a check for $3,750 at the beginning of each semester. Likewise, a student attending school on a quarterly schedule would receive $2,500 at the beginning of each term for an academic year consisting of three quarters. Loan checks are made jointly payable to the borrower and the institution, and each such party must sign the check to negotiate it. Schools may elect to have loan disbursements sent electronically.

Loan Repayment. The repayment provisions for SELF Loans have been developed to provide maximum repayment flexibility for the borrower while in school and to maintain the financial integrity of the Program.

Under the standard repayment plan for SELF V Loans, quarterly interest payments begin within 3 months of first disbursement. Monthly interest payments are then required for 12 months after the borrower leaves school. Monthly principal and interest payments begin on the 13th month after graduation or termination of study, but no later than 9 years after the date of the first loan disbursement. The SELF V maximum repayment term is (i) 10 years if the loan balances are less than $20,000, (ii) 15 years if the loan balances are $20,000 or more but less than $40,000, or (iii) 20 years if the loan balances are $40,000 or more.

An additional 24-month period of interest only payments after the standard 12-month grace period is available upon request, subject to the same maximum repayment terms described above. There are no penalties assessed for prepayment of loans.

Borrowers in all SELF programs are able to apply for temporary total disability status if they have a qualifying disability which is anticipated to last at least four months, but no longer than three years.

Whenever a borrower is delinquent in interest or principal payments for more than 30 days, the co-signer will be expected to meet the obligation until such time as the borrower may resume payments. The Issuer will accept payments from third parties (e.g., educational institutions, foundations, community organizations or employers) to assist or fulfill student payment obligations. However, the ultimate obligation for repayment of SELF Loans remains that of the borrower and co-signer. A rehabilitation program is available for borrowers who defaulted on their Student Loans on or after June 27, 2008.

Eligible Institutions. An Eligible Institution is defined as a post-secondary institution that is located in the State and:

(1) is operated by the State or the Board of Regents of the University of Minnesota; or
(2) is operated privately and, as determined by the Issuer:
  · maintains academic standards equivalent to those of comparable institutions operated in the State;
  · is licensed or registered as a postsecondary institution by the office; and
  · by July 1, 2010 participates in the federal Pell Grant program or, if a participant in student aid programs as of June 30, 2010 but not a participant in the federal Pell Grant program at that time, requires every student who enrolls to sign a disclosure form stating the institution's non-participation in the federal Pell Grant program;

Institutions that offer only graduate-level degrees or graduate-level nondegree programs, or that offer programs that do not meet the minimum program length to participate in the federal Pell Grant program, may be Eligible Institutions if licensed or registered as a postsecondary institution by the Issuer.

In addition, an Eligible Institution may be a postsecondary institution that:

(1) is operated publicly or privately in another state;
(2) is approved by the United States Secretary of Education; and
(3) as determined by the Issuer, maintains academic standards equivalent to those of comparable institutions operated in the State.

All such institutions are required to have their Chief Executive Officer sign a SELF Participation Agreement (as described below) agreeing to perform certain administrative procedures in loan processing and student counseling. Institutions signing a SELF Participation Agreement after July 2010 must participate in the federal Pell Grant program to be eligible.

The SELF Participation Agreement requires that institutions make proper certifications and deliver loan funds to student borrowers. Such certifications involve verifying and documenting the identity, eligible enrollment, satisfactory academic progress and cost of attendance of the borrower, calculating maximum allowable loan eligibility and recommending a specific loan amount. Institutions are also required to verify students' prior borrowing histories.

Eligible Borrowers. Borrowers must either be enrolled at an Eligible Institution (as defined above) in the State or be a Minnesota resident enrolled at an Eligible Institution in another state. Borrowers must also:

- be enrolled at least half-time in a program leading to a certificate, associate, baccalaureate, masters, doctorate or other professional degree;
- be making satisfactory progress in an approved course of study;
- not currently be in default under any State, federal or other private student loan program;
- not be delinquent in the payment of principal of or interest on any SELF Loan;
- have agreed to the release of information to a consumer credit reporting agency;
- be a Minnesota resident or physically attending classes in Minnesota; and
- have a creditworthy co-signer, as defined below.

Co-Signer Credit Criteria. The Issuer underwrites each loan and assesses the creditworthiness of the cosigner. The co-signer must:

- be a U.S. citizen or permanent resident;
- be at least 24 years old, or 18 years old if a sibling of the borrower;
- have agreed to the release of information to a consumer credit reporting agency;
- have no credit bureau balances discharged through bankruptcy;
- have no garnishments, attachments, foreclosures, repossessions or suits;
- have no delinquent or unsatisfied credit obligations such as tax liens or other judgments;
- have no more than 5% of current credit bureau balances past due, with the exception of individuals with balances of $300 or less past due.

**Loss and Delinquency Experience for SELF II, SELF III, and SELF IV Loans**

The tables that follow set forth, with regard to SELF II, SELF III and SELF IV Loans, loan loss and recovery experience, shown on an annual basis for the fiscal years ended June 30, 2004 through 2010 as available, and borrower delinquencies, shown on a monthly basis for the months ended April 2010 through September 2010 as available. Such information is included for general reference purposes only and is not intended as a representation that the origination and payment experience of the Student Loans (which will be fixed rate SELF V Loans) will be similar to that of previously originated SELF II, SELF III and SELF IV Loans during any period or over the respective lives of such loans. In particular, there can be no assurance that the future loss and recovery experience or borrower delinquencies for the SELF II, SELF III and SELF IV Loans will be similar to the historical experience set forth on the next three pages, or that the loss and recovery experience for the SELF V Loans to be included in the Trust Estate will be similar to loss and recovery experience set forth on the next three pages. See "BONDHOLDERS' RISKS – Performance of Student Loans May Differ from Historical Performance of Previous SELF Loans."

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# SELF II Program

## Loss Experience for the SELF II Loans

| | 12 Months Ended June 30, 2010 | 12 Months Ended June 30, 2009 | 12 Months Ended June 30, 2008 | 12 Months Ended June 30, 2007 | 12 Months Ended June 30, 2006 | 12 Months Ended June 30, 2005 | 12 Months Ended June 30, 2004 |
|---|---|---|---|---|---|---|---|
| Average Receivables Outstanding* | $68,082,735 | $97,109,825 | $130,939,869 | $170,508,054 | $215,275,587 | $260,926,638 | $305,482,440 |
| Gross Losses | $ 722,293 | $1,016,935 | $1,727,376 | $2,384,686 | $3,040,232 | $3,747,208 | $4,919,786 |
| Recoveries | 1,883,958 | 2,282,271 | 2,884,995 | 3,485,942 | 3,567,672 | 4,017,560 | 3,944,178 |
| Net Losses | ($1,161,665)** | ($1,265,336)** | ($1,157,619)** | ($1,101,256)** | ($527,440)** | ($270,352)** | $ 975,608 |
| Net Losses as Percentage of Average Receivables Outstanding | (1.71%) | (1.30%) | (0.88%) | (0.65%) | (0.25%) | (0.10%) | 0.32% |

*Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated.
**Recoveries were greater than gross losses for the year.

## Delinquencies for the SELF II Loans

## (Dollars in Thousands)

| | September 30, 2010 | | August 31, 2010 | | July 31, 2010 | | June 30, 2010 | | May 31, 2010 | | April 30, 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Days Delinquent | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| 15-44 | $2,497 | 5.0% | $2,629 | 5.1% | $2,800 | 5.2% | $2,767 | 4.9% | $2,834 | 4.9% | $2,509 | 4.2% |
| 45-59 | 180 | 0.3 | 192 | 0.4 | 197 | 0.4 | 196 | 0.4 | 113 | 0.2 | 101 | 0.2 |
| 60-89 | 450 | 0.9 | 485 | 0.9 | 484 | 0.9 | 523 | 0.9 | 534 | 0.9 | 460 | 0.8 |
| 90-119 | 179 | 0.4 | 221 | 0.4 | 248 | 0.4 | 125 | 0.2 | 45 | 0.1 | 159 | 0.2 |
| 120 and Over | 150 | 0.3 | 179 | 0.3 | 131 | 0.2 | 165 | 0.3 | 153 | 0.2 | 145 | 0.2 |
| Total | $3,456 | 6.9% | $3,706 | 7.1% | $3,860 | 7.1% | $3,776 | 6.7% | $3,679 | 6.3% | $3,374 | 5.6% |

# SELF III Program

## Loss Experience for the SELF III Loans

| | 12 Months Ended June 30, 2010 | 12 Months Ended June 30, 2009 | 12 Months Ended June 30, 2008 | 12 Months Ended June 30, 2007 | 12 Months Ended June 30, 2006 | 12 Months Ended June 30, 2005 | 12 Months Ended June 30, 2004 |
|---|---|---|---|---|---|---|---|
| Average Receivables Outstanding* | $260,124,722 | $304,191,329 | $350,101,688 | $393,632,848 | $382,753,780 | $278,810,605 | $164,504,905 |
| Gross Losses | $3,032,773 | $4,495,300 | $6,030,502 | $5,269,206 | $4,055,277 | $1,777,817 | $679,370 |
| Recoveries | 3,446,822 | 3,486,533 | 3,157,602 | 2,248,147 | 1,058,177 | 388,772 | 74,158 |
| Net Losses | ($414,049)** | $1,008,767 | $3,872,900 | $3,021,059 | $2,997,100 | $1,389,085 | $605,212 |
| Net Losses as Percentage of Average Receivables Outstanding | (0.16%) | 0.33% | 0.82% | 0.77% | 0.78% | 0.50% | 0.37% |

*Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated
**Recoveries were greater than gross losses for the year.

## Delinquencies for the SELF III Loans

## (Dollars in Thousands)

| | September 30, 2010 | | August 31, 2010 | | July 31, 2010 | | June 30, 2010 | | May 31, 2010 | | April 30, 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Days Delinquent | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| 15-44 | $12,028 | 5.2% | $10,689 | 4.6% | $12,019 | 5.1% | $12,410 | 5.1% | $11,263 | 4.6% | $9,540 | 3.8% |
| 45-59 | 293 | 0.1 | 401 | 0.2 | 334 | 0.1 | 273 | 0.1 | 234 | 0.1 | 191 | 0.1 |
| 60-89 | 2,177 | 1.0 | 2,459 | 1.0 | 2,615 | 1.1 | 2,381 | 1.0 | 2,884 | 1.2 | 1,868 | 0.8 |
| 90-119 | 1,044 | 0.5 | 1,072 | 0.5 | 1,057 | 0.5 | 913 | 0.4 | 112 | 0.0 | 778 | 0.3 |
| 120 and Over | 922 | 0.4 | 936 | 0.4 | 812 | 0.3 | 899 | 0.4 | 724 | 0.3 | 662 | 0.3 |
| Total | $16,464 | 7.2% | $15,557 | 6.7% | $16,837 | 7.1% | $16,876 | 7.0% | $15,217 | 6.2% | $13,039 | 5.3% |

# SELF IV Program

## Loss Experience for the SELF IV Loans

| | 12 Months Ended June 30, 2010 | 12 Months Ended June 30, 2009 | 12 Months Ended June 30, 2008 | 12 Months Ended June 30, 2007 |
|---|---|---|---|---|
| Average Receivables Outstanding* | $415,166,048 | $316,932,946 | $202,831,219 | $75,442,045 |
| Gross Losses | $4,785,917 | $2,891,361 | $1,226,217 | $58,892 |
| Recoveries | 1,125,707 | 485,688 | 87,691 | 103 |
| Net Losses | $3,660,210 | $2,405,673 | $1,138,526 | $58,789 |
| Net Losses as Percentage of Average Receivables Outstanding | 0.88% | 0.76% | 0.56% | 0.08% |

*Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated.

## Delinquencies for the SELF IV Loans

## (Dollars in Thousands)

| | September 30, 2010 | | August 31, 2010 | | July 31, 2010 | | June 30, 2010 | | May 31, 2010 | | April 30, 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Days Delinquent | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| 15-44 | $28,174 | 6.1% | $27,760 | 6.2% | $21,053 | 4.7% | $28,543 | 6.4% | $25,765 | 5.8% | $16,804 | 3.8% |
| 45-59 | 3,638 | 0.8 | 2,939 | 0.7 | 2,969 | 0.7 | 4,180 | 0.9 | 1,886 | 0.4 | 1,972 | 0.4 |
| 60-89 | 3,271 | 0.7 | 3,825 | 0.8 | 5,315 | 1.2 | 3,063 | 0.7 | 3,794 | 0.9 | 4,392 | 1.0 |
| 90-119 | 1,694 | 0.3 | 2,383 | 0.5 | 1,322 | 0.3 | 1,533 | 0.3 | 1,851 | 0.4 | 1,122 | 0.3 |
| 120 and Over | 1,396 | 0.3 | 1,108 | 0.2 | 1,094 | 0.2 | 1,149 | 0.3 | 762 | 0.2 | 612 | 0.1 |
| Total | $38,173 | 8.2% | $38,015 | 8.4% | $31,753 | 7.1% | $38,468 | 8.6% | $34,058 | 7.7% | $24,902 | 5.6% |

# LOAN SERVICING AND COLLECTIONS

## Servicer

The Issuer has contracted with Firstmark Services LLC ("Firstmark"), a subsidiary of Nelnet, Inc. ("Nelnet") that specializes in servicing alternative loans, to service its SELF Loans. The expiration date of the agreement with Firstmark (the "Servicing Agreement") is April 30, 2013, subject to automatic annual renewals for one-year periods through April 30, 2018 unless 180 calendar days notice of termination is given by either party to the other. The Issuer has the right, under the Indenture, to appoint a different or successor servicer of the Student Loans, subject to satisfaction of the requirements of a Rating Agency Notification.

While the Issuer's staff is primarily responsible for loan origination processing and defaulted loan collections, the Servicer is responsible for disbursing SELF Loans and for effecting billing procedures, which commence with the first interest payment, and payment processing.

Nelnet is a Nebraska corporation that began its education loan servicing operations in 1978, and provides education loan servicing, time-sharing, administration and other services to lenders, secondary market purchasers, The Department of Education, and guaranty agencies, throughout the United States and The Department of Education. Nelnet offers student loan servicing to lending institutions and secondary markets. Nelnet has offices located across the country, with primary servicing operations in Aurora, Colorado and Lincoln, Nebraska, as of August 31, 2010, employed a total of 2,214 employees. As of June 30, 2010, Nelnet services or provides servicing for more than $80.6 billion in student loans.

Firstmark, a Colorado corporation, began performing third-party alternative education loan origination and servicing operations under the Firstmark brand on March 2, 2002. Prior to this date, Firstmark performed alternative loan servicing as a division of Nelnet since 1997. Firstmark specializes in the origination and servicing of alternative loans and offers its services to lending institutions. Located in Lincoln, Nebraska, and Woodbury, Minnesota, Firstmark is a privately held corporation and has approximately 97 employees. As of September 30, 2010, Firstmark services more than $1.4 billion in alternative student loan volume.

## Servicing Agreement

The Servicing Agreement relates to all student loans serviced by Firstmark on behalf of the Issuer, not only to the Student Loans that are serviced by Firstmark. Firstmark services the Issuer's student loans submitted to it in accordance with the specifications set forth in the Servicing Agreement. Pursuant to the Servicing Agreement, Firstmark agrees to perform specified loan servicing activities, including:

- creating and maintaining automated files and records with respect to each borrower and pertaining to student loans transferred for servicing under the Servicing Agreement;
- promptly and routinely furnishing to the Issuer copies of all material reports, records and other documents and data as required by law;
- maintaining all correspondence relating to individual borrower accounts and making such correspondence available to the Issuer as well as maintaining all original promissory notes for each student loan;
- collecting sums due under the student loans and processing those receipts; and
- delivering to the Issuer a monthly report showing all servicing standards and deadlines for the period covered by the report.

<u>Delinquency Procedures</u>. If a borrower becomes delinquent in the payment of his SELF Loan, the Servicer institutes collection procedures with both the borrower and co-signer, including computer-generated late notices and letters, telephone contact and other collection procedures.

A payment notice is mailed to each borrower at least 20 days prior to the payment due date. If the payment is not received on the due date, the loan is considered late. The following summarizes the steps the Servicer takes to cure a delinquent loan:

| # of Days Delinquent | Action Performed by Servicer |
|---|---|
| 16 Days Late | Notice is sent to borrower |
| 30 Days Late | Notice is sent to the borrower and co-signer; telephone call to borrower |
| 45 Days Late | Telephone call to borrower and co-signer |
| 60 Days Late | Letter to both borrower and co-signer |
| 75 Days Late | Telephone call to borrower and co-signer |
| 90 Days Late | Notice of demand for payment to borrower and co-signer; telephone call to borrower and co-signer |
| 105 Days Late | Demand letters sent to both borrower and co-signer (printed on Issuer letterhead) |
| 110 Days Late | Telephone call to borrower and co-signer |
| 120 Days Late | Servicer returns loan to the Issuer for claim on borrower and co-signer |

**Issuer's Default Collection Procedures.**

Once a SELF Loan has become a defaulted loan, the Issuer will take one or more of the following actions:

- Work to effect repayment through the Minnesota Revenue Recapture Act (under which the borrower and/or the co-signer's state income tax, state lottery winnings and property tax refunds and other refunds may in certain circumstances be diverted to the Issuer to repay amounts owed relating to a defaulted SELF Loan)
- Take legal action against the borrower for repayment
- Take legal action against the co-signer for repayment
- Report the borrower's defaulted loan to the credit bureau
- Report the co-signer's default to the credit bureau
- Turn the account over to a collection agency

For purposes of the Issuer's default collection procedures, a defaulted loan is a loan as to which the principal or interest has remained unpaid for 120 days or more and the borrower or co-signer has not fulfilled the Issuer's requirement to bring the loan current.

## TAX MATTERS

Federal Tax Considerations. As of the date of issuance, in the opinion of Best & Flanagan LLP, Bond Counsel, interest on the Series 2010 Bonds is, under existing law, excluded from gross income for Federal income tax purposes. Interest on the Series 2010 Bonds is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations. However, the exemption from gross income under the Code may become inapplicable either with respect to Series 2010 Bonds, as of either the date of issuance of the Series 2010 Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series 2010 Bonds being expended in a manner or for a use inconsistent with certain applicable requirements of Sections 141 or 144 of the Code or (2) the investment of amounts in "nonpurpose obligations" (as defined in Section 148 of the Code) or the application of the earnings of investments in said "nonpurpose obligations", in each case in a manner contrary to the requirements of Section 148 of the Code. In addition to the foregoing exceptions, the opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer and the Trustee comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2010 Bonds in order that interest thereon be, or continue to be, excluded from gross income for Federal income tax purposes. The Issuer and the Trustee have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2010 Bonds in gross income for Federal income tax purposes to be retroactive to the date of issuance of the Series 2010 Bonds. No opinion is expressed regarding other Federal tax consequences arising with respect to the Series 2010 Bonds. The Series 2010 Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code.

In addition to the foregoing, the Code contains the following provision which affects certain taxpayers:

The Code further provides that interest on the Series 2010 Bonds is includible in the calculation of modified adjusted gross income in determining whether Social Security or railroad retirement payments are to be included in taxable income of individuals.

Minnesota Tax Considerations. It is the further opinion of Bond Counsel that, under existing law, interest on the Series 2010 Bonds is not includible in gross income for the purpose of Minnesota income taxes, except for Minnesota corporate and bank excise taxes measured by income. See "APPENDIX D – FORM OF BOND COUNSEL OPINION" for the full text of a form of the opinion proposed to be rendered by Bond Counsel.

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

The Series 2010 Bonds are "private activity bonds." Since the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the outcome of any such challenge cannot be predicted. If Minnesota's treatment of such bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision was to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series 2010 Bonds to become taxable by Minnesota and the market value of the Series 2010 Bonds to decline.

Original Issue Premium. Bonds maturing in the years 2013 through 2016, inclusive, 2018 through 2020, inclusive, and one 2017 maturity (the "Premium Bonds") have been sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Premium Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

Original Issue Discount. The dollar amount of the initial offering price to the public of one of the 2017 maturities and Bonds maturing in the year 2021 (the "Discount Bonds") is less than the principal amount of such maturities. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that it is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such

Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond. An owner of a Discount Bond who disposes of it prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

SERIES 2010 BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISOR WITH RESPECT TO THE CALCULATIONS OF ALTERNATIVE MINIMUM TAX OR FOREIGN BRANCH PROFITS TAX LIABILITY, OR THE INCLUSION OF SOCIAL SECURITY OR OTHER RETIREMENT PAYMENTS IN TAXABLE INCOME.

## UNDERWRITING

Subject to the terms and conditions to be set forth in a Bond Purchase Agreement (the "Bond Purchase Agreement"), between the Issuer and Morgan Stanley & Co. Incorporated, as representative of itself and U.S. Bancorp Investments, Inc. (the "Underwriters"), the Underwriters have agreed to purchase the Series 2010 Bonds at a price equal to the principal amount of the Series 2010 Bonds (adjusted for any applicable initial issue discount or initial issue premium), in exchange for a fee of $367,141.64. The initial public offering prices of the Series 2010 Bonds set forth on the inside front cover page may be changed without notice by the Underwriters. The Underwriters may offer and sell the Series 2010 Bonds to certain dealers (including dealers depositing Series 2010 Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the offering prices set forth on the inside front cover page hereof.

The Issuer has agreed to indemnify the Underwriters and, under certain limited circumstances, the Underwriters will indemnify the Issuer, against certain civil liabilities, including liabilities under the Securities Act.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc., which is serving as one of the Underwriters of the Series 2010 Bonds, and U.S. Bank National Association, which is serving as Trustee for the Series 2010 Bonds.

## FINANCIAL ADVISOR

The Issuer has retained Springsted Incorporated, Public Sector Advisors, of Saint Paul, Minnesota, to serve as financial advisor with respect to the Series 2010 Bonds. The Financial Advisor has assisted the Issuer in matters relating to the planning, structuring, and issuance of the Series 2010 Bonds and various other debt related matters. In assisting with the preparation of the Official Statement, the Financial Advisor has relied upon Issuer officials and other sources who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Series 2010 Bonds.

## LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or contesting the validity of the Series 2010 Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2010 Bonds or the existence or powers of the Issuer.

## RATINGS

The Series 2010 Bonds are expected to be rated “AA” by Standard & Poor’s Credit Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) and “AA-” by Fitch, Inc. (“Fitch”). Each of these ratings is based, in part, on the moral obligation of the State legislature to make appropriations to replenish the Debt Service Reserve Fund and to fund anticipated shortfalls in moneys available under the Indenture to pay debt service on the Series 2010 Bonds, as described under "SECURITY AND SOURCE OF REPAYMENT − Statutory Provisions Providing for Legislative Appropriations" herein. In addition, Fitch has separately determined, based on its review of certain cashflow projections and the underlying structure, that the Series 2010 Bonds meet Fitch’s requirements for an “A” rating without the benefit of the State’s moral obligation. Such ratings reflect only the view of each respective rating agency and an explanation of the significance of such ratings can only be obtained from the respective rating agency. Assignment of such ratings is a precondition to the issuance of the Series 2010 Bonds.

No assurance can be given that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies furnishing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the Series 2010 Bonds.

## LEGAL MATTERS

### Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the SEC (the “Rule”), the Issuer will enter into a continuing disclosure agreement with respect to the Series 2010 Bonds (the “Continuing Disclosure Agreement”) setting forth the undertaking of the Issuer regarding continuing disclosure with respect to the Series 2010 Bonds. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix E attached hereto. The Issuer has not failed to comply with any previous undertaking to provide annual reports or notices of material events in accordance with the Rule.

### Availability of Other Issuer Information

The Issuer has covenanted in the General Indenture to make periodic information publicly available with respect to the Student Loans originated or refinanced with proceeds of the Series 2010 Bonds and other moneys available therefor in the Series 2010 Account of the Acquisition Fund (see “SOURCES AND USES OF FUNDS” herein) no less frequently than quarterly, commencing with the calendar quarter ending March 31, 2011. The information required to be so made available is set forth in the First Supplemental Indenture, and includes, among other items, outstanding Bond balances, loan portfolio characteristics, a current balance sheet of the General Indenture, including the Parity Ratio, and loan portfolio performance. The Issuer reserves the right, however: (i) to determine the format in which such periodic information is presented; and (ii) to make such periodic information available either by providing such information to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) website or by posting such information on the Issuer’s own publicly accessible website. Failure to comply with the foregoing provisions of the General Indenture shall not constitute an Event of Default thereunder. However, to the extent permitted by law, any Bondholder may seek a court order for specific performance by the Issuer to comply with such provisions and to compel the Issuer to perform and carry out its obligations in this regard; provided, however, that the sole remedy for a failure to comply with these provisions shall be limited to an action to compel specific performance of such obligations and shall not include any rights to monetary damages.

### ERISA Considerations

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (“ERISA Plans”). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under section 501(a) of the Code, other than governmental and church plans as defined herein (“Qualified Retirement Plans”), and on Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code (collectively, “Tax-Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code. Accordingly, assets of such plans may be invested in Series 2010 Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of applicable federal and state law.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") and persons who have certain specified relationships to the Benefit Plans ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Series 2010 Bonds might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the Issuer were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the "Plan Assets Regulation"), the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the Issuer and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Series 2010 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Series 2010 Bonds are treated as an equity interest for such purposes, the acquisition or holding of Series 2010 Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer or the Trustee, or any of their respective affiliates, is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers"; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general accounts"; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers."

Any ERISA Plan fiduciary considering whether to purchase Series 2010 Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code.

**Legal Opinions**

The Series 2010 Bonds will be approved as to legality and certain other matters by Best & Flanagan LLP, Minneapolis, Minnesota, as Bond Counsel to the Issuer. All opinions with respect to enforceability of documents will contain an exception as to enforceability thereof being limited by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, moratorium or other laws of general application relating to or affecting enforcement of creditors' rights.

MINNESOTA OFFICE OF HIGHER EDUCATION

By: /s/ David Metzen
Director

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**APPENDIX A**

**BASIC FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION**

**JUNE 30, 2010 AND 2009**

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# MINNESOTA OFFICE OF HIGHER EDUCATION

(A component unit of the State of Minnesota)
Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Year Ended June 30, 2010

# MINNESOTA OFFICE OF HIGHER EDUCATION

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June 30, 2010

BAKER TILLY

VIRCHOW KRAUSE, LLP

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tel 612 876 4500
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bakertilly.com

# INDEPENDENT AUDITORS' REPORT

Director
Minnesota Office of Higher Education
Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2010, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Minnesota Office of Higher Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010 on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 5, 2010

# 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, 2010.

## Introduction

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

THE MINNESOTA OFFICE OF HIGHER EDUCATION works to:

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

The agency employs 65 people of which 25 are state funded.

The Agency is authorized to issue bonds up to a total outstanding of $850 million. The bonds by law are not a debt of the State of Minnesota or any political subdivision thereof.

The Agency's programs and services are provided through different means including:

The Minnesota State Grant Program (which provides more than $140 million in need-based aid to Minnesota students annually), and other student financial aid programs such as the Post-Secondary Child Care Grant Program, State Work Study Program, and the Public Safety Officers' Survivors Benefit Program. Other core programs are the Student Educational Loan Fund ("SELF"), the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program. These programs enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities.

The Agency's publications, videos, web content, interactive media, and direct contact with students and families enable the agency to provide outreach to communities of color, low-income families, and families with no previous higher education experience. The Get Ready! Program, working in tandem with the federally sponsored GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) and Intervention for College Attendance Program Grants, helps to sustain a continuum of contact and service to low-income students from fourth grade through high school as they prepare for college admission and attendance.

The Agency's Web presence includes information for students, parents, educators, and financial aid administers, enrollment data which can be customized by the user, information concerning private postsecondary institutions licensed or registered by the Agency, online tuition reciprocity applications, and a financial aid estimator.

Through state laws which undergird the registration and licensure of private colleges, universities, and career schools, the Agency provides students with consumer protection by assuring that private post-secondary institutions meet state standards in order to operate legally in Minnesota.

## Financial Highlights

- The Agency's net assets increased $17.5 million or 4.8% from fiscal year 2009 to 2010, mainly as a result of student loan financing activities.

- The Agency received $224 million for fiscal year 2010 state appropriations in addition to the $0.2 million carry forward from previous fiscal year. Of the $224 million in state appropriations for fiscal year 2010, $35 million was initially appropriated for fiscal year 2011 but the funds were needed in fiscal year 2010 to fund state grants. $8.4 million will be carried forward to fiscal year 2011. The Agency received $186 million for fiscal year 2009 appropriations in addition to a $8.3 million carry forward from the previous year.

- The Loan Capital Fund issued 22,681 and 24,756 new loans in fiscal years 2010 and 2009, respectively, with the average student loan amount of $5,217 and $5,058, respectively.

- Loan Receivables in the Loan Capital Fund grew by $21.6 million or 3.0% during fiscal year 2010 and grew by $27.5 million or 4.0% during fiscal year 2009.

- The Agency received legislative approval to enter into interest rate exchange or swap agreements, or other comparable interest rate protection agreements. This option is limited to agreements related to bonds and notes with an aggregate value of no more than $20 million. As of June 30, 2010 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.

- The Agency did not issue bonds in fiscal year 2010. Over the course of the fiscal year, $36.9 million of Auction Rate Securities bonds were repurchased from investors and subsequently cancelled.

## Overview of the Financial Statements

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

## Government-Wide Financial Statements

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

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

In the Statements of Net Assets and the Statement of Activities, we divide the Agency into two kinds of activities:

- ***Governmental Activities*** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the Work Study Program, negotiating and administering reciprocity agreements, publishing and distributing financial aid information and materials, collecting and maintaining student enrollment and financial aid data, and administering various federal grant programs that affect students and postsecondary institutions. Licensing and registration fees finance the cost for administering the registration and licensing of private collegiate and career schools.

- ***Business-Type Activities*** — The Agency is designated by statute as the administrative agency for the establishment of one or more loan programs. The purpose of the loan programs is to provide financial assistance for the postsecondary education of students. The two loan programs currently being administered by the Agency are the Student Educational Loan Fund ("SELF") Program and the Graduated Repayment Income Protection ("GRIP") Program.

## Fund Financial Statements

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

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

- *Proprietary Funds* — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Agency's enterprise funds are the same as the business-type activities the Agency reports in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

## Notes to the Basic Financial Statements

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

## Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency's budget and actual results of its major governmental fund. This information can be found beginning on page 30 of this report.

## Additional Supplemental Information

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

## The Agency as a Whole

The Agency's combined net assets increased by $17.5 million or 4.8%. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Agency's governmental and business-type activities.

**Table 1**
**Net Assets**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| Assets | | | | | | |
| Current and other assets | $ 12,441,552 | $ 968,730,784 | $ 981,172,336 | $ 12,599,998 | $ 986,548,612 | $ 999,148,610 |
| Capital assets—net | 13,224 | 8,816 | 22,040 | 17,600 | 11,733 | 29,333 |
| Deferred charges | - | 3,665,008 | 3,665,008 | - | 3,986,435 | 3,986,435 |
| Total assets | 12,454,776 | 972,404,608 | 984,859,384 | 12,617,598 | 990,546,780 | 1,003,164,378 |
| Liabilities | | | | | | |
| Current liabilities | 11,679,811 | 1,007,753 | 12,687,564 | 11,478,221 | 1,143,245 | 12,621,466 |
| Non-current liabilities | 427,637 | 593,586,644 | 594,014,281 | 392,282 | 629,479,814 | 629,872,096 |
| Total liabilities | 12,107,448 | 594,594,397 | 606,701,845 | 11,870,503 | 630,623,059 | 642,493,562 |
| Net assets | | | | | | |
| Invested in capital assets | 13,224 | 8,816 | 22,040 | 17,600 | 11,733 | 29,333 |
| Restricted for future federal program expenditures | 4,907 | - | 4,907 | - | - | - |
| Restricted for debt service | - | 377,801,395 | 377,801,395 | - | 359,911,988 | 359,911,988 |
| Unrestricted | 329,197 | - | 329,197 | 729,495 | - | 729,495 |
| Total net assets | $ 347,328 | $ 377,810,211 | $ 378,157,539 | $ 747,095 | $ 359,923,721 | $ 360,670,816 |

Net assets of the Agency's governmental activities decreased by $399,767 during the current fiscal year. State appropriations are retained for the portion of severance liability and retired employees insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased from $729,495 at June 30, 2009 to $329,197 at the end of this year.

Net loans receivable have increased by approximately $19.7 million, or 2.8%, to $734 million. This increase reflects the continued need for student loans to pay for post-secondary education. This increase is partially offset by an 5.4% decrease in loan disbursement volume.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess revenue generated from the student loans must either be paid back to the IRS every ten years or lowered through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. As of June 30, 2010, the agency has accrued $3,267,588 in excess revenue on the 2004B, 2005B, and 2006 tax exempt bond issues.

Table 2
Changes in Net Assets

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 636,039 | $ 35,357,613 | $ 35,993,652 | $ 659,228 | $ 41,956,120 | $ 42,615,348 |
| State appropriations | 215,532,003 | - | 215,532,003 | 185,892,985 | - | 185,892,985 |
| Federal appropriations | 5,889,977 | - | 5,889,977 | 5,614,130 | - | 5,614,130 |
| Total revenues | 222,058,019 | 35,357,613 | 257,415,632 | 192,166,343 | 41,956,120 | 234,122,463 |
| EXPENSES | | | | | | |
| Program expenses | | | | | | |
| General government | 1,064,263 | 17,471,123 | 18,535,386 | 743,129 | 22,909,687 | 23,652,816 |
| State appropriations | 215,541,979 | - | 215,541,979 | 186,174,085 | - | 186,174,085 |
| Federal grants | 5,851,544 | - | 5,851,544 | 5,717,478 | - | 5,717,478 |
| Total expenses | 222,457,786 | 17,471,123 | 239,928,909 | 192,634,692 | 22,909,687 | 215,544,379 |
| CHANGE IN NET ASSETS | $ (399,767) | $ 17,886,490 | $ 17,486,723 | $ (468,349) | $ 19,046,433 | $ 18,578,084 |

### *Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) increased by $29.9 million (or 15.6%) to $222.1 million, while total expenses increased by $29.8 million (or 15.5%). The governmental activities revenue increase was due to higher state appropriations for student grants. The expenditures increase was due to higher state appropriations for individual student state grants.

- State appropriation expenditures increased by $29.4 million to $215.5 million. $168.9 million was appropriated by legislature for the state grant program. If the appropriation for either year of the biennium is insufficient for the state grant program, the appropriation for the other year is available for it. $35,000,000 appropriated for fiscal year 2011 was transferred to fiscal year 2010.

The Agency currently receives federal grant monies from four different programs within the U.S. Department of Education. These federal grants are designed to assist students in meeting their postsecondary education financial obligations for tuition and other related expenses, improve teacher quality and instructional leadership, and increase college attendance and success of low-income students.

### *Business-Type Activities*

The excess of revenues over expenses of the Agency's business-type activities was $17.9 million in fiscal year 2010, which was about equal to expenses.

## Financial Analysis of the Agency's Major Funds

### *Governmental Funds*

The General Fund is the chief governmental fund of the agency, approximately 97% of the agency's governmental spending. At the end of fiscal year 2010, the fund balance was $0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund.

For the General Fund, student grant payments were $205 million, a significant increase from $169 million in fiscal year 2009. Grant aid to post-secondary institutions and organizations decreased $6.6 million to $1.6 million. Employee salaries decreased by $0.2 million to $1.9 million.

### *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 15.7% and expenses decreased by 23.7%. In fiscal year 2010, there was a lower return for interest and investment interest income. The current interest rate charged to SELF II, SELF III and SELF IV program student loans is set at a rate of 2.00%, 3.80%, and 3.80%, respectively. Rates for the SELF II program have decreased 1.00% over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 0.90% over the past fiscal year. Under the SELF IV program, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program calculates the interest rate charged to borrowers with the same method as the SELF III program.

### *General Fund Budgetary Highlights*

Over the course of the fiscal year, changes were made to the Agency's budget. During 2010, $0.1 million was unallotted due to a decrease in state revenue and $35.0 million of the fiscal year 2011 appropriation was used in fiscal year 2010 due to insufficient state grant funds. Actual expenditures were $40,000 greater than the total budgeted expenditures.

## Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investments. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was down from 2009 by $2.6 million. As of June 30, 2010, the fair value of the Agency's investments was greater than cost by $10,786. The Agency's policy is to hold all securities until maturity; therefore, it is highly unlikely that any differences between cost and market in investments would be realized. All of the Agency's investment securities are held in trust in the Agency's name.

## DEBT ADMINISTRATION

At year-end, the Agency had $590,100,000 in bonds outstanding — as shown in Table 4.

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

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| Revenue bonds | $ - | $ 590 | $ 590 | $ - | $ 627 | $ 627 |

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

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

Other obligations of the Agency include accrued vacation pay and sick leave and the arbitrage liability. More detailed information about the Agency's long-term liabilities is presented in Note III.E. to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

The Agency's officials considered many factors when setting the fiscal year 2010 budget, rates, and fees that will be charged for the business-type activities. Student loan debt has increased substantially the last decade. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds.

The current SELF II loan program margin rate is set at 2.0%, the highest margin allowed under the SELF II Loan program, to compensate for the additional interest cost and other charges associated with the bonds. In fiscal year 2002, the Agency received approval for the SELF III program which bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The SELF IV program began in July 2006 with minor changes. The current SELF III and SELF IV margin is 3.5%. The Agency also received approval to establish other rates or utilize a fixed rate when terms can be obtained at a favorable rate to borrowers. The SELF IV loan program margin is also based on the average of the three-month LIBOR rate and is currently set at the same percentage as the SELF III margin.

Effective July 1, 2007, the undergraduate student annual loan limits for grade levels 1, 2, 3, 4 and 5 have a limit of $7,500. Due largely to unstable financial market conditions, the federal loan limit was increased $2,000 for undergraduate loans. This has resulted in a lower volume of student loans to low cost schools, such as public community and technical colleges. In 2010 the state legislature approved an increase in the annual loan limit to $10,000 for students enrolled in a bachelor's degree program, postbaccalaureate, or graduate program. This limit will be implemented in November 2010.

The increases in college tuitions experienced over the past few years have increased the average amount of loans outstanding for each student. This past fiscal year the Agency increased its allowance for losses by approximately $1.8 million. If the national economic recession continues to negatively impact employment, the Agency could be required to increase its allowance for loan losses.

Careful consideration was given to legislative goals and the agency's mission when adopting the General Fund budget for fiscal year 2011. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of $10,488 for students enrolled in four-year programs and $5,808 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at $7,000 for fiscal year 2011. Grant awards are based on the lesser of the average tuition and fees charged by the institution for the term, or the maximum established by law. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it. $35 million of the state grant fiscal year 2011 appropriation was transferred to fiscal year 2010. $5.9 million of unused state grant funds at the end of fiscal year 2010 will be transferred back to fiscal year 2011. Due to an anticipated shortfall in state revenue for the upcoming fiscal year, Agency appropriations for fiscal year 2011 have been reduced by approximately $1.8 million. State agencies have been notified to adopt plans for additional reductions, if needed.

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

The Agency intends to issue bonds in fiscal year 2011. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, and administrative expenses.

In 2010 the state legislature added additional scholarship and grant programs to the agency's responsibilities. The Veterinary Loan Forgiveness Program funding of $225,000 is available until expended. The Technical and Community College Emergency Grants will be given to students who are experiencing extraordinary economic circumstances that could result in withdrawal from their postsecondary education.

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

The Agency also administers the Indian Scholarship program. The scholarship is awarded to any Minnesota resident student who is of one-fourth or more Indian ancestry, who has applied for other existing state and federal scholarship and grant programs, and who has the capabilities to benefit from further education.

The Achieve Scholarship Program awards scholarships to low and middle income high school students who complete a set of courses in high school related to science, math, social studies, and foreign language. The agency will transfer the Achieve Scholarship program fiscal year 2011 appropriation to state grants. In subsequent years, the Achieve scholarship program appropriation will be reduced from $4.3 million to $2.3 million.

The Agency's cash and investment balance decreased $36.3 million, and the loans receivable – net balance increased $19.7 million. Over the course of the fiscal year the Agency repurchased and subsequently cancelled $36.9 million of Auction rate Securities (ARS) bonds. In the upcoming fiscal year, the Agency intends to issue new bonds and refinance a portion or all of the remaining outstanding Auction Rate Securities (ARS) bonds.

In February 2008 the Agency's ARS bonds at auctions began to fail, and continue to fail, as the nation's auction process collapsed. For the outstanding taxable ARS bonds, bond documents limit the interest rate to the lesser of one-month LIBOR plus 1%, 17%, or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. For the outstanding tax-exempt ARS bonds, bond documents limit the interest rate to the lesser of the Applicable Percentage of the Kenny index or the After-Tax Equivalent Rate (the current applicable percentage is 175%), 14%, or the three month average of the three-month T-Bill plus an Applicable Spread of 1.25%. MBIA is the insurance provider. When MBIA's rating fell below the Moody's Investors Service rating of A2 in November 2008, Moody's subsequently maintained the A2 rating on the bonds due to the underlying collateral of the SELF loans. On June 30, 2010 the average taxable bond interest rate of the ARS bonds was 1.35% and the average tax-exempt bond interest rate was 0.49%.

## Contacting the Agency's Financial Management

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET ASSETS
June 30, 2010

| *ASSETS* | Governmental Activities | Business-type Activities | Totals |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and investments | $ 10,076,473 | $ 183,300,735 | $ 193,377,208 |
| Receivables | | | |
| Accounts | 1,413,893 | 547,772 | 1,961,665 |
| Interest | - | 2,581,183 | 2,581,183 |
| Loans receivable - net | - | 89,271,482 | 89,271,482 |
| Due from other governments | 951,186 | - | 951,186 |
| Prepaid expenses | - | 214,645 | 214,645 |
| Total Current Assets | 12,441,552 | 275,915,817 | 288,357,369 |
| **NON-CURRENT ASSETS** | | | |
| Restricted cash and investments | - | 48,176,209 | 48,176,209 |
| Loans receivable - net | - | 644,638,758 | 644,638,758 |
| Debt issuance costs, at cost less accumulated amortization of $1,133,177 | - | 3,665,008 | 3,665,008 |
| Capital assets, net of depreciation | 13,224 | 8,816 | 22,040 |
| Total Non-Current Assets | 13,224 | 696,488,791 | 696,502,015 |
| Total Assets | 12,454,776 | 972,404,608 | 984,859,384 |
| *LIABILITIES* | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 2,711,581 | 552,384 | 3,263,965 |
| Accrued liabilities | 237,685 | 51,310 | 288,995 |
| Accrued interest | - | 382,452 | 382,452 |
| Due to other governments | 112,963 | - | 112,963 |
| Due to primary government - unspent appropriations | 211,366 | - | 211,366 |
| Deferred revenue | 8,368,916 | - | 8,368,916 |
| Compensated absences payable | 37,300 | 21,607 | 58,907 |
| Total Current Liabilities | 11,679,811 | 1,007,753 | 12,687,564 |
| **NON-CURRENT LIABILITIES** | | | |
| Compensated absences payable | 427,637 | 219,056 | 646,693 |
| Arbitrage liability | - | 3,267,588 | 3,267,588 |
| Revenue bonds payable | - | 590,100,000 | 590,100,000 |
| Total Non-Current Liabilities | 427,637 | 593,586,644 | 594,014,281 |
| Total Liabilities | 12,107,448 | 594,594,397 | 606,701,845 |
| *NET ASSETS* | | | |
| Invested in capital assets | 13,224 | 8,816 | 22,040 |
| Restricted for future federal program expenditures | 4,907 | - | 4,907 |
| Restricted for debt service | - | 377,801,395 | 377,801,395 |
| Unrestricted | 329,197 | - | 329,197 |
| **TOTAL NET ASSETS** | $ 347,328 | $ 377,810,211 | $ 378,157,539 |

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities | Net (Expenses) Revenues and Changes in Net Assets: Business-type Activities | Net (Expenses) Revenues and Changes in Net Assets: Totals |
|---|---|---|---|---|---|---|
| Governmental Activities | | | | | | |
| State appropriations | $ 215,541,979 | $ - | $ 215,532,003 | $ (9,976) | $ - | $ (9,976) |
| Federal grants | 5,851,544 | - | 5,889,977 | 38,433 | - | 38,433 |
| Registration and licensing fees and other | 1,064,263 | 636,039 | - | (428,224) | - | (428,224) |
| Total Governmental Activities | 222,457,786 | 636,039 | 221,421,980 | (399,767) | - | (399,767) |
| Business-type Activities | | | | | | |
| Loan capital fund | 17,471,123 | 35,357,613 | - | - | 17,886,490 | 17,886,490 |
| Totals | $ 239,928,909 | $ 35,993,652 | $ 221,421,980 | | | |
| **Change in Net Assets** | | | | (399,767) | 17,886,490 | 17,486,723 |
| NET ASSETS - Beginning of Year | | | | 747,095 | 359,923,721 | 360,670,816 |
| **NET ASSETS - END OF YEAR** | | | | $ 347,328 | $ 377,810,211 | $ 378,157,539 |

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

| | General | Other Governmental Funds | Totals |
|---|---|---|---|
| ***ASSETS*** | | | |
| Cash and investments | $ 9,207,376 | $ 869,097 | $ 10,076,473 |
| Accounts receivable | 1,277,695 | 136,198 | 1,413,893 |
| Due from other governments | 434,330 | 516,856 | 951,186 |
| **TOTAL ASSETS** | $ 10,919,401 | $ 1,522,151 | $ 12,441,552 |
| ***LIABILITIES AND FUND BALANCES*** | | | |
| Liabilities | | | |
| Accounts payable | $ 2,224,978 | $ 486,603 | $ 2,711,581 |
| Accrued liabilities | 114,141 | 123,544 | 237,685 |
| Due to other governments | - | 112,963 | 112,963 |
| Due to primary government - unspent appropriations | 211,366 | - | 211,366 |
| Deferred revenue | 8,368,916 | - | 8,368,916 |
| Total Liabilities | 10,919,401 | 723,110 | 11,642,511 |
| Fund Balances | | | |
| Unreserved | - | 794,134 | 794,134 |
| Reserved for future federal program expenditures | - | 4,907 | 4,907 |
| Total Fund Balances | - | 799,041 | 799,041 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 10,919,401 | $ 1,522,151 | $ 12,441,552 |

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010

| | | | | |
|---|---|---|---|---|
| Total fund balance - governmental funds | | | $ | 799,041 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Capital assets at year end consist of: | | | | |
| Capital assets | $ | 60,847 | | |
| Accumulated depreciation | | (47,623) | | 13,224 |
| 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. | | | | (464,937) |
| **TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** | | | $ | 347,328 |

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, 2010

| | General | Other Governmental Funds | Totals |
|---|---|---|---|
| **REVENUES** | | | |
| State appropriations | $ 215,532,003 | $ - | $ 215,532,003 |
| Federal grants | - | 5,889,977 | 5,889,977 |
| Registration and licensing fees | - | 232,415 | 232,415 |
| Other revenue | - | 403,624 | 403,624 |
| Total Revenues | 215,532,003 | 6,526,016 | 222,058,019 |
| **EXPENDITURES** | | | |
| General government | 2,945,081 | 1,049,841 | 3,994,922 |
| State and other grants | 212,586,922 | - | 212,586,922 |
| Federal grants | - | 5,834,839 | 5,834,839 |
| Total Expenditures | 215,532,003 | 6,884,680 | 222,416,683 |
| **Excess (deficiency) of revenues over expenditures** | - | (358,664) | (358,664) |
| FUND BALANCE - Beginning of Year | - | 1,157,705 | 1,157,705 |
| **FUND BALANCE - END OF YEAR** | $ - | $ 799,041 | $ 799,041 |

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, 2010

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | (358,664) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements: | | |
| Depreciation is reported in the government-wide statements | | (4,376) |
| Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following did not require the use of current financial resources: | | |
| Compensated absences payable | | (36,727) |
| **CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** | $ | (399,767) |

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2010

| | |
|---|---|
| **OPERATING REVENUES** | |
| Interest on student loans | $ 28,230,790 |
| **OPERATING EXPENSES** | |
| General and administrative | 7,979,390 |
| Provision for loans losses - net | 3,363,049 |
| Total Operating Expenses | 11,342,439 |
| Operating Income | 16,888,351 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Gain on repurchased bonds | 5,845,500 |
| Investment income | 1,281,323 |
| Interest expense | (5,807,256) |
| Amortization expense | (321,428) |
| Total Non-operating Revenues (Expenses) | 998,139 |
| **CHANGE IN NET ASSETS** | 17,886,490 |
| NET ASSETS - Beginning of Year | 359,923,721 |
| **NET ASSETS - END OF YEAR** | $ 377,810,211 |

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, 2010

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from loan holders | $ 125,469,664 |
| Cash paid for loan origination | (118,370,646) |
| Cash paid to employees and suppliers | (8,592,492) |
| Net Cash Flows From Operating Activities | (1,493,474) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchases of investments | (261,665,842) |
| Proceeds from maturity of investments | 274,945,786 |
| Interest received from investments | 1,647,615 |
| Net Cash Flows From Investing Activities | 14,927,559 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Bonds purchased and cancelled | (31,054,500) |
| Interest paid on bonds | (4,947,609) |
| Net Cash Flows From Noncapital Financing Activities | (36,002,109) |
| **Net Decrease in Cash and Cash Equivalents** | (22,568,024) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 228,236,612 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 205,668,588 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS** | |
| Cash and Investments per Statement of Net Assets | $ 183,300,735 |
| Restricted Cash and Investments per Statement of Net Assets | 48,176,209 |
| Less: Non-cash Equivalents | (25,808,356) |
| **CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS** | $ 205,668,588 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Operating income | $ 16,888,351 |
| Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities | |
| Noncash items included in income | |
| Depreciation | 2,917 |
| Provision for loan loss | 10,110,663 |
| Write-off of loans | (8,310,373) |
| Decrease in fair value of investments | 205,169 |
| Origination of student loans | (118,370,646) |
| Principal payments on student loans | 96,855,277 |
| Changes in assets and liabilities | |
| Interest receivable | 270,623 |
| Other receivable and prepaid expenses | 842,855 |
| Accounts payable and accruals | 11,690 |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | $ (1,493,474) |

**NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES**

The agency had a $5,845,500 gain on bonds purchased and cancelled.

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

INDEX TO NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

## NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *A. REPORTING ENTITY*

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

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

### *B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS*

#### *Government-Wide Financial Statements*

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

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

#### *Fund Financial Statements*

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

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

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

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

***Fund Financial Statements*** (cont.)

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

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

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

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

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

General Fund – accounts for the agency's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, the General Fund is used to account for the funds received and disbursed for the State of Minnesota's financial aid programs.

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

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

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

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

Miscellaneous Grant Fund
Federal Grant Fund

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

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

#### *Government-Wide Financial Statements*

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

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

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

#### *Fund Financial Statements*

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

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

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

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

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

***Fund Financial Statements*** (cont.)

The agency may report deferred revenues on its governmental funds balance sheet. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the agency has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the agency has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

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

***All Financial Statements***

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

### D. *ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY*

***1. Deposits and Investments***

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

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

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

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

See Note III.A. for further information.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

#### *2. Receivables*

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

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

#### *3. Prepaid Expenses*

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

#### *4. Restricted Assets*

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

#### *5. Capital Assets*

##### *Government-Wide Statements*

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

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

##### *Fund Financial Statements*

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

#### *6. Other Assets – Debt Issuance Costs*

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

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

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

#### *7. Compensated Absences*

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

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

Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. All employees who have provided 5 to 20 years or more, depending on employment contract terms, of continuous State of Minnesota service are entitled to receive severance pay upon any separation, except discharge for just cause from service. Severance is calculated based upon a formula using an employee's unused sick leave balance.

All eligible employees accrue vacation at a rate that varies with length of service. Any employee who has been employed more than six months and who has separated from state of Minnesota service is compensated in cash at his or her current rate at the time of separation. However, no payment shall exceed 280 hours, except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2010 are determined on the basis of current salary rates.

#### *8. Long-Term Obligations*

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

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

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

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

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

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

***9. Claims and Judgments***

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. 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.

***10. Equity Classifications***

***Government-Wide Statements***

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

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

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

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

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

***Fund Statements***

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance is that portion of fund balance that is not available for the subsequent year's budget due to legal restrictions or resources which are not available for current spending. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

## NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### *A. BUDGETARY INFORMATION*

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

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

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

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

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

## NOTE III – DETAILED NOTES ON ALL FUNDS

### *A. DEPOSITS AND INVESTMENTS*

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

| | Carrying Value | Bank Balance | Associated Risks |
|---|---|---|---|
| Money market mutual fund investments | $ 58,005,730 | $ 57,731,345 | None |
| Commercial paper | 50,313,589 | 50,313,589 | Credit, custodial credit, concentration of credit, and interest rate risks |
| Bankers acceptances | 2,994,244 | 2,994,244 | Credit and custodial credit risks |
| Pooled Cash held by State Treasury | 130,239,854 | 130,239,854 | N/A |
| Total Cash and Investments | $ 241,553,417 | $ 241,279,032 | |

| | |
|---|---|
| Reconciliation to financial statements | |
| Per statement of net assets | |
| Cash and investments | $ 193,377,208 |
| Restricted cash and investments | 48,176,209 |
| Total Cash and Investments | $ 241,553,417 |

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

*A. DEPOSITS AND INVESTMENTS* (cont.)

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

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

The agency maintains collateral agreements with its banks. At June 30, 2010, the banks had pledged various government securities in the amount of $575,483 to secure the agency's deposits.

***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, 2010, the agency did not have any deposits exposed to custodial credit risk.

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

As of June 30, 2010, the agency had $27,502,301 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, 2010, the agency's investments in commercial paper for Toyota Motor Credit, General Electric Capital, and US Bank Open IB Monthly, as well as Bankers Acceptances at US Bank, were rated A-1+ and P-1 by Standard & Poor's and Moody's, respectively. The agency's investments in commercial paper for Manhattan Asset and Basin Electric Power were rated A-1 and P-1 by Standard & Poor's and Moody's, respectively.

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

*A. DEPOSITS AND INVESTMENTS* (cont.)

***Concentration of Credit Risk***

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

As of June 30, 2010, the agency's investments in commercial paper were concentrated as follows:

| | Percentage of Portfolio |
|---|---|
| US Bank | 29.83% |
| Manhattan Asset | 23.84% |
| General Electric Cap | 19.87% |
| Toyota Motor Credit Corp | 15.51% |
| Basin Electric | 10.95% |

***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, 2010 the agency's investment of commercial paper had a fair value of $50,313,590 and a weighted average maturity of .33 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 | $ 1,712,025 | $ - | $ 1,712,025 | $ - |
| Loan Capital | 747,515,511 | 10,476,316 | 737,039,195 | 644,638,758 |
| Nonmajor Funds | 653,054 | - | 653,054 | - |

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 13% of the balance is expected to be collected during fiscal year 2011.

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

### *B. RECEIVABLES* (cont.)

SELF II loans are no longer being issued by the agency. The interest rate on the loans is equal to the average of the weekly auction average (investment) interest rate on three-month U.S. Treasury bills, plus a current margin of 2.0%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 2% as of June 30, 2010.

SELF III loans, offered for the first time in May of 2002, are made to students who meet the eligibility requirements set forth by the agency. The interest rate on the loans is equal to the London InterBank Offered Rate (LIBOR) plus a current margin of 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2010.

SELF IV loans, offered for the first time in July 2006, are made to students who meet the eligibility requirements set forth by the agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2010.

Repayment of interest for SELF loans begins 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or termination. The balance of SELF II, SELF III, and SELF IV loans at June 30, 2010 was $744,059,508.

GRIP loans were made to borrowers who met certain income and debt standards and had graduated with an eligible medical degree. The LCF makes the required monthly payments on the borrower's student loans, and the borrower makes monthly payments to the agency based on the average income for their medical profession. The borrower's loan payments increase annually in proportion to the growth of the average income for their profession. The interest rate on GRIP loans is fixed at 8%. The agency is no longer issuing GRIP loans to new participants. The balance at June 30, 2010 was $327,048.

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

An allowance for uncollectible SELF II, SELF III, and SELF IV loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the loan capital fund. For loans with loan periods beginning before July 1, 1989, an amount equal to 6.25% of the original loan balance was collected from the students. For loans with loan periods beginning on or after July 1, 1989, the loan capital fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.4% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. An allowance for uncollectible GRIP loans equal to 4% of the total outstanding loan balance is maintained as restricted cash in the loan capital fund. The restricted cash has been deposited with the Minnesota Management and Budget agency. Recoveries on defaulted SELF loans are credited to the loan capital as revenue in the year received.

## NOTE III – Detailed Notes on All Funds (cont.)

### *B. Receivables* (cont.)

The activity for the allowance for losses on all loan types for the year ended June 30, 2010 is as follows:

| | | |
|---|---|---|
| Beginning balance | $ | 8,676,026 |
| Provision for loan losses | | 10,110,663 |
| Write-off of loans | | (8,310,373) |
| Ending Balance | $ | 10,476,316 |

Recovery on defaulted loans of $6,747,614 for the year ended June 30, 2010 is recognized as a reduction in the provision for loan losses.

***Debt Issuance Costs***

SELF II, SELF III, and SELF IV loans are reported at the principal amount outstanding, plus the unamortized amount of costs incurred to originate the loans. The origination costs are amortized over the average life of the loans as a reduction of yield. Interest income is recognized at a constant rate over the life of the loans. The origination costs are being deferred and the net amount amortized using a method that approximates the effective interest method. Amortization of total deferred loan costs for the year ended June 30, 2010 was $485,187.

### *C. Restricted Assets*

The following represent the balances of the restricted assets:

***Long Term Debt Accounts***

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

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

### *C. RESTRICTED ASSETS* (cont.)

***Bad Debt Reserve Account***

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

Following is a list of restricted assets at June 30, 2010:

| | Restricted Assets |
|---|---|
| Acquisition account | $ 337,308 |
| Revenue account | 21,254,908 |
| Surplus account | 3,381,937 |
| Debt service reserve account | 12,557,845 |
| Redemption account | 8,087 |
| Student loan account | 159,808 |
| Bad debt reserve account | 10,476,316 |
| Total Restricted Assets | $ 48,176,209 |

### *D. CAPITAL ASSETS*

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital assets being depreciated | | | | |
| Equipment | $ 60,847 | $ - | $ - | $ 60,847 |
| Less: Accumulated depreciation for | | | | |
| Equipment | (43,247) | (4,376) | - | (47,623) |
| Capital Assets, Net of Depreciation | $ 17,600 | $ (4,376) | $ - | $ 13,224 |

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

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

*D. CAPITAL ASSETS* (cont.)

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| Loan Capital Fund | | | | |
| Capital assets being depreciated | | | | |
| Equipment | $ 14,586 | $ - | $ - | $ 14,586 |
| Less: Accumulated depreciation for Equipment | (2,853) | (2,917) | - | (5,770) |
| Net Loan Capital Fund | $ 11,733 | $ (2,917) | $ - | $ 8,816 |

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

*E. LONG-TERM OBLIGATIONS*

Long-term obligations activity for the year ended June 30, 2010 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Other Liabilities | | | | | |
| Vested compensated absences | $ 428,210 | $ 331,363 | $ 294,636 | $ 464,937 | $ 37,300 |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Bonds Payable | | | | | |
| Revenue bonds | $ 627,000,000 | $ - | $ 36,900,000 | $ 590,100,000 | $ - |
| Other Liabilities | | | | | |
| Vested compensated absences | 226,432 | 110,305 | 96,074 | 240,663 | 21,607 |
| Arbitrage liability | 2,273,457 | 994,131 | - | 3,267,588 | - |
| Total other liabilities | 2,499,889 | 1,104,436 | 96,074 | 3,508,251 | 21,607 |
| Total Business-type Activities Long-Term Liabilities | $ 629,499,889 | $ 1,104,436 | $ 36,996,074 | $ 593,608,251 | $ 21,607 |

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 $590,100,000.

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

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

*E. LONG-TERM OBLIGATIONS* (cont.)

| | Date of Issue | Final Maturity | 6-30-10 Interest Rates | Interest Rates Reset (days) | Original Indebted-ness | Balance 6-30-10 |
|---|---|---|---|---|---|---|
| Supplemental Student Loan Program Variable Rate Revenue Bonds | | | | | | |
| Series 1999A taxable revenue bonds | Nov 99 | Nov 34 | 1.347% | 7 | $61,200,000 | $ 53,500,000 |
| Series 2002A taxable revenue bonds | Jan 02 | Jan 37 | 1.347% | 7 | 68,200,000 | 68,000,000 |
| Series 2002B revenue bonds | Jan 02 | Jan 37 | .490% | 35 | 27,100,000 | 27,100,000 |
| Series 2003A taxable revenue bonds | Mar 03 | May 38 | 1.351% | 28 | 64,700,000 | 56,600,000 |
| Series 2003B revenue bonds | Mar 03 | May 38 | .490% | 35 | 10,300,000 | 10,300,000 |
| Series 2004A taxable revenue bonds | July 04 | May 39 | 1.350% | 28 | 67,000,000 | 46,100,000 |
| Series 2004B revenue bonds | July 04 | May 39 | .438% | 35 | 88,500,000 | 88,500,000 |
| Series 2005B revenue bonds | July 05 | May 40 | .543% | 35 | 70,000,000 | 70,000,000 |
| Series 2006 revenue bonds | Nov 06 | May 41 | .490% | 35 | 70,000,000 | 70,000,000 |
| Series 2008A taxable revenue bonds | Dec 08 | Dec 43 | .360% | 7 | 66,700,000 | 66,700,000 |
| Series 2008B revenue bonds | Dec 08 | Dec 43 | .330% | 7 | 33,300,000 | 33,300,000 |
| Total Business-type Activities Revenue Bonds | | | | | | $ 590,100,000 |

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2010 rates, are as follows:

| | Business-type Activities | | |
|---|---|---|---|
| Years Ending June 30 | Principal | Interest | Total |
| 2011 | $ - | $ 4,667,621 | $ 4,667,621 |
| 2012 | - | 4,667,621 | 4,667,621 |
| 2013 | - | 4,667,621 | 4,667,621 |
| 2014 | - | 4,667,621 | 4,667,621 |
| 2015 | - | 4,667,621 | 4,667,621 |
| 2016 - 2020 | - | 23,338,105 | 23,338,105 |
| 2021 - 2025 | - | 23,338,105 | 23,338,105 |
| 2026 - 2030 | - | 23,338,105 | 23,338,105 |
| 2031 - 2035 | 53,500,000 | 23,338,105 | 76,838,105 |
| 2036 - 2040 | 366,600,000 | 13,948,378 | 380,548,378 |
| 2041 - 2044 | 170,000,000 | 1,743,040 | 171,743,040 |
| Totals | $ 590,100,000 | $ 132,381,943 | $ 722,481,943 |

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

*E. LONG-TERM OBLIGATIONS* (cont.)

The interest rates on all of the bonds are reset periodically as shown in the detailed revenue debt schedule above. The rates on all of the bonds, except the taxable Series 2008A bonds and tax-exempt Series 2008B bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1%; 17%; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14%; or the three month average of the three-month T-Bill plus an applicable spread of 1.25%. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

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

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

The agency maintains insurance coverage as additional collateral for the auction rate bonds. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B and 2006; 0.14% for Series 2003A and 2003B; and 0.125% for Series 2004A, 2004B, and 2005B of the outstanding principal amount per year. General and administrative expenses include insurance fees of $648,848 for the year ended June 30, 2010.

The agency maintains an unsecured irrevocable direct-pay letter of credit as additional collateral for the Series 2008A and Series 2008B bonds. The fee to maintain this letter of credit is 0.7% of the outstanding principal amount per year. In addition there is a remarketing fee of 0.1% of the outstanding principal amount per year. General and administrative expenses include letter of credit and remarketing fees of $842,339 for the year ended June 30, 2010. The letter of credit expires December 16, 2011 and has a provision to extend automatically for one year. After this the agency must request an extension 240 days prior to the expiration date.

For all bonds the agency is required to maintain a debt service account equal to 2% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $11,802,000 and the agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures. The agency believes it is in compliance with all significant limitations and restrictions.

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

*E. LONG-TERM OBLIGATIONS* (cont.)

All bond series are to be repaid solely from the money and investments held by the trustees. For all bonds, an early repayment provision exists. For the Series 2002B, 2003B, 2004B, 2005B, and 2006 tax-exempt bonds, the agency must give written notice to exercise its option to redeem bonds at least 45 days prior to the desired redemption date. The paying agent would notify the agency in writing of bonds selected for redemption and the principal amount to be redeemed. The agency would then be required to make satisfactory provision for deposit in the Redemption Fund for the principal and interest accrued. For the Series 1999A, 2002A, 2003A, and 2004A taxable bond issues, the agency must give written notice to the bond trustee and credit provider not less than 20 days but no greater than 65 days prior to redemption. For the Series 2008A and 2008B bonds, the agency must give written notice to exercise its option to redeem bonds not less than 15 days but no greater than 60 days prior to the redemption date.

During 2010 the agency used $31,054,500 of available cash to purchase $36,900,000 of outstanding bonds on the secondary market. These bonds were subsequently cancelled by the agency. Details of these transactions are as follows:

| Date Purchased and Cancelled | Bond Issue Series | Amount Purchased and Cancelled |
|---|---|---|
| August 2009 | 1999A | $ 7,500,000 |
| October 2009 | 2003A | 4,100,000 |
| December 2009 | 2003A | 4,000,000 |
| December 2009 | 1999A | 200,000 |
| April 2010 | 2002A | 200,000 |
| April 2010 | 2004A | 20,900,000 |
| Total Purchased and Cancelled | | $ 36,900,000 |

***Arbitrage Regulations***

The $299,200,000 of tax-exempt bonds issued by the agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2010, the agency accrued a liability of $3,267,588 resulting from the excess yield on interest rates.

***Other Debt Information***

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

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

### *F. NET ASSETS*

Certain net assets are classified in the statement of net assets as restricted because their use is limited. The business-type activities report restricted net assets for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2010, the business-type activities restricted net assets are restricted for debt service.

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

| | |
|---|---|
| Years Ending June 30, | |
| 2010 | $ 400,000,000 |
| 2011 | 425,000,000 |
| 2012 | 450,000,000 |
| 2013 | 475,000,000 |
| 2014 | 500,000,000 |
| 2015 | 525,000,000 |
| 2016 | 550,000,000 |
| 2017 and thereafter | 575,000,000 |

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

## NOTE IV – OTHER INFORMATION

### *A. EMPLOYEES' RETIREMENT SYSTEM*

Employees of the agency meeting certain age and length of service requirements participate in the State Employees' Retirement Fund ("SERF") of the Minnesota State Retirement System ("MSRS"). The SERF requires contributions by both employers and employees. The agency's contribution to the SERF for the years ended June 30, 2010 and 2009, was $183,448 and $183,452, respectively. The total covered payroll of the agency for the years ended June 30, 2010 and 2009, was $3,675,694 and $3,703,515, respectively.

The SERF is a statewide plan that covers employees of the state of Minnesota, school districts, counties, cities, and other political subdivisions. The SERF is a multiple-employer, cost-sharing defined benefit plan administered by MSRS. Benefits are based on average salary and are fully vested after three years of credited service. Participants are required to contribute 4.75% of their total compensation with a matching the agency contribution of 4.75%. As of July 1, 2010, the required contribution and matching contribution increased to 5.00%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

**NOTE IV – OTHER INFORMATION (cont.)**

***A. EMPLOYEES' RETIREMENT SYSTEM*** (cont.)

The pension benefit obligation is a standardized measure of the actuarial present value of credited projected benefits. The measure is intended to help users assess the SERF's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The unfunded vested benefit liabilities of the SERF are not actuarially segregated by employer unit. As of June 30, 2009 (the most recent information available), the agency's contributions and employees represented less than 1% of all participating entity contributions and active plan participants in SERF.

The SERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan at:

Minnesota State Retirement System
Affinity Plus Building, Suite 300
175 West Lafayette Frontage Road
Saint Paul, Minnesota 55107-1425
651 296 2761

As of June 30, 2009, the SERF had a projected benefit obligation of $9,030,401,000, unfunded liabilities of $1,482,359,000, and net assets available for benefits, at fair value, of $10,512,760,000. As of June 30, 2008, the SERF had a projected benefit obligation of $9,013,456,000, unfunded liabilities of $981,146,000, and net assets available for benefits, at fair value, of $9,994,602,000. Ten-year historical trend information showing the SERF's progress in accumulating sufficient assets to pay benefits when due is presented in the SERF's June 30, 2009, Comprehensive Annual Financial Report.

***B. RISK MANAGEMENT***

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

***C. COMMITMENTS AND CONTINGENCIES***

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

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

**NOTE IV – OTHER INFORMATION** (cont.)

*C. COMMITMENTS AND CONTINGENCIES* (cont.)

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

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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 59, *Financial Instruments Omnibus*. The agency has not yet determined the impact of this new GASB statement.

# REQUIRED SUPPLEMENTARY INFORMATION

## MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2010

| | Budgeted Amounts | | | Variance With Final |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| **REVENUES** | | | | |
| General Administration | $ 2,785,000 | $ 2,463,831 | $ 2,527,963 | $ 64,132 |
| Safety Office Survivors | 100,000 | 78,328 | 78,328 | - |
| MN College Savings Program | 700,000 | 331,716 | 331,716 | - |
| Child Care Grant Program | 6,684,000 | 6,485,170 | 6,485,170 | - |
| MN Link Gateway and Minitex Library | 6,031,000 | 6,029,898 | 6,031,898 | 2,000 |
| State Grant Program | 179,138,000 | 168,905,786 | 168,905,786 | - |
| State Work Study | 14,944,000 | 14,511,649 | 14,511,649 | - |
| Interstate Reciprocity | 4,237,000 | 3,974,557 | 3,974,557 | - |
| Achieve Scholarship Program | 4,350,000 | 7,935,579 | 8,003,871 | 68,292 |
| Midwest Compact | 95,000 | 95,000 | 95,000 | - |
| Other Small Programs | 357,000 | 291,379 | 317,598 | 26,219 |
| United Family Practice | 448,000 | 448,000 | 448,000 | - |
| Tech/CC - Emergency Grants | 150,000 | - | - | - |
| Veterinary Loan Forgiveness | 225,000 | 225,000 | 225,000 | - |
| MN GI Bill Program | 1,227,593 | 1,168,793 | 1,030,908 | (137,885) |
| Intervention College Attendance | 746,000 | 589,266 | 602,633 | 13,367 |
| American Indian Scholarship | 2,000,000 | 1,956,926 | 1,956,926 | - |
| Grants to Increase Service Learning | - | - | 5,000 | 5,000 |
| Total Revenues | 224,217,593 | 215,490,878 | 215,532,003 | 41,125 |
| **EXPENDITURES** | | | | |
| General Administration | 2,696,000 | 2,464,745 | 2,527,963 | (63,218) |
| Safety Office Survivors | 100,000 | 78,328 | 78,328 | - |
| MN College Savings Program | 700,000 | 331,716 | 331,716 | - |
| Child Care Grant Program | 6,684,000 | 6,485,170 | 6,485,170 | - |
| MN Link Gateway and Minitex Library | 6,031,000 | 6,029,898 | 6,031,898 | (2,000) |
| State Grant Program | 144,138,000 | 168,905,786 | 168,905,786 | - |
| State Work Study | 14,944,000 | 14,511,649 | 14,511,649 | - |
| Interstate Reciprocity | 2,750,000 | 3,974,557 | 3,974,557 | - |
| Achieve Scholarship Program | 4,350,000 | 7,935,579 | 8,003,871 | (68,292) |
| Midwest Compact | 95,000 | 95,000 | 95,000 | - |
| Other Small Programs | 357,000 | 291,379 | 317,598 | (26,219) |
| United Family Practice | 448,000 | 448,000 | 448,000 | - |
| Tech/CC - Emergency Grants | 150,000 | - | - | - |
| Veterinary Loan Forgiveness | 225,000 | 225,000 | 225,000 | - |
| MN GI Bill Program | 1,368,000 | 1,168,793 | 1,030,908 | 137,885 |
| Intervention College Attendance | 746,000 | 589,266 | 602,633 | (13,367) |
| American Indian Scholarship | 2,000,000 | 1,956,926 | 1,956,926 | - |
| Grants to Increase Service Learning | - | - | 5,000 | (5,000) |
| Total Expenditures | 187,782,000 | 215,491,792 | 215,532,003 | (40,211) |
| **NET CHANGE IN FUND BALANCE** | $ 36,435,593 | $ (914) | $ - | $ 914 |

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

***Budgetary Information***

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

# SUPPLEMENTARY INFORMATION

## MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

| | Miscellaneous Grant Fund | Federal Grant Fund | Totals |
|---|---|---|---|
| ***ASSETS*** | | | |
| Cash and investments | $ 859,404 | $ 9,693 | $ 869,097 |
| Accounts receivable | 21,808 | 114,390 | 136,198 |
| Due from other governments | - | 516,856 | 516,856 |
| **TOTAL ASSETS** | $ 881,212 | $ 640,939 | $ 1,522,151 |
| ***LIABILITIES AND FUND BALANCES*** | | | |
| Liabilities | | | |
| Accounts payable | $ 44,936 | $ 441,667 | $ 486,603 |
| Accrued liabilities | 42,142 | 81,402 | 123,544 |
| Due to other governments | - | 112,963 | 112,963 |
| Total Liabilities | 87,078 | 636,032 | 723,110 |
| Fund Balances | | | |
| Unreserved | 794,134 | - | 794,134 |
| Reserved for future federal program expenditures | - | 4,907 | 4,907 |
| Total Fund Balances | 794,134 | 4,907 | 799,041 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 881,212 | $ 640,939 | $ 1,522,151 |

# MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

| | Miscellaneous Grant Fund | Federal Grant Fund | Totals |
|---|---|---|---|
| **REVENUES** | | | |
| Federal grants | $ - | $ 5,889,977 | $ 5,889,977 |
| Registration and licensing fees | 232,415 | - | 232,415 |
| Other revenue | 403,624 | - | 403,624 |
| Total Revenues | 636,039 | 5,889,977 | 6,526,016 |
| **EXPENDITURES** | | | |
| General government | 1,049,841 | - | 1,049,841 |
| Federal grants | - | 5,834,839 | 5,834,839 |
| Total Expenditures | 1,049,841 | 5,834,839 | 6,884,680 |
| **Excess (deficiency) of revenues over expenditures** | (413,802) | 55,138 | (358,664) |
| FUND BALANCE (DEFICIT)- Beginning of Year | 1,207,936 | (50,231) | 1,157,705 |
| **FUND BALANCE - END OF YEAR** | $ 794,134 | $ 4,907 | $ 799,041 |

# MINNESOTA OFFICE OF HIGHER EDUCATION

(A component unit of the State of Minnesota)
Saint Paul, Minnesota

FINANCIAL STATEMENTS

June 30, 2009

# MINNESOTA OFFICE OF HIGHER EDUCATION

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June 30, 2009

BAKER TILLY

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# INDEPENDENT AUDITORS' REPORT

Director
Minnesota Office of Higher Education
Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2009, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Minnesota Office of Higher Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009 on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Director
Minnesota Office of Higher Education

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

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 14, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2009.

### Introduction

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

THE MINNESOTA OFFICE OF HIGHER EDUCATION works to:

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

The agency employs 65 people of which 25 are state funded.

The Agency is authorized to issue bonds up to a total outstanding of $850 million. The bonds by law are not a debt of the State of Minnesota or any political subdivision thereof.

The Agency's programs and services are provided through different means including:

The Minnesota State Grant Program (which provides more than $140 million in need-based aid to Minnesota students annually), and other student financial aid programs such as the Post-Secondary Child Care Grant Program, State Work Study Program, and the Public Safety Officers' Survivors Benefit Program. Other core programs are the Student Educational Loan Fund ("SELF"), the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program. These programs enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities.

The Agency's publications, videos, web content, interactive media, and direct contact with students and families enable the agency to provide outreach to communities of color, low-income families, and families with no previous higher education experience. The Get Ready! Program, working in tandem with the federally sponsored GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) and Intervention for College Attendance Program Grants, helps to sustain a continuum of contact and service to low-income students from fourth grade through high school as they prepare for college admission and attendance.

The Agency's Web presence includes information for students, parents, educators, and financial aid administers, enrollment data which can be customized by the user, information concerning private postsecondary institutions licensed or registered by the Agency, online tuition reciprocity applications, and a financial aid estimator.

A portion of the Agency's state appropriations are for the following two programs (effective July 1, 2009 the Learning Network of Minnesota and the MN LibraryInformation Network will be transferred to another state entity):

> The MINITEX Library Information Network provides students, scholars, and residents of Minnesota and contiguous states with cost-effective access to a wide range of library resources and information, including delivery of interlibrary loan materials, cooperative licensing, and access to electronic resources. The Minnesota Library Information Network ("MnLINK") is a statewide virtual library that electronically links major Minnesota libraries. The MnLINK Gateway connects the online catalogs of 20 Minnesota library systems and selected commercial databases so that they appear to a user as a single source of information. The MnLINK Integrated Library System is being implemented as a shared library automation system for the University of Minnesota, Minnesota State Colleges and Universities, Minnesota state agencies, and interested private college, public, school and special libraries.
>
> The Learning Network of Minnesota provides access to educational programs and library resources through telecommunications technology. The Learning Network enables students to have access to learning opportunities that otherwise would be unavailable at their college or in their geographic area.

Through state laws which undergird the registration and licensure of private colleges, universities, and career schools, the Agency provides students with consumer protection by assuring that private post-secondary institutions meet state standards in order to operate legally in Minnesota.

## Financial Highlights

- The Agency's net assets increased $18.6 million or 5.4% from fiscal year 2008 to 2009, mainly as a result of student loan financing activities.
- The Agency received $186 million for fiscal year 2009 state appropriations in addition to the $8.3 million carry forward from previous fiscal year. No state appropriations will be carried forward to fiscal year 2010.
- The Loan Capital Fund issued 24,756 new loans in fiscal year 2009, with the average student loan amount of $5,058.
- Loan Receivables in the Loan Capital Fund grew by $27.5 million or 4.0% during fiscal year 2009.
- The Agency received legislative approval to enter into interest rate exchange or swap agreements, or other comparable interest rate protection agreements. This option is limited to agreements related to bonds and notes with an aggregate value of no more than $20 million. As of June 30, 2009 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- The Agency issued $100 million in bonds to finance the demand for student loans.

## Overview of the Financial Statements

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

## Government-Wide Financial Statements

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

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

In the Statements of Net Assets and the Statement of Activities, we divide the Agency into two kinds of activities:

- ***Governmental Activities*** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the Work Study Program and the MnLINK program, negotiating and administering reciprocity agreements, publishing and distributing financial aid information and materials, collecting and maintaining student enrollment and financial aid data, and administering various federal grant programs that affect students and postsecondary institutions. Licensing and registration fees finance the cost for administering the registration and licensing of private collegiate and career schools.

- ***Business-Type Activities*** — The Agency is designated by statute as the administrative agency for the establishment of one or more loan programs. The purpose of the loan programs is to provide financial assistance for the postsecondary education of students. The two loan programs currently being administered by the Agency are the Student Educational Loan Fund ("SELF") Program and the Graduated Repayment Income Protection ("GRIP") Program.

## Fund Financial Statements

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

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

- ***Proprietary Funds*** — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Agency's enterprise funds are the same as the business-type activities the Agency reports in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

## Notes to the Basic Financial Statements

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

## Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency's budget and actual results of its major governmental fund. This information can be found beginning on page 29 of this report.

## Additional Supplemental Information

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

## The Agency as a Whole

The Agency's combined net assets increased by $18.6 million or 5.4%. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Agency's governmental and business-type activities.

**Table 1**
**Net Assets**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| Assets | | | | | | |
| Current and other assets | $ 12,599,998 | $ 986,548,612 | $ 999,148,610 | $ 12,575,468 | $ 868,196,532 | $ 880,772,000 |
| Capital assets--net | 17,600 | 11,733 | 29,333 | - | - | - |
| Deferred charges | - | 3,986,435 | 3,986,435 | - | 3,107,456 | 3,107,456 |
| Total assets | 12,617,598 | 990,546,780 | 1,003,164,378 | 12,575,468 | 871,303,988 | 883,879,456 |
| Liabilities | | | | | | |
| Current liabilities | 11,478,221 | 1,143,245 | 12,621,466 | 10,986,633 | 1,691,600 | 12,678,233 |
| Non-current liabilities | 392,282 | 629,479,814 | 629,872,096 | 373,391 | 528,735,100 | 529,108,491 |
| Total liabilities | 11,870,503 | 630,623,059 | 642,493,562 | 11,360,024 | 530,426,700 | 541,786,724 |
| Net assets | | | | | | |
| Invested in capital assets | 17,600 | 11,733 | 29,333 | - | - | - |
| Restricted for debt service | - | 359,911,988 | 359,911,988 | - | 340,877,288 | 340,877,288 |
| Unrestricted | 729,495 | - | 729,495 | 1,215,444 | - | 1,215,444 |
| Total net assets | $ 747,095 | $ 359,923,721 | $ 360,670,816 | $ 1,215,444 | $ 340,877,288 | $ 342,092,732 |

Net assets of the Agency's governmental activities decreased by $468,000 during the current fiscal year. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased from $1,215,444 at June 30, 2008 to $729,495 at the end of this year.

Net loans receivable have increased by approximately $27.5 million, or 4.0%, to $714 million. This increase reflects the continued need for student loans to pay for post-secondary education. This increase is partially offset by an 8.0% decrease in loan disbursement volume.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess revenue generated from the student loans must either be paid back to the IRS every ten years or lowered through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. As of June 30, 2009, the agency has accrued $2,273,457 in excess revenue on the 2003B, 2005B, and 2006 tax exempt bond issues.

Table 2
Changes in Net Assets

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 659,228 | $ 41,956,120 | $ 42,615,348 | $ 835,362 | $ 54,762,705 | $ 55,598,067 |
| State appropriations | 185,892,985 | - | 185,892,985 | 188,775,186 | - | 188,775,186 |
| Federal appropriations | 5,614,130 | - | 5,614,130 | 4,856,912 | - | 4,856,912 |
| Total revenues | 192,166,343 | 41,956,120 | 234,122,463 | 194,467,460 | 54,762,705 | 249,230,165 |
| EXPENSES | | | | | | |
| Program expenses | | | | | | |
| General government | 743,129 | 22,909,687 | 23,652,816 | 1,855,431 | 37,317,890 | 39,173,321 |
| State appropriations | 186,174,085 | - | 186,174,085 | 188,775,186 | - | 188,775,186 |
| Federal grants | 5,717,478 | - | 5,717,478 | 4,882,621 | - | 4,882,621 |
| Total expenses | 192,634,692 | 22,909,687 | 215,544,379 | 195,513,238 | 37,317,890 | 232,831,128 |
| CHANGE IN NET ASSETS | $ (468,349) | $ 19,046,433 | $ 18,578,084 | $ (1,045,778) | $ 17,444,815 | $ 16,399,037 |

### *Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) decreased by $2.3 million (or 1.2%) to $192.2 million, while total expenses decreased by $3.0 million (or 1.6%). The majority of the governmental activities revenue decrease was due to lower state appropriations for student grants. The expenditures decrease was due to lower state appropriations for individual student state grants.

- State appropriation expenditures decreased by $2.6 million to $185.9 million. $143.8 million was appropriated by legislature for the state grant program. If the appropriation for either year of the biennium is insufficient for the state grant program, the appropriation for the other year is available for it. $400,000 appropriated for fiscal year 2009 was transferred to fiscal year 2008.

The Agency currently receives federal grant monies from four different programs within the U.S. Department of Education. These federal grants are designed to assist students in meeting their postsecondary education financial obligations for tuition and other related expenses, improve teacher quality and instructional leadership, and increase college attendance and success of low-income students.

### *Business-Type Activities*

The excess of revenues over expenses of the Agency's business-type activities was $19 million in fiscal year 2009, which was 83.1% of expenses.

## Financial Analysis of the Agency's Major Funds

### *Governmental Funds*

The General Fund is the chief governmental fund of the agency, approximately 97% of the agency's governmental spending. At the end of fiscal year 2009, the fund balance was $0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund.

For the General Fund, student grant payments were $169 million, down slightly from $171.1 million in fiscal year 2008. Grant aid to post-secondary institutions and organizations increased $1 million to $8.2 million.

### *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 30.5% and expenses decreased by 38.6%. In fiscal year 2009, there was a lower return for interest and investment interest income. The current interest rate charged to SELF II, SELF III and SELF IV program student loans is set a rate of 3.00%, 4.70%, and 4.70%, respectively. Rates for the SELF II program have decreased 2.00% over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 1.30% over the past fiscal year. Under the SELF IV program, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program calculates the interest rate charged to borrowers with the same method as the SELF III program.

### *General Fund Budgetary Highlights*

Over the course of the fiscal year, changes were made to the Agency's budget. During 2009, an additional $1.5 million was needed to comply with interstate tuition reciprocity agreements, $0.4 million was unallotted due to a decrease in state revenue, and $5.0 million was returned to the state for unused ACHIEVE scholarship funding. Actual expenditures were $0.3 million below the total budgeted expenditures.

## Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investments. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was down from 2008 by $4.7 million. As of June 30, 2009, the fair value of the Agency's investments was greater than cost by $211,893. The Agency's policy is to hold all securities until maturity; therefore, it is highly unlikely that any differences between cost and market in investments would be realized. All of the Agency's investment securities are held in trust in the Agency's name.

## DEBT ADMINISTRATION

At year-end, the Agency had $627,000,000 million in bonds outstanding — as shown in the table below.

**Outstanding Debt at Year-End**
**(in millions)**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Governmental Activities | Business-Type Activities | Totals |
| Revenue bonds | $ - | $ 627 | $ 627 | $ - | $ 527 | $ 527 |

Since 1984, the Agency's revenue bond rating has been AAA, the highest rating possible, in 2008 the rating was downgraded to AA as a result of Municipal Bond Insurance Association, Inc.'s (MBIA) downgrade to A2 in the current year.

Other obligations of the Agency include accrued vacation pay and sick leave and the arbitrage liability. More detailed information about the Agency's long-term liabilities is presented in Note III.F. to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

The Agency's officials considered many factors when setting the fiscal year 2009 budget, rates, and fees that will be charged for the business-type activities. Student loan debt has increased substantially the last decade. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds.

The current SELF II loan program margin rate is set at 2.0%, the highest margin allowed under the SELF II Loan program, to compensate for the additional interest cost and other charges associated with the bonds. In fiscal year 2002, the Agency received approval for the SELF III program which bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The SELF IV program began in July 2006 with minor changes. The current SELF III and SELF IV margin is 3.5%. The Agency also received approval to establish other rates or utilize a fixed rate when terms can be obtained at a favorable rate to borrowers. The SELF IV loan program margin is also based on the average of the three-month LIBOR rate and is currently set at the same percentage as the SELF III margin.

Effective July 1, 2007, the undergraduate student annual loan limits for grade levels 1, 2, 3, 4 and 5 have a limit of $7,500. Due largely to unstable financial market conditions, the federal loan limit was increased $2,000 for undergraduate loans. This has resulted in a lower volume of student loans to low cost schools, such as public community and technical colleges.

The increases in college tuitions experienced over the past few years have increased the average amount of loans outstanding for each student. This past fiscal year the Agency increased its allowance for losses by approximately $1.7 million. If the national economic recession continues to negatively impact employment, the Agency could be required to increase its allowance for loan losses.

Careful consideration was given to legislative goals and the agency's mission when adopting the General Fund budget for fiscal year 2010. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of $10,488 for students enrolled in four-year programs and $5,808 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at $7,000 for fiscal year 2010. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it.

The maximum annual award for Post-secondary Child Care Grants is set at $2,600 for the current biennium. This grant received an additional $0.5 million per fiscal year for the upcoming biennium.

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

The Agency intends to issue bonds in fiscal year 2010. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, and administrative expenses.

The state legislature added additional scholarship and grant programs to the agency's responsibilities. The Veterinary Loan Forgiveness Program funding of $225,000 is available until expended. The Technical and Community College Emergency Grants will be given to students who are experiencing extraordinary economic circumstances that could result in withdrawal from their postsecondary education.

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

The Agency began administering the Indian Scholarship program in fiscal year 2008. The scholarship is awarded to any Minnesota resident student who is of one-fourth or more Indian ancestry, who has applied for other existing state and federal scholarship and grant programs, and who has the capabilities to benefit from further education.

The Achieve Scholarship Program awards scholarships to low and middle income high school students who complete a set of courses in high school related to science, math, social studies, and foreign language.

The Agency's cash and investment balance increased $91.2 million, the loans receivable – net balance increased $27.5 million, and $100.0 million of bonds were issued in the current year. In the upcoming fiscal year, the Agency intends to issue new bonds and refinance a portion or all of the current outstanding Auction Rate Securities (ARS) bonds into Variable Rate Demand Obligation bonds.

In February 2008 the Agency's ARS bonds at auctions began to fail, and continue to fail, as the nation's auction process collapsed. For the outstanding taxable ARS bonds, bond documents limit the interest rate to the lesser of one-month LIBOR plus 1%, 17%, or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. For the outstanding tax-exempt ARS bonds, bond documents limit the interest rate to the lesser of the Applicable Percentage of the Kenny index or the After-Tax Equivalent Rate (the current applicable percentage is 175%), 14%, or the three month average of the three-month T-Bill plus an Applicable Spread of 1.25%. MBIA is the insurance provider. When MBIA's rating fell below the Moody's Investors Service rating of A2 in November 2008, Moody's subsequently maintained the A2 rating on the bonds due to the underlying collateral of the SELF loans. On June 30, 2009 the average taxable bond interest rate of the ARS bonds was 1.32% and the average tax-exempt bond interest rate was 0.58%.

## Contacting the Agency's Financial Management

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET ASSETS
June 30, 2009

| *ASSETS* | Governmental Activities | Business-type Activities | Totals |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and investments | $ 10,372,114 | $ 221,737,804 | $ 232,109,918 |
| Receivables | | | |
| Accounts | 1,361,142 | 1,385,623 | 2,746,765 |
| Interest | - | 3,218,190 | 3,218,190 |
| Loans receivable - net | - | 96,599,153 | 96,599,153 |
| Due from other governments | 866,742 | - | 866,742 |
| Prepaid expenses | - | 219,558 | 219,558 |
| Total Current Assets | 12,599,998 | 323,160,328 | 335,760,326 |
| **NON-CURRENT ASSETS** | | | |
| Restricted cash and investments | - | 45,792,276 | 45,792,276 |
| Loans receivable - net | - | 617,596,008 | 617,596,008 |
| Debt issuance costs, at cost less accumulated amortization of $811,749 | - | 3,986,435 | 3,986,435 |
| Capital assets, net of depreciation | 17,600 | 11,733 | 29,333 |
| Total Non-Current Assets | 17,600 | 667,386,452 | 667,404,052 |
| Total Assets | 12,617,598 | 990,546,780 | 1,003,164,378 |
| *LIABILITIES* | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 3,314,766 | 553,862 | 3,868,628 |
| Accrued liabilities | 210,921 | 52,372 | 263,293 |
| Accrued interest | - | 516,936 | 516,936 |
| Due to other governments | 137,779 | - | 137,779 |
| Due to primary government - unspent appropriations | 7,778,827 | - | 7,778,827 |
| Compensated absences payable | 35,928 | 20,075 | 56,003 |
| Total Current Liabilities | 11,478,221 | 1,143,245 | 12,621,466 |
| **NON-CURRENT LIABILITIES** | | | |
| Compensated absences payable | 392,282 | 206,357 | 598,639 |
| Arbitrage liability | - | 2,273,457 | 2,273,457 |
| Revenue bonds payable | - | 627,000,000 | 627,000,000 |
| Total Non-Current Liabilities | 392,282 | 629,479,814 | 629,872,096 |
| Total Liabilities | 11,870,503 | 630,623,059 | 642,493,562 |
| *NET ASSETS* | | | |
| Invested in capital assets | 17,600 | 11,733 | 29,333 |
| Restricted for debt service | - | 359,911,988 | 359,911,988 |
| Unrestricted | 729,495 | - | 729,495 |
| **TOTAL NET ASSETS** | $ 747,095 | $ 359,923,721 | $ 360,670,816 |

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

| | | Program Revenues | | Net (Expenses) Revenues and Changes in Net Assets | | |
|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Totals |
| Governmental Activities | | | | | | |
| State appropriations | $ 186,174,085 | $ - | $ 185,892,985 | $ (281,100) | $ - | $ (281,100) |
| Federal grants | 5,717,478 | - | 5,614,130 | (103,348) | - | (103,348) |
| Registration and licensing fees and other | 743,129 | 659,228 | - | (83,901) | - | (83,901) |
| Total Governmental Activities | 192,634,692 | 659,228 | 191,507,115 | (468,349) | - | (468,349) |
| Business-type Activities | | | | | | |
| Loan capital fund | 22,909,687 | 41,956,120 | - | - | 19,046,433 | 19,046,433 |
| Totals | $ 215,544,379 | $ 42,615,348 | $ 191,507,115 | | | |
| **Change in Net Assets** | | | | (468,349) | 19,046,433 | 18,578,084 |
| NET ASSETS - Beginning of Year | | | | 1,215,444 | 340,877,288 | 342,092,732 |
| **NET ASSETS - END OF YEAR** | | | | $ 747,095 | $ 359,923,721 | $ 360,670,816 |

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

| | General | Other Governmental Funds | Totals |
|---|---|---|---|
| ***ASSETS*** | | | |
| Cash and investments | $ 9,188,953 | $ 1,183,161 | $ 10,372,114 |
| Accounts receivable | 1,159,614 | 201,528 | 1,361,142 |
| Due from other governments | 252,118 | 614,624 | 866,742 |
| Due from other funds | - | 29,233 | 29,233 |
| **TOTAL ASSETS** | $ 10,600,685 | $ 2,028,546 | $ 12,629,231 |
| ***LIABILITIES AND FUND BALANCES*** | | | |
| Liabilities | | | |
| Accounts payable | $ 2,702,292 | $ 612,474 | $ 3,314,766 |
| Accrued liabilities | 119,566 | 91,355 | 210,921 |
| Due to other governments | - | 137,779 | 137,779 |
| Due to primary government - unspent appropriations | 7,778,827 | - | 7,778,827 |
| Due to other funds | - | 29,233 | 29,233 |
| Total Liabilities | 10,600,685 | 870,841 | 11,471,526 |
| Fund Balances | | | |
| Unreserved | - | 1,157,705 | 1,157,705 |
| Total Fund Balances | - | 1,157,705 | 1,157,705 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 10,600,685 | $ 2,028,546 | $ 12,629,231 |

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

| | | |
|---|---|---|
| Total fund balance - governmental funds | | $ 1,157,705 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Capital assets at year end consist of: | | |
| Capital assets | $ 60,847 | |
| Accumulated depreciation | (43,247) | 17,600 |
| Long-term liabilities are not due in the current period and therefore are not reported in the fund statements. Long-term liabilities at year end consist of compensated absences payable. | | (428,210) |
| **TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** | | $ 747,095 |

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, 2009

| | General | Other Governmental Funds | Totals |
|---|---|---|---|
| **REVENUES** | | | |
| State appropriations | $ 185,892,985 | $ - | $ 185,892,985 |
| Federal grants | - | 5,614,130 | 5,614,130 |
| Registration and licensing fees | - | 222,273 | 222,273 |
| Other revenue | - | 436,955 | 436,955 |
| Total Revenues | 185,892,985 | 6,273,358 | 192,166,343 |
| **EXPENDITURES** | | | |
| General government | 3,374,470 | 687,794 | 4,062,264 |
| State and other grants | 182,518,515 | - | 182,518,515 |
| Federal grants | - | 5,643,303 | 5,643,303 |
| Total Expenditures | 185,892,985 | 6,331,097 | 192,224,082 |
| Excess (deficiency) of revenues over expenditures | - | (57,739) | (57,739) |
| FUND BALANCE - Beginning of Year | - | 1,215,444 | 1,215,444 |
| **FUND BALANCE - END OF YEAR** | $ - | $ 1,157,705 | $ 1,157,705 |

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, 2009

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | (57,739) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements: | | |
| Some current expenditures in the fund statements are capitalized in the government-wide statements | | 21,880 |
| Depreciation is reported in the government-wide statements | | (4,280) |
| 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 | | (428,210) |
| **CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** | $ | (468,349) |

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2009

| | |
|---|---|
| **OPERATING REVENUES** | |
| Interest on student loans | $ 38,053,125 |
| **OPERATING EXPENSES** | |
| General and administrative | 7,552,597 |
| Provision for loans losses - net | 4,319,204 |
| Total Operating Expenses | 11,871,801 |
| Operating Income | 26,181,324 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Investment income | 3,902,995 |
| Interest expense | (10,917,882) |
| Amortization expense | (120,004) |
| Total Non-operating Revenues (Expenses) | (7,134,891) |
| **CHANGE IN NET ASSETS** | 19,046,433 |
| NET ASSETS - Beginning of Year | 340,877,288 |
| **NET ASSETS - END OF YEAR** | $ 359,923,721 |

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, 2009

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from loan holders | $ 132,963,358 |
| Cash paid for loan origination | (125,119,331) |
| Cash paid to employees and suppliers | (8,141,455) |
| Net Cash Flows From Operating Activities | (297,428) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchases of investments | (223,176,315) |
| Proceeds from maturity of investments | 223,149,521 |
| Interest received from investments | 3,831,421 |
| Net Cash Flows From Investing Activities | 3,804,627 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Proceeds from bonds | 100,000,000 |
| Bond issuance costs | (998,983) |
| Interest paid on bonds | (10,765,350) |
| Net Cash Flows From Noncapital Financing Activities | 88,235,667 |
| **Net Increase in Cash and Cash Equivalents** | 91,742,866 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 136,493,746 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 228,236,612 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS** | |
| Cash and Investments per Statement of Net Assets | $ 221,737,804 |
| Restricted Cash and Investments per Statement of Net Assets | 45,792,276 |
| Less: Non-cash Equivalents | (39,293,468) |
| **CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS** | $ 228,236,612 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Operating income | $ 26,181,324 |
| Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities | |
| Noncash items included in income | |
| Depreciation | 2,853 |
| Provision for loan loss | 10,557,122 |
| Write-off of loans | (8,819,170) |
| Decrease in fair value of investments | (89,923) |
| Origination of student loans | (125,119,331) |
| Principal payments on student loans | 95,857,465 |
| Changes in assets and liabilities | |
| Interest receivable | 813,150 |
| Other receivable and prepaid expenses | 275,252 |
| Accounts payable and accruals | 43,830 |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | $ (297,428) |

**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
June 30, 2009

## NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *A. Reporting Entity*

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

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

### *B. Government-Wide and Fund Financial Statements*

#### *Government-Wide Financial Statements*

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

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

#### *Fund Financial Statements*

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

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

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

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

***Fund Financial Statements*** (cont.)

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

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

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

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

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

General Fund – accounts for the agency's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, the General Fund is used to account for the funds received and disbursed for the State of Minnesota's financial aid programs.

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

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

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

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

Miscellaneous Grant Fund
Federal Grant Fund

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

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

#### *Government-Wide Financial Statements*

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

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

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

#### *Fund Financial Statements*

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

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

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

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

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

***Fund Financial Statements*** (cont.)

The agency may report deferred revenues on its governmental funds balance sheet. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the agency has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the agency has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

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

***All Financial Statements***

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

***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY***

***1. Deposits and Investments***

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

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

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

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

See Note III.A. for further information.

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

### 2. *Receivables*

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

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

### 3. *Prepaid Expenses*

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

### 4. *Restricted Assets*

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

### 5. *Capital Assets*

#### *Government-Wide Statements*

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

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

#### *Fund Financial Statements*

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

### 6. *Other Assets*

#### *Debt Issuance Costs*

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

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

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

### *7. Compensated Absences*

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

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

Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. All employees who have provided 5 to 20 years or more, depending on employment contract terms, of continuous State of Minnesota service are entitled to receive severance pay upon any separation, except discharge for just cause from service. Severance is calculated based upon a formula using an employee's unused sick leave balance.

All eligible employees accrue vacation at a rate that varies with length of service. Any employee who has been employed more than six months and who has separated from state of Minnesota service is compensated in cash at his or her current rate at the time of separation. However, no payment shall exceed 280 hours, except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2009 are determined on the basis of current salary rates.

### *8. Long-Term Obligations*

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

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

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

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

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

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

#### *9. Claims and Judgments*

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. 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.

#### *10. Equity Classifications*

***Government-Wide Statements***

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

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

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

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

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

***Fund Statements***

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance is that portion of fund balance that is not available for the subsequent year's budget due to legal restrictions or resources which are not available for current spending. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

## NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### *A. BUDGETARY INFORMATION*

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

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

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2008) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2009) of the biennium.

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

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

## NOTE III – DETAILED NOTES ON ALL FUNDS

### *A. DEPOSITS AND INVESTMENTS*

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

| | Carrying Value | Bank Balance | Associated Risks |
|---|---|---|---|
| Money market mutual fund investments | $ 109,245,296 | $ 108,952,862 | None |
| Commercial paper | 39,293,469 | 39,293,469 | Credit, custodial credit, concentration of credit, and interest rate risks |
| Cash held by State Treasury | 129,363,429 | 118,163,429 | N/A |
| Total Cash and Investments | $ 277,902,194 | $ 266,409,760 | |

| | |
|---|---|
| Reconciliation to financial statements | |
| Per statement of net assets | |
| Cash and investments | $ 232,109,918 |
| Restricted cash and investments | 45,792,276 |
| Total Cash and Investments | $ 277,902,194 |

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

***A. DEPOSITS AND INVESTMENTS*** (cont.)

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

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

The agency maintains collateral agreements with its banks. At June 30, 2009, the banks had pledged various government securities in the amount of $7,499,970 to secure the agency's deposits.

***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, 2009, the agency did not have any deposits exposed to custodial credit risk.

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

As of June 30, 2009, the agency did not have any 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, 2009, the agency's investment in commercial paper for FCAR Owner Trust and Metlife Short Term Fund was rated A-1+ and P-1 by Standard & Poor's and Moody's, respectively. The agency's investment in Bayerische Landesbk Giro and Dexia Dellaware LLC was rated A-1 and P-1 by Standard & Poor's and Moody's, respectively.

***Concentration of Credit Risk***

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

As of June 30, 2009, all of the agency's investments were in commercial paper and were concentrated as follows:

| | Percentage of Portfolio |
|---|---|
| Bayerische Landesbk Giro | 25.4% |
| Dexia Delaware LLC | 23.7% |
| FCAR Owner Trust | 25.5% |
| Metlife Short Term Fund | 25.4% |

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

*A.* ***DEPOSITS AND INVESTMENTS*** (cont.)

***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, 2009 the agency's investment of commercial paper had a fair value of $39,293,469 and a weighted average maturity of .33 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 | $ 1,411,732 | $ - | $ 1,411,732 | $ - |
| Loan Capital | 727,475,000 | 8,676,026 | 718,798,974 | 617,596,008 |
| Nonmajor Funds | 816,152 | - | 816,152 | - |

Loans receivable include amounts due within one year and amounts due in more than one year, based upon loan schedules with each student (loan holder). Approximately 14% of the balance is expected to be collected during fiscal year 2010.

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 3% as of June 30, 2009.

SELF III loans, offered for the first time in May of 2002, are made to students who meet the eligibility requirements set forth by the agency. The interest rate on the loans is equal to the London InterBank Offered Rate (LIBOR) plus a current margin of 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 4.7% as of June 30, 2009.

SELF IV loans, offered for the first time in July 2006, are made to students who meet the eligibility requirements set forth by the agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 4.7% as of June 30, 2009.

Repayment of interest for SELF loans begins 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or termination. The balance of SELF II, SELF III, and SELF IV loans at June 30, 2009 was $722,466,538.

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

*B. RECEIVABLES* (cont.)

GRIP loans were made to borrowers who met certain income and debt standards and had graduated with an eligible medical degree. The LCF makes the required monthly payments on the borrower's student loans, and the borrower makes monthly payments to the agency based on the average income for their medical profession. The borrower's loan payments increase annually in proportion to the growth of the average income for their profession. The interest rate on GRIP loans is fixed at 8%. The agency is no longer issuing GRIP loans to new participants. The balance at June 30, 2009 was $404,649.

An allowance for uncollectible SELF II, SELF III, and SELF IV loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the loan capital fund. For loans with loan periods beginning before July 1, 1989, an amount equal to 6.25% of the original loan balance was collected from the students. For loans with loan periods beginning on or after July 1, 1989, the loan capital fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.2% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. An allowance for uncollectible GRIP loans equal to 4% of the total outstanding loan balance is maintained as restricted cash in the loan capital fund. The restricted cash has been deposited with the Minnesota Management and Budget agency. Recoveries on defaulted SELF loans are credited to the loan capital as revenue in the year received.

The activity for the allowance for losses on all loan types for the year ended June 30, 2009 is as follows:

| | | |
|---|---|---|
| Beginning balance | $ | 6,938,074 |
| Provision for loan losses | | 10,557,122 |
| Write-off of loans | | (8,819,170) |
| Ending Balance | $ | 8,676,026 |

Recovery on defaulted loans of $6,237,918 for the year ended June 30, 2009 is recognized as a reduction in the provision for loan losses.

***Debt Issuance Costs***

SELF II, SELF III, and SELF IV loans are reported at the principal amount outstanding, plus the unamortized amount of costs incurred to originate the loans. The origination costs are amortized over the average life of the loans as a reduction of yield. Interest income is recognized at a constant rate over the life of the loans. The origination costs are being deferred and the net amount amortized using a method that approximates the effective interest method. Amortization of total deferred loan costs for the year ended June 30, 2009 was $491,446.

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

### *C. RESTRICTED ASSETS*

The following represent the balances of the restricted assets:

***Long Term Debt Accounts***

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

***Bad Debt Reserve Account***

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

Following is a list of restricted assets at June 30, 2009:

| | Restricted Assets |
|---|---|
| Acquisition account | $ 337,205 |
| Revenue account | 17,299,870 |
| Surplus account | 6,756,638 |
| Debt service reserve account | 12,554,693 |
| Redemption account | 8,084 |
| Student loan account | 159,760 |
| Bad debt reserve account | 8,676,026 |
| Total Restricted Assets | $ 45,792,276 |

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

### *D. CAPITAL ASSETS*

Capital asset activity for the year ended June 30, 2009 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital assets being depreciated | | | | |
| Equipment | $ 38,967 | $ 21,880 | $ - | $ 60,847 |
| Less: Accumulated depreciation for | | | | |
| Equipment | (38,967) | (4,280) | - | (43,247) |
| Capital Assets, Net of Depreciation | $ - | $ 17,600 | $ - | $ 17,600 |

$4,280 of depreciation expense was charged to the governmental activities function of state appropriations.

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| Loan Capital Fund | | | | |
| Capital assets being depreciated | | | | |
| Equipment | $ - | $ 14,586 | $ - | $ 14,586 |
| Less: Accumulated depreciation for | | | | |
| Equipment | - | (2,853) | - | (2,853) |
| Net Loan Capital Fund | $ - | $ 11,733 | $ - | $ 11,733 |

$2,853 of depreciation expense was charged to the loan capital fund.

### *E. INTERFUND RECEIVABLES/PAYABLES*

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

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Miscellaneous Grant Fund | Federal Grant Fund | $ 29,233 |
| Less: Fund eliminations | | (29,233) |
| Total – Government-Wide Statement of Net Assets | | $ - |

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

### *E. INTERFUND RECEIVABLES/PAYABLES* (cont.)

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 assets, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

### *F. LONG-TERM OBLIGATIONS*

Long-term obligations activity for the year ended June 30, 2009 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | |
| Other Liabilities | | | | | |
| Vested compensated absences | $ 407,407 | $ 20,803 | $ - | $ 428,210 | $ 35,928 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | |
| Bonds Payable | | | | | |
| Revenue bonds | $ 527,000,000 | $ 100,000,000 | $ - | $ 627,000,000 | $ - |
| Other Liabilities | | | | | |
| Vested compensated absences | 160,172 | 66,260 | - | 226,432 | 20,075 |
| Arbitrage liability | 1,538,070 | 735,387 | - | 2,273,457 | - |
| Total other liabilities | 1,698,242 | 801,647 | - | 2,499,889 | 20,075 |
| Total Business-type Activities Long-Term Liabilities | $ 528,698,242 | $ 100,801,647 | $ - | $ 629,499,889 | $ 20,075 |

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 $627,000,000.

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

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

*F. LONG-TERM OBLIGATIONS* (cont.)

| | Date of Issue | Final Maturity | 6-30-09 Interest Rates | Interest Rates Reset (days) | Original Indebted-ness | Balance 6-30-09 |
|---|---|---|---|---|---|---|
| Supplemental Student Loan Program Variable Rate Revenue Bonds | | | | | | |
| Series 1999A taxable revenue bonds | Nov 99 | Nov 34 | 1.311% | 7 | $61,200,000 | $ 61,200,000 |
| Series 2002A taxable revenue bonds | Jan 02 | Jan 37 | 1.311% | 7 | 68,200,000 | 68,200,000 |
| Series 2002B revenue bonds | Jan 02 | Jan 37 | .595% | 35 | 27,100,000 | 27,100,000 |
| Series 2003A taxable revenue bonds | Mar 03 | May 38 | 1.319% | 28 | 64,700,000 | 64,700,000 |
| Series 2003B revenue bonds | Mar 03 | May 38 | .595% | 35 | 10,300,000 | 10,300,000 |
| Series 2004A taxable revenue bonds | July 04 | May 39 | 1.321% | 28 | 67,000,000 | 67,000,000 |
| Series 2004B revenue bonds | July 04 | May 39 | .578% | 35 | 88,500,000 | 88,500,000 |
| Series 2005B revenue bonds | July 05 | May 40 | .595% | 35 | 70,000,000 | 70,000,000 |
| Series 2006 revenue bonds | Nov 06 | May 41 | .560% | 35 | 70,000,000 | 70,000,000 |
| Series 2008A taxable revenue bonds | Dec 08 | Dec 43 | .850% | 7 | 66,700,000 | 66,700,000 |
| Series 2008B revenue bonds | Dec 08 | Dec 43 | .380% | 7 | 33,300,000 | 33,300,000 |
| Total Business-type Activities Revenue Bonds | | | | | | $ 627,000,000 |

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2009 rates, are as follows:

| | Business-type Activities | | |
|---|---|---|---|
| Years Ending June 30 | Principal | Interest | Total |
| 2010 | $ - | $ 5,670,947 | $ 5,670,947 |
| 2011 | - | 5,670,947 | 5,670,947 |
| 2012 | - | 5,670,947 | 5,670,947 |
| 2013 | - | 5,670,947 | 5,670,947 |
| 2014 | - | 5,670,947 | 5,670,947 |
| 2015 - 2019 | - | 28,354,735 | 28,354,735 |
| 2020 - 2024 | - | 28,354,735 | 28,354,735 |
| 2025 - 2029 | - | 28,354,735 | 28,354,735 |
| 2030 - 2034 | - | 28,354,735 | 28,354,735 |
| 2035 - 2039 | 387,000,000 | 22,120,035 | 409,120,035 |
| 2040 - 2044 | 240,000,000 | 4,667,950 | 244,667,950 |
| Totals | $ 627,000,000 | $ 168,561,660 | $ 795,561,660 |

*F. LONG-TERM OBLIGATIONS* (cont.)

The interest rates on all of the bonds are reset periodically as shown in the detailed revenue debt schedule above. The rates on all of the bonds, except the taxable Series 2008A bonds and tax-exempt Series 2008B bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1%; 17%; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14%; or the three month average of the three-month T-Bill plus an applicable spread of 1.25%. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15% and 12%, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and no principal payments are required until 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 insurance coverage as additional collateral for the auction rate bonds. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B and 2006; 0.14% for Series 2003A and 2003B; and 0.125% for Series 2004A, 2004B, and 2005B of the outstanding principal amount per year. General and administrative expenses include insurance fees of $661,800 for the year ended June 30, 2009.

The agency maintains an irrevocable direct-pay letter of credit as additional collateral for the Series 2008A and Series 2008B bonds. The fee to maintain this letter of credit is 0.7% of the outstanding principal amount per year. In addition there is a remarketing fee of 0.1% of the outstanding principal amount per year. General and administrative expenses include letter of credit and remarketing fees of $437,128 for the year ended June 30, 2009. The letter of credit expires December 16, 2011 and has a provision to extend automatically for one year. After this the agency must request an extension 240 days prior to the expiration date.

For all bonds the agency is required to maintain a debt service account equal to 2% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $12,540,000 and the agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures. The agency believes it is in compliance with all significant limitations and restrictions.

All bond series are to be repaid solely from the money and investments held by the trustees. For all bonds, an early repayment provision exists. For the Series 2002B, 2003B, 2004B, 2005B, and 2006 tax-exempt bonds, the agency must give written notice to exercise its option to redeem bonds at least 45 days prior to the desired redemption date. The paying agent would notify the agency in writing of bonds selected for redemption and the principal amount to be redeemed. The agency would then be required to make satisfactory provision for deposit in the Redemption Fund for the principal and interest accrued. For the Series 1999A, 2002A, 2003A, and 2004A taxable bond issues, the agency must give written notice to the bond trustee and credit provider not less than 20 days but no greater than 65 days prior to redemption. For the Series 2008A and 2008B bonds, the agency must give written notice to exercise its option to redeem bonds not less than 15 days but no greater than 60 days prior to the redemption date.

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

### F. *LONG-TERM OBLIGATIONS* (cont.)

#### *Arbitrage Regulations*

The $299,200,000 of tax-exempt bonds issued by the agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2009, the agency accrued a liability of $2,273,457 resulting from the excess yield on interest rates.

#### *Other Debt Information*

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

### G. *NET ASSETS*

Certain net assets are classified in the statement of net assets as restricted because their use is limited. The business-type activities report restricted net assets for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2009, the business-type activities restricted net assets are restricted for debt service.

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

| | |
|---|---|
| Years Ending June 30, | |
| 2009 | $ 380,000,000 |
| 2010 | 400,000,000 |
| 2011 | 425,000,000 |
| 2012 | 450,000,000 |
| 2013 | 475,000,000 |
| 2014 | 500,000,000 |
| 2015 | 525,000,000 |
| 2016 | 550,000,000 |
| 2017 and thereafter | 575,000,000 |

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

## NOTE IV – OTHER INFORMATION

### *A. EMPLOYEES' RETIREMENT SYSTEM*

Employees of the agency meeting certain age and length of service requirements participate in the State Employees' Retirement Fund ("SERF") of the Minnesota State Retirement System ("MSRS"). The SERF requires contributions by both employers and employees. The agency's contribution to the SERF for the years ended June 30, 2009 and 2008, was $183,452 and $169,862, respectively. The total covered payroll of the agency for the years ended June 30, 2009 and 2008, was $3,703,515 and $3,680,341, respectively.

The SERF is a statewide plan that covers employees of the state of Minnesota, school districts, counties, cities, and other political subdivisions. The SERF is a multiple-employer, cost-sharing defined benefit plan administered by MSRS. Benefits are based on average salary and are fully vested after three years of credited service. Participants are required to contribute 4.50% of their total compensation with a matching the agency contribution of 4.50%. As of July 1, 2009, the required contribution and matching contribution increased to 4.75%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

The pension benefit obligation is a standardized measure of the actuarial present value of credited projected benefits. The measure is intended to help users assess the SERF's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The unfunded vested benefit liabilities of the SERF are not actuarially segregated by employer unit. As of June 30, 2008 (the most recent information available), the agency's contributions and employees represented less than 1% of all participating entity contributions and active plan participants in SERF.

The SERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan at:

Minnesota State Retirement System
Affinity Plus Building, Suite 300
175 West Lafayette Frontage Road
Saint Paul, Minnesota 55107-1425
(651) 296-2761

As of June 30, 2008, the SERF had a projected benefit obligation of $9,013,456,000, unfunded liabilities of $981,146,000, and net assets available for benefits, at fair value, of $9,994,602,000. As of June 30, 2007, the SERF had a projected benefit obligation of $8,904,517,000, unfunded liabilities of $722,788,000, and net assets available for benefits, at fair value, of $9,627,305,000. Ten-year historical trend information showing the SERF's progress in accumulating sufficient assets to pay benefits when due is presented in the SERF's June 30, 2008, Comprehensive Annual Financial Report.

## NOTE IV – OTHER INFORMATION (cont.)

### *B. RISK MANAGEMENT*

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

### *C. COMMITMENTS AND CONTINGENCIES*

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

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

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

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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The agency has not yet determined the impact of these new GASB statements.

# REQUIRED SUPPLEMENTARY INFORMATION

# MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2009

| | Budgeted Amounts | | | Variance With Final |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| **REVENUES** | | | | |
| General Administration | $ 2,771,000 | $ 2,619,647 | $ 2,533,982 | $ (85,665) |
| Safety Office Survivors | 100,000 | 152,137 | 56,595 | (95,542) |
| MN College Savings Program | 1,020,000 | 27,406 | 14,696 | (12,710) |
| Child Care Grant Program | 6,184,000 | 6,184,241 | 6,167,528 | (16,713) |
| Learning Network of MN | 4,800,000 | 4,800,000 | 4,800,000 | - |
| Minitex Library | 5,631,000 | 5,631,000 | 5,631,000 | - |
| State Grant Program | 143,738,000 | 143,848,043 | 142,202,328 | (1,645,715) |
| State Work Study | 12,444,000 | 12,490,802 | 12,464,887 | (25,915) |
| Interstate Reciprocity | 2,000,000 | 3,468,197 | 3,468,197 | - |
| Achieve Scholarship Program | 7,000,000 | 8,642,570 | 3,641,721 | (5,000,849) |
| MN Link Gateway | 400,000 | 403,000 | 401,000 | (2,000) |
| Midwest Compact | 90,000 | 90,000 | 90,000 | - |
| Other Small Programs | 309,000 | 319,048 | 326,210 | 7,162 |
| United Family Practice | 431,000 | 431,000 | 431,000 | - |
| State Grant Rewrite | - | - | 4,123 | 4,123 |
| Rochester Committee | 75,000 | 84,748 | 84,615 | (133) |
| MN GI Bill Program | - | 1,388,515 | 700,063 | (688,452) |
| Intervention College Attendance | 496,000 | 575,989 | 480,243 | (95,746) |
| American Indian Scholarship | 1,875,000 | 1,883,944 | 1,872,590 | (11,354) |
| Grants to Increase Service Learning | 240,000 | 300,949 | 272,207 | (28,742) |
| Teach Program | 250,000 | 250,000 | 250,000 | - |
| CIS to University of MN | 200,000 | - | - | - |
| CIS to MNSCU | 200,000 | - | - | - |
| Total Revenues | 190,254,000 | 193,591,236 | 185,892,985 | (7,698,251) |
| **EXPENDITURES** | | | | |
| General Administration | 2,645,848 | 2,587,764 | 2,533,985 | 53,779 |
| Safety Office Survivors | 100,000 | 56,594 | 56,594 | - |
| MN College Savings Program | - | 14,695 | 14,695 | - |
| Child Care Grant Program | 6,184,000 | 6,167,528 | 6,167,528 | - |
| Learning Network of MN | 4,800,000 | 4,800,000 | 4,800,000 | - |
| Minitex Library | 5,631,000 | 5,631,000 | 5,631,000 | - |
| State Grant Program | 143,738,000 | 142,238,832 | 142,202,328 | 36,504 |
| State Work Study | 12,444,000 | 12,464,887 | 12,464,887 | - |
| Interstate Reciprocity | 1,750,000 | 3,468,197 | 3,468,197 | - |
| Achieve Scholarship Program | 7,000,000 | 3,762,939 | 3,641,721 | 121,218 |
| MN Link Gateway | 400,000 | 403,000 | 401,000 | 2,000 |
| Midwest Compact | 90,000 | 90,000 | 90,000 | - |
| Other Small Programs | 309,000 | 318,733 | 326,210 | (7,477) |
| United Family Practice | 431,000 | 431,000 | 431,000 | - |
| State Grant Rewrite | - | - | 4,123 | (4,123) |
| Rochester Committee | 75,000 | 84,615 | 84,615 | - |
| MN GI Bill Program | 1,000,000 | 704,030 | 700,064 | 3,966 |
| Intervention College Attendance | 496,000 | 534,125 | 480,242 | 53,883 |
| American Indian Scholarship | 1,875,000 | 1,872,589 | 1,872,589 | - |
| Grants to Increase Service Learning | 240,000 | 290,040 | 272,207 | 17,833 |
| Teach Program | 250,000 | 250,000 | 250,000 | - |
| Total Expenditures | 189,458,848 | 186,170,568 | 185,892,985 | 277,583 |
| **NET CHANGE IN FUND BALANCE** | $ 795,152 | $ 7,420,668 | $ - | $ (7,975,834) |

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

### *Budgetary Information*

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

# SUPPLEMENTARY INFORMATION

## MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

| | Miscellaneous Grant Fund | Federal Grant Fund | Totals |
|---|---|---|---|
| ***ASSETS*** | | | |
| Cash and investments | $ 1,183,161 | $ - | $ 1,183,161 |
| Accounts receivable | 86,393 | 115,135 | 201,528 |
| Due from other governments | 3,523 | 611,101 | 614,624 |
| Due from other funds | 29,233 | - | 29,233 |
| **TOTAL ASSETS** | $ 1,302,310 | $ 726,236 | $ 2,028,546 |
| ***LIABILITIES AND FUND BALANCES*** | | | |
| Liabilities | | | |
| Accounts payable | $ 76,463 | $ 536,011 | $ 612,474 |
| Accrued liabilities | 17,911 | 73,444 | 91,355 |
| Due to other governments | - | 137,779 | 137,779 |
| Due to other funds | - | 29,233 | 29,233 |
| Total Liabilities | 94,374 | 776,467 | 870,841 |
| Fund Balances | | | |
| Unreserved (deficit) | 1,207,936 | (50,231) | 1,157,705 |
| Total Fund Balances | 1,207,936 | (50,231) | 1,157,705 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 1,302,310 | $ 726,236 | $ 2,028,546 |

## MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

| | Miscellaneous Grant Fund | Federal Grant Fund | Totals |
|---|---|---|---|
| **REVENUES** | | | |
| Federal grants | $ - | $ 5,614,130 | $ 5,614,130 |
| Registration and licensing fees | 222,273 | - | 222,273 |
| Other revenue | 436,955 | - | 436,955 |
| Total Revenues | 659,228 | 5,614,130 | 6,273,358 |
| **EXPENDITURES** | | | |
| General government | 687,794 | - | 687,794 |
| Federal grants | - | 5,643,303 | 5,643,303 |
| Total Expenditures | 687,794 | 5,643,303 | 6,331,097 |
| Excess (deficiency) of revenues over expenditures | (28,566) | (29,173) | (57,739) |
| FUND BALANCE (DEFICIT)- Beginning of Year | 1,236,502 | (21,058) | 1,215,444 |
| **FUND BALANCE (DEFICIT) - END OF YEAR** | $ 1,207,936 | $ (50,231) | $ 1,157,705 |

## APPENDIX B

## DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE

The following are brief descriptions of certain provisions of the General Indenture and the First Supplemental Indenture and the definitions of certain terms used therein and herein. Such descriptions do not purport to be comprehensive or definitive. All references herein to the General Indenture or the First Supplemental Indenture are qualified in their entirety by reference to the definitive forms of such documents, copies of which are available for review, at the offices of the Underwriter, and, after issuance, at the office of the Trustee.

## CERTAIN DEFINITIONS

"Accountant" means any independent certified public accountant as may be selected by the Issuer.

"Acquisition Fund" means the fund by that name created under the General Indenture.

"Act" means Minnesota Statutes, Sections 136A.15 through 136A.1787, as amended.

"Authenticating Agent" means the Trustee or any other Indenture Agent as may be authorized pursuant to a Supplemental Indenture to perform the acts required of such agent in conformance with the provisions of the General Indenture and the related Supplemental Indenture.

"Authorized Denominations" means, with respect to the Series 2010 Bonds, $5,000 and any integral multiple thereof.

"Authorized Representative" means the Director of the Issuer, or any other person designated by the Director of the Issuer to act as the authorized representative of the Issuer.

"Bailment Agreement" means the Bailment Agreement, dated as of December 1, 2010, among the Issuer, the Trustee, and the Servicer.

"Beneficial Owner" means, when a Series of Bonds is registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond of that Series held by the Securities Depository.

"Bond" means one of the bonds authenticated and delivered pursuant to the General Indenture, including any additional or refunding Bonds issued pursuant to Article II of the General Indenture.

"Bond Counsel" means the firm of Best & Flanagan LLP of Minneapolis, Minnesota, or any other firm of attorneys designated by the Issuer and duly admitted to practice law before the highest court of any state and nationally recognized in the field of municipal finance.

"Bond Payment Date" means the date or dates specified in any Supplemental Indenture for payment of principal of or interest on the Bonds, and, in the case of the Series 2010 Bonds, means each May 1 and November 1, commencing May 1, 2011.

"Bond Purchase Agreement" with respect to a Series of Bonds, means the agreement entered into between the Issuer and the Underwriters relating to the underwriting and purchase of the Bonds of such Series by the Underwriters.

"Bond Year" means the period established in each Supplemental Indenture for a Series of Bonds. With respect to the Series 2010 Bonds, "Bond Year" means (a) the period from the Date of Issuance to October 31, 2011 and (b) each succeeding 12-month period commencing on November 1 of each year the Series 2010 Bonds are outstanding.

"Bondholder," when used with reference to a Bond, means the Owner of such Bond.

“Book-Entry Form” or “Book-Entry System” shall mean a form or system under which (i) the beneficial right to principal and interest may be transferred only through a book entry, (ii) physical securities in registered form are issued only to a Securities Depository or its nominee as registered holder, with the securities “immobilized” to the custody of the Securities Depository, and (iii) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

“Borrower Benefits” means a reduction in the interest rate on Student Loans contemplated in the Cash Flow Projection delivered to the Trustee on the Closing Date.

“Business Day,” when used with reference to the General Indenture, means any day other than a Saturday, Sunday or legal holiday on which banks in the State of New York or the State of Minnesota are authorized to close or are closed or rendered inoperable due to natural disaster, or on which the New York Stock Exchange is closed, as applicable and, when used with reference to the First Supplemental Indenture, means any day on which banks located in the city in which the Principal Office of the Trustee is located are generally open for business.

“Capitalized Interest Fund” means the fund by that name created under the General Indenture.

“Capitalized Interest Fund Determination Date” means a Monthly Payment Date in November 2011, and November 2012.

“Capitalized Interest Fund Requirement” means $2,480,000 for the Monthly Payment Date in November, 2011, and $0 for the Monthly Payment Date in November, 2012.

“Cash Flow Projection” means a projection as to future Revenues through the final maturity of the Outstanding Bonds based upon existing facts and assumptions accepted by each Rating Agency; provided that, to the extent that the Issuer has not received new assumptions with respect to a given Cash Flow Projection, such Cash Flow Projection shall be based, where appropriate, upon the assumptions used in connection with the most recent Cash Flow Projection furnished to the Rating Agencies.

“Certificate” means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Indenture, or (ii) the report of an Accountant or Authorized Representative as to audits or other procedures called for by the General Indenture, as the case may be.

“Closing Date” means the date of issuance of the Series 2010 Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and court decisions promulgated thereunder and pertaining thereto. Such regulations shall also include any successor provision to any existing regulations thereafter promulgated by the Internal Revenue Service pursuant to Section 103 and Sections 141 through 150 of the Code applicable to the Series 2010 Bonds.

“Computation Date” means, with respect to each Series of Tax-Exempt Bonds, a date as of which Rebate Amount is calculated, which shall be no later than the end of the fifth Bond Year after the Issue Date for a Series of Bonds and the end day of each fifth Bond Year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“Cosigner” means an individual who has entered into an agreement with the Issuer to guarantee a student loan. The Cosigner must be creditworthy, at least 24 years old or, if a sibling of the borrower, be at least 18 years old and must reside in the United States.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Issuer and related to the authorization, sale and issuance of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, any premiums, underwriting fees, initial fees and charges of any Indenture Agent, legal fees, including bond counsel fees and expenses and underwriter's counsel fees and charges (if charged to the Issuer), Trustee’s counsel fees and expenses, fees and disbursements of consultants and professionals, Issuer staff travel and expenses related to an issue of Bonds, cost of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

"Creditworthy Cosigner" means a Cosigner who has (i) no account balances discharged through bankruptcy, (ii) no garnishments, attachments, foreclosure, repossession, or suit, (iii) no more than $300 combined total in unsatisfied credit or unsatisfied payment obligations, and (iv) no more than 5% of total credit bureau balances past due, unless the amount past due is $300 or less.

"Cumulative Sinking Fund Term Bonds" means Term Bonds for which any insufficiency with respect to a Sinking Fund Payment accrues and is added to the next scheduled Sinking Fund Payment or the amount payable on the Stated Maturity, as the case may be, in accordance with the applicable Supplemental Indenture.

"Debt Service" means, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of (i) all interest payable on such Bonds during such Fiscal Year, plus (ii) any Principal Installments of such Bonds during such Fiscal Year, plus (iii) any additional applicable premium payable on such Bonds during such Fiscal Year.

"Debt Service Reserve Fund" means the fund created by that name under the General Indenture.

"Debt Service Reserve Requirement" means, as of any date of calculation, the maximum amount of Debt Service scheduled to be due in respect of Bonds then Outstanding during the then-current or any future Fiscal Year.

"Default Claim" means a default claim filed by the Servicer with the Issuer under the Servicing Agreement.

"Defaulted Interest" means any interest due on Outstanding Bonds on an Interest Payment Date that is not paid or duly provided for on such Interest Payment Date.

"Defaulted Student Loan" means, as of any date of determination, any Student Loan with respect to which (a) a Default Claim has been filed or, (b) any installment of principal or interest was not paid when due (as determined under the related Student Loan without regard to any waiver or forbearance granted by the Issuer or the Servicer) and has remained unpaid for a period of 165 days.

"Depository" means any commercial bank or trust company or national banking association or state banking corporation having trust powers selected by the Issuer or the Trustee as a depository of moneys or securities held under the provisions of this Indenture and may include the Trustee or any Paying Agent.

"DTC" means The Depository Trust Company, a New York corporation, its successors and assigns.

"Eligible Institution" means a postsecondary educational institution that meets the criteria of Minnesota Statutes, Section 136A.103 and Section 136A.155, as amended. All Eligible Institutions are required to have their chief executive officer sign a SELF Participation Agreement with the Issuer agreeing to perform certain administrative procedures.

"Event of Default" means any of the events described as such under "SUMMARIES OF DOCUMENTS – The General Indenture – Defaults and Remedies – Events of Default " herein

"Event Notice" has the meaning ascribed thereto in the definition of Rating Agency Notification.

"Excess Coverage" means, as of any date of calculation the amount by which (1) the sum of the Value of (a) the Student Loans credited to the Student Loan Fund, and (b) all cash and Investment Securities held in the Funds and Accounts (excluding the Rebate Fund and the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds as described under "SUMMARIES OF DOCUMENTS – The General Indenture – Defeasance; Miscellaneous – Defeasance" herein) shall exceed (2) 121% percent (or such lesser percentage as shall meet the requirements of a Rating Agency Notification) of the sum of (a) the principal and accrued interest on all Outstanding Bonds, plus (b) all accrued but unpaid Program Expenses as evidenced in a Certificate of an Authorized Representative to the Trustee.

"Excess Interest" means, as of the date of computation, the smallest amount that, if treated as a payment for the Student Loans (i.e., taken into account in calculating yield) paid on that date, would reduce the yield on the Student Loans financed by a Series of Tax-Exempt Bonds to a yield that is not higher than the yield on the Bonds plus the Permitted Spread. For purposes of this definition only, yield on the Bonds of any Series and yield on the Student Loans financed by any Series of Bonds shall be calculated in accordance with Treas. Reg. §1.148-4 and 1.148-5, respectively, or such other applicable regulations under the Code.

"Excess Interest Calculation Date" means, with respect to each Series of Tax-Exempt Bonds, a date as of which Excess Interest is calculated, which shall be no later than ten years after the Issue Date for a Series of Bonds and on the same day of each fifth year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

"Excess Interest Fund" means the fund, if any, by that name created in accordance with the General Indenture.

"Excess Revenues" means as of the second-to-last Business Day of the second month preceding each Interest Payment Date occurring on or after the end of the Recycling Period, any funds remaining in the Revenue Fund and the Surplus Fund, after taking into account amounts necessary to (a) if such Interest Payment Date is also a Principal Payment Date, pay the principal and interest due and payable on the Bonds on such Interest Payment Date, (b) if such Interest Payment Date is other than a Principal Payment Date, pay the interest due and payable on the Bonds on such Interest Payment Date and one-half of the principal due and payable on the next succeeding Principal Payment Date, and (c) make all other payments or transfers required to be made from the Revenue Fund pursuant to clauses (1) through (5) of paragraph (b) under "SUMMARIES OF DOCUMENTS – The General Indenture – Pledge of Indenture; Establishment of Funds and Accounts – Revenue Fund" herein (determined without respect to any special redemption of Bonds from Excess Revenues pursuant to the applicable Supplemental Indenture) and from the Surplus Fund pursuant to clauses (a) and (b) under "SUMMARIES OF DOCUMENTS – The General Indenture – Pledge of Indenture; Establishment of Funds and Accounts – Surplus Fund" herein, on or prior to such Interest Payment Date.

"Favorable Opinion" means an Opinion of Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the General Indenture and any applicable Supplemental Indenture and (except with respect to Federally Taxable Bonds) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which are the subject of such opinion.

"Federally Taxable Bonds" means Bonds so designated by the Supplemental Indenture pursuant to which they are issued, the interest on which is not intended to be excludable from gross income for federal income tax purposes.

"First Supplemental Indenture" means the First Supplemental Indenture, dated as of December 1, 2010, between the Issuer and the Trustee, as amended.

"Fiscal Year" means a twelve-month period commencing on the 1st day of July of any year, or such other twelve-month period adopted by the Issuer as its fiscal year for accounting purposes.

"Fitch" means Fitch Inc., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Issuer Order, with written notice thereof to Trustee.

"Funds" means any of the funds created and established pursuant to the General Indenture, including the Funds and Accounts, the Rebate Fund and the Excess Interest Fund.

"Funds and Accounts" means the Revenue Fund, the Acquisition Fund, the Surplus Fund, the Student Loan Fund, the Redemption Fund, the Capitalized Interest Fund, and the Debt Service Reserve Fund created pursuant to the General Indenture.

"GAAP" means the generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"General Indenture" means the General Indenture by and between the Trustee and the Issuer, dated as of December 1, 2010, as amended and supplemented from time to time.

"Governmental Obligations" means direct obligations of the United States and other obligations, the principal and interest of which are guaranteed by the United States as to full and timely payment.

"Grade Level" means the relative status of an eligible student in a degree or certificate granting program and usually corresponds to an academic year. For example, an eligible student in the second year of a four-year program would be in Grade Level 2.

"Gross Proceeds," when used with respect to a Series of the Tax-Exempt Bonds means "gross proceeds" of the Series within the meaning of Treas. Reg. 1.148-1(b).

"Indenture" means the General Indenture and any Supplemental Indentures and any amendments thereto made in accordance with their respective terms.

"Indenture Agent" means the Trustee, the Registrar, the Authenticating Agent, any Depository, any Paying Agent, and any such additional agent as may be authorized pursuant to a Supplemental Indenture.

"Interest Payment Date" means each regularly scheduled interest payment date with respect to the Bonds (which shall be each May 1 and November 1) or, with respect to the payment of interest upon redemption or acceleration of a Bond or the payment of Defaulted Interest, such date on which such interest is payable pursuant to this Indenture.

"Investment Securities" means (to the extent permitted by State law for the investment of funds of the Issuer) the following categories of securities, which may be further restricted by the terms of any Supplemental Indenture:

(a) Government Obligations. Such obligations shall be valued (i) in the absence of a dispute or disagreement by utilizing the market values provided to the Trustee's mainframe trust accounting system by recognized independent financial services (currently Interactive Data System, Inc.) and (ii) in the event of a dispute or disagreement at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations shall be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Issuer);

(b) Federal Housing Administration debentures;

(c) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America but which are rated in the top four quality categories by a nationally recognized rating agency:

(i) Farm Credit Systems (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated systemwide bonds and notes:

(ii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;

(iii) Financing Corp. (FICO) debt obligations; and

(iv) Resolution Funding Corp. (REFCORP) debt obligations;

(d) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depositary institution, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such depository institution has senior debt rated "AA-" by Fitch and "AA" by S&P and, if commercial paper is outstanding, commercial paper which is rated "F-1+" by Fitch and "A-1+"

by S&P. Such deposits and certificates of deposit shall be valued at par less any withdrawal penalties;

(e) bonds, notes or other evidences of indebtedness rated "AAA" by S&P and "AAA" by Fitch issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(f) U.S. dollar-denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1+" by S&P and "F1+" by Fitch and maturing no more than 365 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(g) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "F1+" by Fitch and which matures not more than 270 days after the date of purchase;

(h) money market funds having a rating from each nationally recognized securities rating agency rating such fund in the highest investment category granted by such nationally recognized securities rating agency applicable to money market funds, including for which fund the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or subcustodian, notwithstanding that the Trustee charges and collects fees and expenses from such funds for services rendered;

(i) guaranteed investment contracts issued by insurance companies or banks rated in the top two quality categories by a nationally recognized rating agency or alternative guaranteed investment contracts where the underlying assets comply with the requirements of Minnesota Statutes, Section 11A.24, provided that, unless such investment is entered into in conjunction with the issuance of a Series of Bonds, the requirements of a Rating Agency Notification have been satisfied with respect to such investment; or

(j) other forms of investment provided that, unless such investment is entered into in conjunction with the issuance of a Series of Bonds, the requirements of a Rating Agency Notification have been satisfied with respect to such investment.

"Investments" has the meaning stated in Treas. Reg. § 1.148-1(b) and includes: (a) any security within the meaning of Code Section 165(g) (2) (A) or (B), (b) any obligation, including United States Treasury bonds, notes, and bills and bank deposits, whether or not certificated or interest bearing, but, except as otherwise provided in Section 148(b) (3) (B) of the Code, excluding obligations the interest on which is, in the Opinion of Bond Counsel, excludable from the gross income of any owner thereof under the Code or the Internal Revenue Code of 1954, as amended to the date of issuance of such obligation, (c) any annuity contract, or any other deferred payment contract acquired to fund an obligation of the issuer, or (d) any other investment-type property.

"Issue Date" means the date a Series of Bonds is delivered to the initial purchasers in exchange for the purchase price of the Series of Bonds, and, with respect to the Series 2010 Bonds, means December 9, 2010.

"Issuer" means the Minnesota Office of Higher Education or any body, agency or instrumentality which shall hereafter succeed to the powers, duties and functions thereof.

"Issuer Order" means a written order of the Issuer executed by an Authorized Representative, requiring action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture.

"Loan Capital Fund" means the Loan Capital Fund of the Issuer established in accordance with Minnesota Statutes, Section 136A.1785.

"Loan Origination Period" means the period beginning on the Closing Date and ending on November 1, 2012; provided that (i) for purposes of (a) the redemption of Series 2010 Bonds as described under "THE SERIES 2010 BONDS – Redemption Provisions – Mandatory Redemption Resulting from Non-Origination" in the body of this Official Statement and (b) the provisions of paragraph (b) under "SUMMARIES OF DOCUMENTS – The First

Supplemental Indenture – Deposits into Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2010 Bonds; and Use and Disbursements of Funds – Deposits into Funds and Accounts on the Issue Date" herein, this period ends on January 31, 2013 with respect to Student Loans partially, but not fully, disbursed prior to November 1, 2012, and (ii) this period may be further extended thereafter upon satisfaction of the requirements of a Rating Agency Notification with respect to such extension.

"Maturity" when used with respect to the Series 2010 Bonds, means the date on which the principal thereof becomes due and payable as provided in the General Indenture or the First Supplemental Indenture, whether at its Stated Maturity, maturity by earlier redemption, or by declaration of acceleration.

"Monthly Payment Date" means the fifteenth day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day.

"Monthly Period" means, with respect to a Monthly Payment Date, the period commencing on such Monthly Payment Date and ending on the last day preceding the next succeeding Monthly Payment Date.

"Moody's" means Moody's Investors Service, its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Issuer Order, with written notice thereof to the Trustee.

"Nonpurpose Investments" has the meaning stated in Treas. Reg. §1.148-1(b) and includes any Investment that is not a Student Loan.

"Notice Parties" means the Issuer, each Rating Agency, and the Trustee.

"Opinion of Bond Counsel" means a written opinion from an attorney or firm of attorneys of recognized standing with respect to the tax status of obligations of municipal, state and public agencies, selected by the Issuer.

"Opinion of Counsel" means a written opinion of an attorney at law or firm of attorneys selected by the Person obliged to deliver an opinion on the subject in question, reasonably acceptable to the Person who is to receive the same, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Original Principal Balance" when used with respect to a Student Loan means the principal balance of such Student Loan as of the date or (in the case of a Student Loan that was Originated in more than one disbursement) dates it was Originated or refinanced under the Indenture.

"Originate" or "Origination" means, with respect to a Student Loan, the disbursement of the proceeds of such Student Loan to the borrower. If a Student Loan is to be made in two or more disbursements, each such disbursement shall constitute an Origination of such Student Loan.

"Outstanding" when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except: (a) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date; (b) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the General Indenture; and (c) any Bond paid or deemed to have been paid as provided in Subsection (b) under "SUMMARIES OF DOCUMENTS – The General Indenture – Defeasance; Miscellaneous – Defeasance" herein.

"Owner" or "owner" or words of similar import, when used with reference to a Bond, means the Person who is the registered owner of such Bond as shown on the registration books maintained by the Registrar.

"Parity Ratio" means as of any date of calculation, the ratio of (a) the sum of the Value of (1) all Student Loans, plus (2) all cash and Investment Securities in the Funds and Accounts under the Indenture (excluding the Rebate Fund and the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds as provided under "SUMMARIES OF DOCUMENTS – The General Indenture – Defeasance; Miscellaneous – Defeasance" herein), to (b) the sum of (1) the principal of and accrued interest on all Outstanding Bonds, plus (2) all accrued but unpaid fees and expenses of each Servicer and Indenture Agent, together with any required late fees or interest thereon.

"Participant" means those broker-dealers, banks and other financial institutions for which DTC from time to time holds a Series of Bonds as Securities Depository.

"Paying Agent" means the Trustee or any other commercial bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the General Indenture.

"Permitted Spread" means the difference between the Yield on the Bonds of a Series and the Student Loans financed with proceeds of the Series as may be required or permitted under the Code.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof.

"Potential Special Optional Excess Revenues Redemption Date" means each Interest Payment Date (a) which occurs during the Recycling Period, or (b) on which the Parity Ratio exceeds 121%.

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would have been retired by such future date by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable before such certain future date, plus (ii) any Sinking Fund Payments due on such certain future date, plus (iii) the principal component of the Redemption Price of the Bonds then having been called for redemption on such certain future date.

"Principal Payment Date" means, with reference to any Series or portion of a Series of Bonds, the date upon which a Principal Installment or Sinking Fund Payment on such Bonds becomes payable.

"Program Expenses" means (i) the fees and expenses of each Indenture Agent under the Indenture, including any required late fees or interest thereon, (ii) the fees of the Servicer under the Servicing Agreement, including any required late fees or interest thereon, and (iii) expenses incurred for the Issuer's maintenance and operation of its Student Loan Program as a direct consequence of the Indenture, the Bonds or the Student Loans acquired by the Issuer under the Indenture; including the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation.

"Rating Agency" means Moody's, Fitch, S&P and any other nationally recognized securities rating agency to the extent Moody's, Fitch, S&P or any such other agency has issued and continues to maintain a rating on the Bonds at the time in question, at the request of the Issuer. All Bonds issued under the Indenture do not need to be rated by the same rating agency or agencies.

"Rating Agency Notification" means with respect to Fitch, that such Rating Agency shall have been given notice (the "Event Notice") of a proposed action, failure to act, or other event specified in the notice at least 10 days prior to the occurrence of such event and Fitch shall not have issued any written notice during such 10-day period that the occurrence of such event will cause Fitch to downgrade any of its ratings then applicable to the Bonds or cause Fitch to suspend, withdraw or qualify its ratings then applicable to the Bonds; provided that such 10-day period shall be extended by up to 20 days if the Issuer has received notice that the proposed action, failure to act, or other event specified in the Event Notice is under review by Fitch and Fitch cannot complete its review during the 10-day period (and the Issuer will give prompt written notice to the Trustee of any such notice of review received by it). Such inaction by Fitch cannot be viewed as an approval of the requested action of the Issuer by Fitch.

"Rebate Amount" means as of any Computation Date, the "rebate amount" with respect to a Series of Tax-Exempt Bonds, determined in accordance with Treas. Reg. §1.148-3.

"Rebate Fund" means the fund, if any, by that name created in accordance with the General Indenture.

"Record Date" means the fifteenth ($15^{th}$) day of the month preceding an Interest Payment Date with respect to the Series 2010 Bonds.

"Recycling Period" means, with respect to the Series 2010 Bonds, the period beginning on the Issue Date and ending on November 1, 2012; provided that (i) this period ends on January 31, 2013 with respect to Student Loans partially, but not fully, disbursed from moneys are on deposit in the Series 2010 Account of the Surplus Fund prior to November 1, 2012, (ii) this period may be extended thereafter upon satisfaction of the requirements of a Rating Agency Notification with respect to such extension; and (iii) with respect to any period extended pursuant to clause (ii), if, as of the last day of such period, any moneys are on deposit in the Series 2010 Account of the Surplus Fund that are scheduled to be used to make the final disbursement on or refinance Student Loans within 15 days thereafter, this period shall be extended by an additional 15 days with respect to such moneys.

"Redemption Dates" means the date upon which Bonds are to be called for redemption pursuant to the General Indenture.

"Redemption Fund" means, with respect to the General Indenture, the fund by that name created under the General Indenture.

"Redemption Price" means, with respect to any Series 2010 Bond, the principal amount thereof, and when used with respect to a Series 2010 Premium Bond, includes any Unamortized Premium payable upon the redemption of such Bond as set forth under "THE SERIES 2010 BONDS – Redemption Provisions – Optional Redemption" and "– Mandatory Redemption Resulting from Non-Origination" in the body of this Official Statement, as applicable.

"Registrar" means the Trustee, the Authenticating Agent or any other agent of the Issuer at the office of which Bonds may be presented for registration, transfer, or exchange as provided in the General Indenture.

"Revenue Fund" means the fund by that name created under the General Indenture.

"Revenues" means all payments, proceeds, charges and other income received by or on behalf of the Issuer from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest and principal received by or on behalf of the Issuer with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts.

"S&P" shall mean Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Authorized Representative, with written notice to the Trustee.

"Securities Depository" means The Depository Trust Company, New York, New York, and its successors and assigns, or (a) if the then Securities Depository resigns from its functions as depository of the Bonds, or (b) if the Issuer discontinues use of the Securities Depository, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Issuer with the consent of the Trustee.

"Serial Bonds" means the Series 2010 Bonds maturing on the Serial Stated Maturities, as determined pursuant to the First Supplemental Indenture.

"Serial Payments" means the payments to be made in payment of the principal of the Serial Bonds on the Serial Stated Maturities.

"Serial Stated Maturities" means the dates on which the Serial Bonds mature, as determined pursuant to the First Supplemental Indenture.

"Series" means all of the Bonds authenticated and delivered upon original issuance in a simultaneous transaction, pursuant to the same Supplemental Indenture and designated as a Series in such Supplemental Indenture regardless of variations in maturity, interest rate, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the General Indenture.

"Series 2010 Bonds" means the series of Bonds authorized by the First Supplemental Indenture and titled "Supplemental Student Loan Program Revenue Bonds, 2010 Series."

"Series 2010 Financed Student Loan" means a Student Loan Originated or refinanced with monies from the Series 2010 Account of the Acquisition Fund or Surplus Fund.

"Series 2010 Premium Bonds" shall have the meaning ascribed in the First Supplemental Indenture.

"Servicer" means Firstmark Services LLC, whose principal office is located at 121 S. 13th Street, Suite 201, Lincoln, Nebraska 68508, and its successors and assigns, and any successor or additional Servicer appointed by the Issuer and for which the requirements of a Rating Agency Notification have been satisfied.

"Servicing Agreement" means each Servicing Agreement as amended from time to time, among the Issuer and the Servicer under which such Servicer has agreed to service Student Loans.

"Sinking Fund Payment" means, as of any particular date of calculation, the amount required to be paid by the Issuer on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Issuer by reason of the maturity of a Bond or by call for redemption at the election of the Issuer.

"Sinking Fund Payment Date" means, with reference to a Sinking Fund Payment, the date on which such Sinking Fund Payment becomes payable

"Special Record Date" has the meaning set forth in the First Supplemental Indenture.

"State" means the State of Minnesota.

"State Debt Service Reserve Fund Payment" means a payment received by or on behalf of the Issuer from the State, pursuant to Section 136A.1787 of the Act, to replenish the Debt Service Reserve Fund.

"State Shortfall Payment" means a payment received by or on behalf of the Issuer from the State, pursuant to Section 136A.1787 of the Act, with respect to an expected shortfall in the moneys available to pay principal and interest on the Bonds when due and payable.

"Stated Maturity" means a Serial Stated Maturity or a Term Stated Maturity, as applicable.

"Student Loan" or "Loan" means any fixed-rate loans made by the Issuer to borrowers under its Supplemental Loan Program that are, pursuant to the terms of the Indenture (1) refinanced or Originated with moneys in the Acquisition Fund or the Surplus Fund and credited to the Student Loan Fund, (2) received in exchange for other Student Loans upon the sale thereof or substitution therefor as provided in paragraph (e) under "SUMMARIES OF DOCUMENTS – The General Indenture – Particular Covenants – Student Loan Program" herein or provisions of a Supplemental Indenture and credited to the Student Loan Fund, or (3) otherwise credited to any Fund or Account as part of the Trust Estate; provided, "Student Loan" does not include loans released from the lien of the Indenture and sold or exchanged, as permitted in the Indenture, to any purchaser, including the Issuer.

"Student Loan Fund" means the fund by that name created under the General Indenture.

"Student Loan Program" means the program for the financing of the acquisition of supplemental student loans pursuant to the Act.

"Subservicer" means any subservicer of Student Loans designated in a Supplemental Indenture for the purposes of the General Indenture.

"Supplemental Indenture" means any Indenture supplemental to or amendatory of the General Indenture, executed by the Issuer and the Trustee and effective in accordance with Article VIII of the General Indenture.

“Supplemental Loan Program” means the SELF V Program established by the Issuer under the Act, together with any other student loan program or programs established by the Issuer under the Act and authorized in a Supplemental Indenture providing for the issuance of a Series of Bonds as part of the “Student Loan Program,” provided that, with respect to Student Loans to be originated or refinanced with moneys in the Series 2010 Accounts of the Acquisition Fund and the Surplus Fund, “Supplemental Student Loan Program” means the SELF V Program.

“Surplus Fund” means the fund by that name created under the General Indenture.

“Tax-Exempt Bonds” means each Series of Bonds that is issued with the intent that interest thereon be excludable from gross income for purposes of Federal income taxation, as evidenced by an opinion of Bond Counsel to that effect delivered upon issuance of such Series of Bonds.

“Tax Matters Certificate” shall mean, with respect to one or all Series of Tax-Exempt Bonds, the applicable Issuer Certificate or Certificates relating to arbitrage and other tax matters delivered in connection with the issuance of such Series of Bonds, as the same may be amended or supplemented in accordance with its or their terms.

“Term Bonds” means Bonds which are subject to Sinking Fund Payments prior to the Stated Maturity of such Bonds, and, in the case of the Series 2010 Bonds, means the Series 2010 Bonds maturing on November 1, 2029.

“Term Stated Maturity” means the dates on which the Term Bonds mature, as set forth in the First Supplemental Indenture.

“Trust Estate” means the assets described as such in the granting clauses of the General Indenture.

“Trustee” means U.S. Bank National Association and its successor or successors and any other person at any time substituted in its place pursuant to the Indenture.

“Unamortized Premium” means, with respect to a Series 2010 Premium Bond, the unamortized portion of the amount by which the offering price of such Series 2010 Premium Bond (as set forth in Exhibit C to the First Supplemental Indenture) exceeded 100%; provided that the Unamortized Premium shall be $0 with respect to any Series 2010 Premium Bond redeemed on or after November 1, 2020. The amount of such Unamortized Premium shall be calculated by the Trustee using the following methodology: The methodology to calculate the unamortized portion of such amount for a given Series 2010 Premium Bond will use the yield of such Series 2010 Premium Bond stated in Exhibit C to the First Supplemental Indenture to calculate a price based on the Redemption Date, semiannual compounding and a 360-day year consisting of twelve 30-day months and assuming that such Series 2010 Premium Bond matures on the earlier of its Stated Maturity or November 1, 2020. The excess of the calculated price over 100% will be the unamortized portion.

“Underwriters” with respect to the Series 2010 Bonds means Morgan Stanley & Co. Incorporated and U.S. Bancorp Investments, Inc.

“Value” means on any calculation date when required under the Indenture, the value of the Trust Estate calculated by the Issuer, in accordance with the following:

(1) with respect to any (i) Student Loan other than a Defaulted Student Loan, the principal balance thereof, plus any accrued interest thereon, and (ii) Defaulted Student Loan, $0;

(2) with respect to demand bank deposits, bank time deposits which may be withdrawn without penalty by the depositor upon fourteen (14) days’ or less notice and Investment Securities which mature not more than six (6) months from the date of computation, the amount of such deposits and the par value of such Investment Securities;

(3) with respect to any Investment Securities of an investment company, the bid price of the shares as reported by the investment company;

(4) as to other investments, (i) the bid price published by a nationally recognized pricing service, or (ii) if the bid and asked prices thereof are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times)*: the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination plus accrued interest thereon; and

(5) as to investments the bid prices of which are not published by a nationally recognized pricing service and the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times* the lower of the bid prices at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Issuer in its absolute discretion) at the time making a market in such investments, plus accrued interest thereon.

"Yield" of (1) any Investment to any date means the actuarial "yield" of such Investment beginning the date such Investment is allocable to Gross Proceeds, as "yield" is defined in Treas. Reg. § 1.148-5 and (2) the Bonds of a Series means the actuarial "yield" of the Bonds of such Series, as defined in Treas. Reg. § 1.148-4.

"Yield Reduction Payment" means the minimum amounts payable to the United States Treasury as described in Treas. Reg. §1.148-5(c).

## SUMMARIES OF DOCUMENTS

### The General Indenture

In the General Indenture, the Issuer does bargain, assign, pledge and grant a security interest, subject to the use and applications in accordance with the provisions of the Indenture, in order to secure, as therein provided, (a) all Student Loans, and all documentation thereof, whether in tangible or intangible form, including all agreements, notes (whether manually or electronically signed) and all other documents or electronic records evidencing such Student Loans or extensions and renewals thereof, (b) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans, (c) all proceeds of the Bonds, Revenues and any other amounts at any time contained in the Funds and Accounts, excluding the Rebate Fund and the Excess Interest Fund (as defined in the General Indenture) until their use or release from the Funds and Accounts (such Bond proceeds, Revenues and other amounts may take the form of moneys, securities, accounts, chattel paper, instruments, and general intangibles), (d) all State Debt Service Reserve Fund Payments and State Shortfall Payments, (e) the rights of the Issuer in and to each Servicing Agreement as the same relates to Student Loans, (f) any and all other real or personal property of every name and nature, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture, and (g) all proceeds of the foregoing.

**Terms of Bonds**

Limited Obligations of the Issuer. The Bonds are special limited, not general, obligations of the Issuer payable solely from the Trust Estate, subject to the application thereof to the purposes and on the conditions permitted by the General Indenture.

Authorization of Bonds. In order to (i) obtain funds to Originate or refinance Student Loans, (ii) refund obligations of the Issuer, and (iii) in connection with the foregoing, to set aside the amount the Issuer determines is necessary for a reserve, to fund the Capitalized Interest Fund, and to pay Costs of Issuance and Program Expenses, obligations of the Issuer in the form of Bonds are hereby authorized to be issued from time to time under the Indenture in one or more Series without limitation as to amount except as may be provided by law. Bonds may be issued as Tax-Exempt Bonds or Federally Taxable Bonds as provided in the Supplemental Indenture authorizing such Bonds. No Bonds shall be issued under the Indenture unless they are part of an issue described in a Supplemental Indenture and until the conditions therefor contained in the General Indenture are satisfied.

Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be authenticated and delivered upon Issuer Order, but only upon the receipt by the Trustee of:

(a) a copy of the Supplemental Indenture authorizing such Series, duly executed by the Issuer and the Trustee, which shall specify the terms of such Series of Bonds;

(b) an Opinion of Bond Counsel to the effect that (i) the General Indenture and such Supplemental Indenture have been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Issuer (subject to the operation of bankruptcy, insolvency, preferential transfer, fraudulent transfer, fraudulent conveyance or other laws relating to or affecting creditors rights generally, now existing or hereafter enacted, and by the application of general principles of equity including those relating to equitable subordination and judicial discretion); (ii) such Bonds are valid and binding obligations of the Issuer; (iii) pursuant to the Indenture the Issuer has assigned and granted a security interest in, and all necessary action on the part of the Issuer has been taken as required to assign and grant a security interest in, all of the Trust Estate to the Trustee, subject to customary exceptions acceptable to the initial purchasers of the Bonds; (iv) that the security interest granted to the Trustee in the Trust Estate has been perfected and is subject to no prior interests or liens, subject to customary exceptions acceptable to the initial purchasers of the Bonds; (v) interest on the Bonds is excludable from gross income for federal income tax purposes, in the event that the

Bonds are Tax-Exempt Bonds; (vi) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State and with the Indenture; and (vii) the Bonds will be classified as debt for federal income tax purposes;

(c) a written order as to the delivery of such Bonds, signed by an Authorized Representative;

(d) in the event that there are then other Bonds Outstanding under the Indenture, on the date of issuance and delivery of any Bonds (other than the initial Bonds issued under the Indenture), a certification of an Authorized Representative to the effect that the Issuer is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture, unless the issuance of such additional Bonds and the application of the proceeds thereof is intended to, and will, cure such default upon the issuance of such additional Bonds;

(e) in the event that there are then other Bonds Outstanding under the Indenture, on the date of issuance and delivery of any Bonds (other than the initial Bonds issued under the Indenture), each Rating Agency confirms that no outstanding ratings on any of the Outstanding Bonds will be reduced or withdrawn as a result of such issuance, as evidenced by written confirmations thereof delivered to the Trustee from each Rating Agency; and

(f) such further documents, certificates, instruments and moneys as are required by any Supplemental Indenture entered into pursuant to Article VIII or IX of the General Indenture.

The Trustee shall notify the Issuer of its receipt of proceeds from a Series of Bonds and shall deposit them to the funds provided in the Supplemental Indenture.

**Pledge of Indenture, Establishment of Funds and Accounts**

Pledge Effected by Indenture, Priority. The Trust Estate is pledged under the Indenture in accordance with the Recitals and the Granting Clauses of the General Indenture. To the fullest extent provided by applicable law, the money and property pledged under the Indenture shall immediately be subject to the lien of such pledge and such lien shall be valid and binding against all parties having claims in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice of the pledge.

Creation of Funds. There are hereby created and established the following Funds to be held by the Trustee and maintained in accordance with the provisions of the Indenture: (a) the Student Loan Fund; (b) the Revenue Fund; (c) the Surplus Fund; (d) the Debt Service Reserve Fund; (e) the Capitalized Interest Fund; (f) the Redemption Fund; and (g) the Acquisition Fund. Upon Issuer Order, the Trustee shall create and establish a Rebate Fund and Excess Interest Fund, both of which shall be held by the Trustee but shall be outside of the Trust Estate, and the Owners shall have no right, title, or interest therein or thereto. The Trustee is authorized by the Indenture for the purpose of facilitating administration of the Trust Estate to create subaccounts in any of the various Funds established under the Indenture upon receipt of an Issuer Order.

Student Loan Fund. The Trustee shall credit all Student Loans transferred to the Trustee from other trust estates or funds of the Issuer or otherwise by the Issuer to the Trustee and all Student Loans made by the Issuer with amounts provided under the Indenture to the Student Loan Fund. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever.

The Issuer may elect to create two or more subaccounts in the Student Loan Fund. If subaccounts are created to separate Student Loans Originated or refinanced with Gross Proceeds derived from one or more Series of Bonds, the Issuer will notify the Trustee which Student Loans should be credited to each subaccount.

The Issuer shall execute and cause to be filed UCC financing statements (and continuation statements) and/or the Issuer, the Trustee and the Servicer shall execute and deliver custodian agreements as directed by the Issuer all as shall be necessary under applicable law to perfect and maintain the security interest created by the Indenture in the Student Loans. Following the filing of any UCC financing statement with respect to the Indenture the Issuer shall, prior to the expiration of such filing, file continuation statements as needed.

Student Loans held under the Indenture shall be sold or exchanged by the Trustee on behalf of the Issuer free from the lien of the Indenture at any time as provided under "SUMMARIES OF DOCUMENTS – The General Indenture – Particular Covenants – Student Loan Program" herein or pursuant to the provisions of a Supplemental Indenture if the Trustee is provided the following:

(a) a Certificate signed by the Issuer demonstrating compliance with paragraph (c) under "SUMMARIES OF DOCUMENTS – The General Indenture – Particular Covenants – Student Loan Program" herein;

(b) such documentation as may be required by the applicable Supplemental Indenture; and

(c) the purchase price or Student Loan to be exchanged therefor, as applicable.

The Trustee shall apply such purchase price as provided under "Revenue Fund" below.

Notwithstanding the foregoing, the Issuer shall not direct the Trustee to sell Student Loans if such sale would have an adverse effect on the exclusion from gross income of interest on any Tax-Exempt Bonds for federal income tax purposes and shall receive a Favorable Opinion prior to such sale.

Revenue Fund. (a) The Trustee shall deposit in the Revenue Fund the amounts described in any Supplemental Indenture, any amounts required to be transferred thereto from another Fund, any other amounts deposited thereto on Issuer Order, any State Shortfall Payments received from the State and all Revenues, including earnings on amounts in the Funds and Accounts (except as specified herein), all payments of principal and interest, if any, together with any tuition refunds, funds transferred to the Trustee from the Servicer's or Servicers' separate bank accounts maintained pursuant to any Servicing Agreement, insurance and guaranty payments and proceeds from the sale of Student Loans. Money in the Revenue Fund shall be kept separate and apart from all other Funds.

(b) On each Monthly Payment Date (or on such other date as is specified in a particular clause), money in the Revenue Fund shall be applied in the following order of priority:

(1) amounts which, when added to the amounts already in the Rebate Fund and the Excess Interest Fund, equal the Rebate Amount and the Excess Interest, respectively, as of the most recent date of calculation, shall be transferred to the Rebate Fund and the Excess Interest Fund, as appropriate;

(2) subject to the limitations, if any, contained in a Supplemental Indenture, an amount, if any, then due and payable, representing Program Expenses shall be paid to the Servicer and each Indenture Agent, as applicable unless the Issuer has notified the Trustee that it has paid Program Expenses from a source of funds outside the Trust Estate in accordance with the provisions of the General Indenture;

(3) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts with respect to the Bonds in the following order of priority:

(a)(i) to pay interest due and payable on each Series of Bonds during the related Monthly Period and (ii) thereafter, to the extent provided for in clause (i)(B) of paragraph (c) below, to increase the balance in the Revenue Fund in respect of interest due and payable on each Series of Bonds on the next applicable Interest Payment Date;

(b)(i) to pay principal due and payable at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Bonds during the related Monthly Period and (ii) thereafter, to the extent provided for in clause (ii)(B) of paragraph (c) below, to increase the balance in the Revenue Fund in respect of principal due and payable at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Bonds on the next applicable Principal Payment Date;

(4) to the extent necessary to increase the balance therein to the Debt Service Reserve Requirement, a transfer shall be made to the Debt Service Reserve Fund;

(5) (i) to pay all other principal due and payable on each Series of Bonds during the related Monthly Period and (ii) thereafter, to the extent provided in clause (ii)(B) of paragraph (c) below, to increase the balance in the Revenue Fund in respect of all other principal due and payable on each Series of Bonds on the next applicable Principal Payment Date; and

(6) any money remaining after the foregoing applications shall be transferred to the Surplus Fund.

In the event amounts are payable to more than one Person pursuant to any one of the preceding clauses, and the money available is insufficient to pay all amounts pursuant to such clause, the available money shall be applied pro rata to the payment to each Person based upon the amount payable thereto, except that any amounts due and payable to the Trustee in accordance with clause (2) shall be paid prior to payment to any other Person and prior to any proration of payments under such clause.

The Issuer shall provide the Trustee with a Certificate on or before the tenth day of each calendar month setting forth (A) the amounts due and owing as Program Expenses as of the end of the preceding calendar month, and (B) such portions of each such amount as have been previously paid by the Issuer. The Trustee will be entitled to rely on such Certificate in determining whether moneys in the Revenue Fund will be applied to the payment of such amounts in accordance with the foregoing provisions.

The Issuer may elect to create two or more subaccounts in the Revenue Fund; each for the deposit of Gross Proceeds derived from a Series of Bonds (or portion thereof), as determined by the Issuer. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof from that Series' subaccount and to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' subaccount. The creation of such subaccounts are for tracking purposes and all Bonds shall be paid on a parity and notwithstanding the foregoing, in the event there are insufficient funds in the Revenue Fund subaccount and Surplus Fund subaccount for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund subaccount or Surplus Fund subaccount for another Series of Bonds, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to subaccounts) prior to the amount due, in the order established in the General Indenture.

(c)(i) For purposes of clause (3) of paragraph (b) above, interest on each Series of Bonds shall be accounted for as follows:

(A) to the extent interest on a Series of Bonds is payable during the related Monthly Period, an amount equal to such interest shall be applied to the payment of such interest when due; provided that, to the extent provided in the applicable Supplemental Indenture, amounts may be drawn from the Capitalized Interest Fund and applied to the payment of such interest when due; and

(B) to the extent interest on a Series of Bonds will accrue but not be payable during the related Monthly Period, an amount equal to all accrued interest on such Series through the end of such Monthly Period shall be retained in the Revenue Fund, except to the extent such interest is to be paid from the Capitalized Interest Fund in accordance with the applicable Supplemental Indenture.

(ii) For purposes of clauses (3) and (5) of paragraph (b) above, principal of each Series of Bonds due at the Stated Maturity thereof or on a Sinking Fund Payment Date therefor shall be accounted for as follows:

(A) to the extent principal of a Series of Bonds is payable during the related Monthly Period, an amount equal to such principal shall be applied to the payment of such principal when due; and

(B) to the extent principal of a Series of Bonds is not payable during the related Monthly Period, but will be payable during a Monthly Period commencing within 12 months of the related Monthly Period, an amount shall be retained in the Revenue Fund, as of each Monthly Payment Date:

(i) in the case of principal due at Stated Maturity or on a Sinking Fund Payment Date other than with respect to Cumulative Sinking Fund Term Bonds, necessary to equal 1/12th of such principal for each of the 12 Monthly Payment Dates occurring prior to the Monthly Period in which such principal is payable, and

(ii) in the case of principal due on a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds, necessary to equal 1/11th of such principal for each of the 11 Monthly Payment Dates occurring prior to the Monthly Period preceding the Monthly Period in which such principal is payable.

Redemption Fund. There shall be deposited into the Redemption Fund all amounts required to be deposited therein pursuant to Article VI of the General Indenture and any Supplemental Indenture. Amounts on deposit to the credit of the Redemption Fund shall be used, first, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund, (to the extent provided in a Supplemental Indenture) the Capitalized Interest Fund and the Debt Service Reserve Fund, to the same uses as set forth in the following clauses in paragraph (b) under "Revenue Fund" above: clauses (1) and (2), clause (3)(a)(i), clause (3)(b)(i) and (other than with respect to Cumulative Sinking Fund Term Bonds) clause (5); provided that no amounts in the Redemption Fund shall be so used to the extent such amounts are necessary to pay the Redemption Price of, and accrued interest on, Bonds as to which notice of redemption has been given, and, second, for the redemption (other than redemption of Term Bonds on a Sinking Fund Payment Date) of outstanding Bonds at the request or direction of the Issuer pursuant to the General Indenture and any applicable Supplemental Indenture. Investment earnings on amounts held in the Redemption Fund are to remain in such Fund.

Surplus Fund. The Surplus Fund shall be used only for the purposes specified in the General Indenture, subject to the restrictions in any Supplemental Indenture.

The Trustee shall deposit in the Surplus Fund all amounts required to be transferred thereto from the Revenue Fund and, except as directed in any Supplemental Indenture, all amounts transferred from any other trust estate of the Issuer. The moneys in the Surplus Fund shall be invested in Investment Securities as provided in the General Indenture, and any earnings on or income from such investments shall be deposited in the Revenue Fund.

The Trustee shall use the moneys in the Surplus Fund for the following purposes in the following order of priority:

(a) make deposits to the Excess Interest Fund and the Rebate Fund to the extent required under "Excess Interest Fund," "Rebate Fund" and "Extraordinary Transfers to Rebate Fund and Excess Interest Fund" below;

(b) to the extent there is a required deposit or transfer on any date from the Revenue Fund and the moneys therein are not sufficient therefor, the moneys in the Surplus Fund shall be utilized to satisfy such deficiency;

(c) to the extent such moneys constitute Excess Coverage, on any date, to pay any amounts payable by the Issuer to the Underwriters of a Series of Bonds pursuant to the indemnification provisions of the related Bond Purchase Agreement;

(d) on any date, to originate or refinance Student Loans as permitted by a Supplemental Indenture;

(e) on any date, to redeem Bonds as required by and as provided in any applicable Supplemental Indenture; and

(f) to transfer money to the Issuer if permitted under "Withdrawal of Excess Coverage" below.

The Issuer may elect to create two or more subaccounts in the Surplus Fund; each for Gross Proceeds derived from a Series of Bonds (or portion thereof) as determined by the Issuer. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof from that Series' subaccount and, to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' subaccount. Notwithstanding the foregoing, in the event there are insufficient funds in the Revenue Fund subaccount and Surplus Fund subaccount for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund subaccount or Surplus Fund subaccount for another Series of Bonds, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to subaccounts) prior to the amount due, in the order of priority established in the General Indenture.

Debt Service Reserve Fund. The Trustee shall deposit in the Debt Service Reserve Fund the Debt Service Reserve Requirement specified in the Supplemental Indentures and any transfers thereto from the Revenue Fund or Surplus Fund and any State Debt Service Reserve Fund Payment received by the Trustee. Amounts on deposit in a Series subaccount of the Debt Service Reserve Fund shall be applied as provided in the General Indenture (first, with respect to payments in respect of Bonds of that Series and thereafter, to the extent necessary, to payments in respect of Bonds of other Series) and, to the extent provided in the related Supplemental Indenture, in conjunction with the final payment of the principal of and interest on the last Outstanding Bonds of such Series. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement (other than as a result of a State Debt Service Reserve Fund Payment), the Issuer may by Issuer Order direct the Trustee to transfer such excess to the Revenue Fund. To the extent monies on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirements as a result of a State Debt Service Reserve Fund Payment, the Issuer may by Issuer Order direct the Trustee to transfer an amount equal to such excess (excluding any portion of the State Debt Service Reserve Fund Payment) to the Revenue Fund.

Except as may be set forth in any Supplemental Indenture, the Trustee shall use the moneys in the Debt Service Reserve Fund, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund, the Capitalized Interest Fund (to the extent provided in a Supplemental Indenture) and the Acquisition Fund, to the same uses as set forth in the following clauses in paragraph (b) under "Revenue Fund" above: clauses (1) and (2), clause (3)(a)(i), clause (3)(b)(i) and (other than with respect to Cumulative Sinking Fund Term Bonds) clause (5).

On or before each Interest Payment Date, and on any other date upon the request of the Issuer, the Trustee shall determine the Value of the Investment Securities on deposit in the Debt Service Reserve Fund to determine whether or not the Debt Service Reserve Requirement has been met.

The Debt Service Reserve Fund shall be replenished from amounts on deposit in the Revenue Fund as provided under "Revenue Fund" above, from the Surplus Fund as provided under "Surplus Fund" above, or from State Debt Service Reserve Fund Payments received by the Trustee.

The Issuer shall at all times maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement. If, as of December 1 in any year, the balance in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Issuer shall file all notices, certificates and requests with the Governor of the State on such date as may be necessary or desirable to obtain a State Debt Service Reserve Fund Payment to restore the balance in the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

Deficiency Filings. The Issuer shall (1) semi-annually by May 15 and November 15 of each year, commencing May 15, 2011, cause the Trustee to value the Debt Service Reserve Fund, and (2) by November 15 of each year, commencing November 15, 2011, determine whether, taking into account all monies (including Revenues to be received) available for such payment under the Indenture, there will be a shortfall or shortfalls in the amounts necessary to pay principal and interest due and payable on the Bonds during the Fiscal Year commencing on the following July 1. The Director of the Issuer shall annually, on or before December 1 of each year, commencing December 1, 2011, make and deliver to the Governor of the State, in accordance with Section 136A.1787 of the Act, a certificate stating the sums, if any, (a) required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement as of such December 1, and (b) to be needed during the Fiscal Year commencing on the following July 1, with other funds pledged under this Indenture, and estimated to be received during that year (and available for such payment), for the payment of principal and interest due and payable in that year on the Bonds. All State Debt Service Reserve Fund Payments received by the Issuer from the State shall be immediately transferred to the Trustee and upon receipt thereof by the Trustee, be deposited in the Debt Service Reserve Fund and applied in accordance with the Indenture. All State Shortfall Payments received by the Issuer from the State shall be immediately transferred to the Trustee and, upon receipt thereof by the Trustee, be deposited in the Revenue Fund and applied in accordance with the terms of the Indenture and any Supplemental Indenture.

All moneys to be paid to the Issuer pursuant to the provisions of the Act described above are subject to appropriation by the State legislature for such purpose from time to time. The State legislature has no legal obligation to make such appropriations, and the provisions of the Act described herein do not constitute a legally enforceable obligation on the part of the State.

Acquisition Fund. The Trustee shall deposit to the Acquisition Fund the amounts set forth in any Supplemental Indenture. Moneys in the Acquisition Fund shall be used to Originate or refinance Student Loans and, subject to certain provisions of the General Indenture and to the extent provided in a Supplemental Indenture, to pay Costs of Issuance and initial Program Expenses at or about the time of issuance of a Series of Bonds. Additionally, except as may be set forth in any Supplemental Indenture, the Trustee shall use the moneys in the Acquisition Fund, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund and (to the extent provided in a Supplemental Indenture) the Capitalized Interest Fund, to the same uses as set forth in paragraph (b) under "Revenue Fund" above.

Capitalized Interest Fund. The Trustee will deposit the amounts required by any Supplemental Indenture into the Capitalized Interest Fund. Moneys in the Capitalized Interest Fund will be transferred to the Revenue Fund and used to pay interest on the Bonds and Program Expenses in accordance with the applicable Supplemental Indenture.

Excess Interest Fund. No later than thirty days after each Excess Interest Calculation Date, the Issuer shall determine, or cause to be determined, the Excess Interest as of the preceding Excess Interest Calculation Date. The first time such calculation shows the existence of Excess Interest, the Issuer shall direct the Trustee to establish an Excess Interest Fund and to transfer an amount equal to such Excess Interest from the following funds, in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund. Thereafter, within thirty days after each Excess Interest Calculation Date, the Issuer shall take the following actions:

(i) If the amount on deposit in the Excess Interest Fund is less than the Excess Interest as of the preceding Excess Interest Calculation Date, the Issuer will notify the Trustee, who will transfer sufficient funds to the Excess Interest Fund so that the amount on deposit is equal to Excess Interest from the following Funds in the following order of priority: Surplus Fund, Revenue Fund and Acquisition Fund.

(ii) If the amount on deposit in the Excess Interest Fund is greater than the Excess Interest, the Issuer shall instruct the Trustee to transfer to the Revenue Fund money sufficient to cause the amount on deposit in the Excess Interest Fund to be equal to the Excess Interest as of such Excess Interest Calculation Date.

Amounts in the Excess Interest Fund shall only be used for the purposes specified in the General Indenture, and shall not be available for any other purpose, including, but not limited to, payment of Debt Service on the Bonds.

The moneys in the Excess Interest Fund shall be invested in Investment Securities or Student Loans financed with proceeds of the applicable Series of Tax-Exempt Bonds, and any earnings on or income from such investments shall be retained therein.

Rebate Fund. No later than thirty days after each Computation Date, the Issuer shall determine, or cause to be determined, the Rebate Amount as of the preceding Computation Date and shall deliver such calculation to the Trustee. The first time such calculation shows the existence of a Rebate Amount, the Issuer shall direct the Trustee to establish a Rebate Fund and to transfer an amount equal to such Rebate Amount from the following funds, in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund. Thereafter, within thirty days after each Computation Date, the Issuer shall take the following actions:

(i) If the amount on deposit in the Rebate Fund is less than the Rebate Amount as of the preceding Computation Date, the Issuer will notify the Trustee, who will transfer sufficient funds to the Rebate Fund so that the amount on deposit is equal to the Rebate Amount from the following Funds in the following order of priority: Surplus Fund, Revenue Fund and Acquisition Fund.

(ii) If the amount on deposit in the Rebate Fund is greater than the Rebate Amount, the Issuer shall instruct the Trustee to transfer to the Revenue Fund money sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebate Amount as of such Computation Date.

The moneys in the Rebate Fund shall be invested in Investment Securities, and any earnings on or income from such investments shall be retained therein.

Extraordinary Transfers to Rebate Fund and Excess Interest Fund. By noon on the Business Day preceding the maturity of the last Bond of a Series of Tax-Exempt Bonds, the Issuer shall determine or cause to be determined the Rebate Amount and Excess Interest expected on the date of such maturity and shall deliver its calculations to the Trustee. On the date of receipt of such calculation, the Trustee shall:

(a) first, transfer any required Rebate Amount to the Rebate Fund, and

(b) second, transfer any Excess Interest to the Excess Interest Fund.

The Trustee shall transfer the required amounts from each of the following Funds in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund.

Withdrawal of Excess Coverage. On the Monthly Payment Date preceding any Interest Payment Date, the Issuer may deliver to the Trustee an Issuer Order, evidencing the fact that there is then Excess Coverage on deposit under the Indenture and specifying the amount thereof. Promptly upon the Trustee's receipt of that Certificate, the Trustee shall release an amount equal to such Excess Coverage to the Issuer from the Surplus Fund for any of its governmental purposes; provided that no amount shall be released pursuant to the Indenture to the extent any amount payable to the Underwriters of a Series of Bonds pursuant to the indemnification provisions of the related Bond Purchase Agreement remains unpaid.

Order of Use in Amounts for Payment of Bonds. Except as may be set forth in any Supplemental Indenture, in the event there shall be on any Bond Payment Date a deficiency in the amounts to be applied to the payment of principal or interest on the Bonds, the Trustee shall make up such deficiency by transfer of moneys for that purpose from the named funds in the following order of priority: Revenue Fund, Surplus Fund, Capitalized Interest Fund (to the extent provided in a Supplemental Indenture), Acquisition Fund, Debt Service Reserve Fund and Redemption Fund.

**Particular Covenants**

In the General Indenture, the Issuer covenants and agrees with the Trustee and the Owners of the Bonds as follows:

Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, as provided in the General Indenture, the principal or Redemption Price of every Bond and the interest, if any, thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof.

Student Loan Program.

(a) The Issuer shall, or through its Servicer shall, diligently collect all principal and interest payments on all the Student Loans held under the Indenture, and insurance and guarantee claims, if any, which relate to such Student Loans. The Issuer will comply with the provisions of the Act, which apply to the Student Loan Program and to such Student Loans.

(b) No amount in the Acquisition Fund, the Revenue Fund, or the Surplus Fund shall be expended or applied for the purpose of Originating or refinancing a Student Loan, and no Student Loan shall be financed under the Indenture, unless the Issuer has determined that as of the date of acquisition of such Student Loan each of the representations under "Covenant Regarding Student Loans" below is true.

(c) The Issuer may at any time sell, assign, transfer or otherwise dispose of a Student Loan to cure an Event of Default (in which case the Issuer shall repurchase the Student Loan at a price equal to its principal balance plus accrued interest thereon) or otherwise under the following circumstances:

(i) the purchase price received is not less than the fair market value thereof, as certified by an Authorized Representative of the Issuer;

(ii) either (A) an Authorized Representative of the Issuer has certified that, based on a Cash Flow Projection, the sale of Student Loans is necessary (after taking into account all available balances in the other Funds and Accounts excluding the Rebate Fund and the Excess Interest Fund), to enable the Issuer to pay Debt Service on the Outstanding Bonds or to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund, or both, or (B) the aggregate principal balance of Student Loans so sold in any Fiscal Year has not exceeded 10% of the principal balance of Student Loans included in the balance of the Student Loan Fund as of the beginning of such Fiscal Year or such greater amount as to which the requirements of a Rating Agency Notification have been satisfied;

(iii) the Trustee has certified that, upon such sale and deposit of the proceeds thereof, there will be no deficiencies in the Revenue Fund, the Rebate Fund, the Excess Interest Fund, the Capitalized Interest Fund, or the Debt Service Reserve Fund.

(iv) the Trustee has received a Certificate of an Authorized Representative of the Issuer that, based on a Cash Flow Projection, such sale will not adversely affect the Issuer's ability to pay Debt Service on the Outstanding Bonds or (to the extent the Issuer fails to pay such Program Expenses from another source) Program Expenses or to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund; and

(v) no such sale shall cause the Issuer to breach any of its representations or covenants contained in the Tax Matters Certificate furnished by the Issuer in connection with the issuance of any Series of Tax-Exempt Bonds.

Any sale pursuant to this paragraph (c) is subject to any additional restrictions contained in an applicable Supplemental Indenture providing for the issuance of a Series of Bonds.

(d) The Issuer will use its best efforts to evaluate the reinvestment of principal and interest receipts with respect to Student Loans to ensure that it will continue to be able to fulfill its debt service requirements under the Indenture.

(e) The Issuer may at any time and from time to time exchange Student Loans for other Student Loans having an aggregate principal amount and interest rate not less than the aggregate principal amount and interest rate of the Student Loans being exchanged, for the purpose of consolidating Student Loans of a single borrower within one indenture.

Servicing of Student Loans. The Issuer shall duly and properly service all Student Loans and enforce the payment and collection of all payments of principal and interest or shall cause such servicing to be done by the Servicer. The Issuer covenants that the Servicer will be its agent and subject to its general direction under a contract with the Servicer. The Servicer may perform its duties through Subservicers, except as may be provided by any Supplemental Indenture. The Servicer shall be responsible for the performance of its obligations under the Indenture and the Servicing Agreement, whether such obligations are performed by the Servicer or by a Subservicer, and the Servicer shall be responsible for any fees and payments required by any Subservicer. The Issuer shall cause all Student Loan notes to be held in trust as part of the Trust Estate subject to the lien of the Indenture.

Continuing Existence; Successor to Issuer. The Issuer agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises as an agency of the State of Minnesota, except as otherwise permitted as follows. The Issuer further agrees that it will not (a) sell, transfer or otherwise dispose of all or substantially all, of its assets (except Student Loans if such sale, transfer or disposition will discharge this Indenture in accordance with "SUMMARIES OF DOCUMENTS – The General Indenture – Defeasance; Miscellaneous – Defeasance" herein ); (b) consolidate with or merge into another entity; or (c) permit one or more other entities to consolidate with or merge into it. The preceding restrictions in clauses (a), (b) and (c) above shall not apply to a transaction if the transferee or the surviving or resulting entity, if other than the Issuer, by proper written instrument for the benefit of the Trustee, irrevocably and unconditionally assumes the obligation to perform and observe the agreements and obligations of the Issuer under the Indenture.

Any transfer made pursuant to the above paragraph shall be subject to the receipt by the Issuer and the Trustee of a Favorable Opinion.

If a transfer is made as provided above, these provisions shall continue in full force and effect and no further transfer shall be made except in compliance with these provisions.

Covenant Regarding Student Loans. The Issuer covenants that all Student Loans to be acquired under the Indenture will meet the following criteria at the time of such acquisition:

(a) Each Student Loan is evidenced by an executed promissory note, either manually or electronically signed by the borrower and the Cosigner, which note is a valid and binding obligation of the borrower and the Cosigner, enforceable by or on behalf of the holder thereof in accordance with its terms, subject to bankruptcy, insolvency and other laws relating to or affecting creditors' rights.

(b) The amount of the unpaid principal balance of each Student Loan is true and owing, and no counterclaim, offset, defense or right to rescission exists with respect to any such Student Loan which can be asserted and maintained or which, with notice, lapse of time, or the occurrence or failure to occur of any act or event, could be asserted and maintained by the borrower against the Issuer as assignee thereof. The Issuer shall take all reasonable actions to assure that no maker of a Student Loan has or may acquire a defense to the payment thereof.

(c) No Student Loan has a payment that is delinquent (delinquent, for this purpose, meaning that a payment has not been made within thirty (30) days of its due date).

(d) The Issuer has full right, title and interest in each Student Loan free and clear of all liens, pledges or encumbrances whatsoever.

(e) Each Student Loan was made in compliance with all applicable local, state and federal laws, rules and regulations, including without limitation all applicable nondiscrimination, truth-in-lending, consumer credit and usury laws.

(f) All loan documentation shall be delivered to the Servicer (as custodian for the Trustee) prior to disbursement of amounts to Originate or refinance such Student Loan.

(g) Each Student Loan is accruing interest (whether or not such interest is being paid currently by the borrower, or is being capitalized).

Payment of Program Expenses. At the option of the Issuer, the Issuer may pay Program Expenses from a source of funds outside of the Trust Estate. To the extent the Issuer pays any Program Expenses, the Issuer shall notify the Trustee of the amount of Program Expenses so paid within five calendar days of the payment thereof.

Issuer to Provide Quarterly Reports. The Issuer agrees to provide, on a quarterly basis, either to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") website or by posting such information on the Issuer's own publicly accessible website, periodic loan portfolio information with respect to the Student Loans of the type set forth in the Supplemental Indenture providing for the initial Series of Bonds. The format and manner of delivery of such quarterly reports shall be subject to the reasonable discretion of the Issuer. Failure to comply with the provisions of this Section shall not constitute an Event of Default. However, to the extent permitted by law, any Bondholder may seek a court order for specific performance by the Issuer to comply with the provisions of this Section and to compel the Issuer to perform and carry out its obligations hereunder; provided, however, that the sole remedy for a failure to comply with this Section shall be limited to an action to compel specific performance of such obligations and shall not include any rights to monetary damages.

**Supplemental Indentures Not Requiring Consent of Owners**

For any one or more of the following purposes and at any time or from time to time subject to the provisions of the General Indenture, a Supplemental Indenture not requiring the consent of Owners may be executed and delivered by the Issuer and the Trustee for the following purposes: (a) to provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness; (b) to add to the covenants and agreements of the Issuer in the Indenture other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the Issuer by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Issuer contained in the Indenture; (e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Revenues or of any other revenues or assets; (f) to modify any of the provisions of the Indenture in any respect whatever, but only if (i) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the execution of such Supplemental Indenture shall cease to be Outstanding, and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds authenticated and delivered after the date of the execution of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; (g) to authorize the issuance of one or more Series of Bonds and to prescribe the terms and conditions upon which such Bonds may be issued; (h) to create additional special trust accounts for the further securing of all Bonds or all Bonds of a Series issued pursuant to the Indenture if along with such Supplemental Indenture there is filed an Opinion of Bond Counsel to the effect that the creation and operation of such account does not materially adversely affect the existing security of the Owner of any Outstanding Bond; (i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the Indenture; (j) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with this Indenture as theretofore in effect; (k) to provide for additional duties of the Trustee in connection with the Student Loans; (l) in order to obtain, maintain or improve the rating on any of the Bonds; (m) to provide for the orderly sale or remarketing of Bonds; (n) to make any other change which is necessary or desirable to maintain the tax status of the Tax-Exempt Bonds; or (o) to make any change which is not to the prejudice of the Trustee or the Owners.

Any Supplemental Indenture permitted or authorized by (a) through (o) above may be executed by the Issuer without notice to or the consent of any of the Owners; provided that no such modifications shall be effective if the consent of all Bondholders would be required therefor under the provisions under "Supplemental Indentures Requiring Consent of Owners – Powers of Amendment" below and such consent has not been obtained. The copy of every Supplemental Indenture authorized by (a) through (o) above and filed with the Trustee shall be accompanied by a Favorable Opinion including a statement that such Supplemental Indenture has been duly and lawfully executed by the Issuer in accordance with the provisions of the Indenture, is authorized or permitted by this Indenture, and, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Issuer.

**Supplemental Indentures Requiring Consent Of Owners**

Powers of Amendment. Except as provided in Article VIII of the General Indenture, any modification of or amendment to this Indenture and of the rights and obligations of the Issuer or of the Owners of the Bonds of any particular Series may be made by a Supplemental Indenture, with the written consent of: (i) the Owners of at least 51% in principal amount of the Bonds Outstanding at the time such consent is given; or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least 51% in aggregate principal amount of the Bonds of each Series so affected and outstanding at the time such consent is given, provided, however, that nothing contained in Article VIII or Article IX of the General Indenture shall permit or be construed as permitting without the consent of the Owner of each Bond which would be affected thereby (a) an extension of the maturity of the principal of or the interest on any Bond, whether at the Stated Maturity thereof, on the date of a Sinking Fund Payment or otherwise, or (b) a reduction in the principal amount of any Bond or redemption premium, if any, or the rate of interest thereon, or (c) a reduction or an increase in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, or (d) a privilege or priority of any Bonds over any other Bonds, (e) the creation of any lien ranking prior to or on a parity with the lien of the Indenture on the Trust Estate or any part thereof, or (f) any Bondholder to be deprived of the lien hereby created on the rights, title, interest, privileges, revenues, moneys and securities pledged under the Indenture, or (g) the modification of any of the provisions of this section.

If any such modification or amendment will not take effect so long as any Bonds of any specified Stated Maturity remain Outstanding, however, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this section.

**Defaults And Remedies**

Events of Default. Each of the following events is an "Event of Default:"

(a) payment of the principal, or Redemption Price, if any, on any Bond shall not be made when and as the same shall become due, whether at Stated Maturity or upon call for redemption or otherwise; or

(b) payment of any installment of interest on any of the Bonds shall not be made when and as the same shall become due; or

(c) the Issuer shall fail or refuse to comply with the provisions of the Indenture, or shall default in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the General Indenture or in any Supplemental Indenture or the Bonds, other than those described in paragraph (a) or (b) above, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof has been delivered to the Issuer by the Trustee or by the Owners of not less than 25% in principal amount of the Outstanding Bonds; or

(d) with respect to any Series of Bonds, any Event of Default pursuant to the Supplemental Indenture authorizing such Series shall occur.

Remedies. Upon the occurrence and continuance of any Event of Default specified in paragraphs (a) or (b) under the heading Event of Default above, the Trustee shall promptly notify the Issuer and each Indenture Agent of the existence of such Event of Default or upon the occurrence and continuance of any Event of Default specified in paragraphs (c) or (d) under the heading Event of Default above, the Trustee shall promptly notify the Issuer and each Indenture Agent of the existence of such Event of Default and may, or, if instructed by the Owners as described in the General Indenture, shall proceed in its own name, to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(i) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners, including the right to require the Issuer to carry out the covenants and agreements as to, and the assignment of, the Student Loans and to require the Issuer to carry out any other covenants or agreements with Owners and to perform its duties as prescribed by law;

(ii) by bringing suit upon the Bonds;

(iii) by action or suit in equity, to require the Issuer to account as if it were the trustee of an express trust for the Owners of the Bonds;

(iv) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or

(v) upon the occurrence of an Event of Default specified in paragraphs (a) or (b) under the heading Event of Default above, the Trustee shall, and upon the occurrence of an Event of Default specified in (c) or (d) under the heading Event of Default above, the Trustee may, after written notice to the Issuer, and upon the written direction of the Owners (as provided in the General Indenture), immediately declare the principal of the Bonds then Outstanding to be immediately due and payable, whereupon the principal and the accrued interest on such Bonds through the date of acceleration shall, without further action, become and be immediately due and payable, anything in the Indenture, or in the Bonds to the contrary notwithstanding. If all defaults shall be cured, then, the Trustee may annul such declaration and its consequences.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Issuer for principal, interest or otherwise, under any provisions of the General Indenture or a Supplemental Indenture or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce a judgment or decree against the Issuer for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pretrial, trial and appellate attorney fees), and to collect from the Issuer any moneys adjudged or decreed to be payable, provided, however, any recovery against the Issuer is limited to the Trust Estate.

Upon the occurrence of any Event of Default, and on the filing of suit or other commencement of judicial proceedings to enforce the rights of the Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

Except upon the occurrence and during the continuance of an Event of Default under the Indenture, the Issuer expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Indenture, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Student Loans and the proceeds of any collections therefrom, and neither the Trustee nor any Owner shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

The Trustee shall select and liquidate or sell Trust Estate assets as provided in the following paragraph or as provided in the last paragraph, and shall not be liable to any Owner or the Issuer by reason of such selection, liquidation or sale.

Whenever moneys are to be applied pursuant to Article X of the General Indenture irrespective of and whether other remedies authorized under the Indenture shall have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms as the Trustee may deem appropriate and as may be required by law and apply the proceeds thereof in accordance with the provisions of the Indenture. Upon such sale, the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale shall be a perpetual bar both at law and in equity against the Issuer, the Owners, and all other Persons claiming such properties. No purchaser at any sale shall be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, if so requested by the Trustee, the Issuer shall ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such instruments as may be necessary or, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

The Trustee will immediately notify Persons claiming in writing to be beneficial owners of Bonds upon learning of the occurrence of an Event of Default, or event leading to an Event of Default with the passage of time or the giving of notice. The latter consists of events that have occurred but are not yet an Event of Default because of a time delay (cure period) specified in the Indenture.

Priority of Payments After Default. In the event that upon the occurrence and during the continuance of any Event of Default, the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price of and interest then due on the Outstanding Bonds, such funds (other than funds held for the payment of particular Bonds pursuant to Article XII of the General Indenture or which have theretofore become due at Stated Maturity) and any other amounts received or collected by the Trustee acting pursuant to the General Indenture, after providing for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or another Indenture Agent in the performance of their respective duties under the Indenture shall be applied as follows:

(i) Unless the principal of all of the Outstanding Bonds shall have become or have been declared due and payable:

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due on Outstanding Bonds and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference.

SECOND: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Outstanding Bonds which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Outstanding Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all Outstanding Bonds shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded under the provisions of the Indenture, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon all Outstanding Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bondholder over any other Bondholder, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference.

(iii) If the principal of all Outstanding Bonds shall have been declared immediately due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture, then in the event that the principal of all Outstanding Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of clause (i) above.

Whenever moneys are to be applied by the Trustee pursuant to the provisions under the heading Priority of Payments After Default, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future.

Termination of Proceedings. In case any such proceeding is taken and shall have been discontinued or abandoned for any reason then in every such case the Issuer, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Owners' Direction of Proceedings. Whenever it is provided in the General Indenture that the Owners of the Bonds shall enjoy certain rights, be permitted to exercise certain remedies or to direct the Trustee to take certain actions, the provisions of this section shall control. Upon the occurrence of an Event of Default described in paragraphs (c) or (d) under the heading Event of Default above, the Owners of not less than 100% in principal amount of the Outstanding Bonds or, upon the occurrence of an Event of Default described in paragraphs (a) or (b) under the heading Event of Default above, the Owners of a majority in the principal amount of the Outstanding Bonds, shall have the right to direct the Trustee to take all or any of the actions described under the heading Remedies above. In the event that such Owners have previously given to the Trustee notice of an Event of Default and shall have afforded the Trustee a reasonable opportunity, following the offer to the Trustee of security and indemnity satisfactory to it against the fees, costs, expenses and liabilities to be incurred therein or thereby, either to proceed to exercise the powers granted in the Indenture or to pursue a remedy described in the Indenture, and the Trustee shall have refused or neglected to comply with such request, then the Owners of the requisite percentage in principal amount of the Bonds then Outstanding may exercise such rights.

Limitation on Rights of Bondholders.

(a) Except as otherwise specifically provided under "Owners' Direction of Proceedings" above or by this section, no Owner of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture. It is understood and intended that, except as otherwise above provided, no one, or more Owners of the Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture with respect to the Bonds or the Indenture, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit of Owners of the Outstanding Bonds.

(b) Each Owner of any Bond by acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Indenture or any Supplemental Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pretrial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but these provisions shall not apply to any suit instituted by the Trustee.

**Concerning the Indenture Agents**

Appointment and Acceptance of Duties of Trustee. By executing the Indenture, the Trustee accepts the trusts and obligations imposed upon it by the Indenture and agrees to perform such trusts and obligations, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture and there shall be no implied duties or obligations. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers of the Indenture and perform, any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to act, upon the opinion or advice of its counsel concerning all matters of the Indenture, and may in all cases be reimbursed under the Indenture for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust of the Indenture. The Trustee may act upon an Opinion of Counsel, including Bond Counsel, and shall not be responsible for any loss or damage resulting from any action by it taken or omitted to be taken in good faith in reliance upon such Opinion of Counsel. The Trustee may act upon an Issuer Order and shall not be responsible for any loss or damage resulting from any action by it taken or omitted to be taken in good faith in reliance upon such Issuer Order without gross negligence or willful default. The Trustee need not investigate or make any independent determination of the facts, representations or conclusions contained in an Issuer Order. Prior to taking any action under the Indenture, the Trustee shall be entitled to an Issuer Order and/or an Opinion of Counsel that all conditions precedent under the Indenture and any Supplemental Indenture to the taking of such action have been satisfied.

(c) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to the Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the registered Owner of any Bond shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange there for or in place thereof.

(d) The Trustee shall not be accountable or responsible in any manner whatsoever for any action of the Issuer, any other Indenture Agent or the Servicer, or for the application of moneys by any Servicer until such time as funds are received by the Trustee.

(e) In fulfilling its responsibilities under the Indenture, under any other instruments or agreements, or under law the Trustee may act in full reliance upon the Issuer or any Servicer with respect to all such determinations made, actions taken and directions to the Trustee given by them, and the Trustee shall have no duty or responsibility to the Issuer, the Servicer, the Owners of the Bonds or any other Person or entity for any action (or inaction) of the Trustee taken in reliance upon any such determinations, actions or directions. The Issuer shall hold the Trustee harmless for any error or omission resulting from the Trustee's reliance upon the Issuer, the Indenture or any Servicer unless in connection with such action or omission the Trustee has willfully failed or failed with gross negligence to perform its obligations under an agreement with any Servicer or under the Indenture.

Responsibilities of Indenture Agents. The recitals of fact in the Indenture and in the Bonds contained shall be taken as the statements of the Issuer and no Indenture Agent assumes any responsibility for the correctness of the same. No Indenture Agent makes any representations as to the validity or sufficiency of the Indenture or of any Bonds issued under the Indenture or in respect of the security afforded by the Indenture, and no Indenture Agent shall incur any responsibility in respect thereof. The Authenticating Agent shall, however, be responsible for its representations contained in its certificate on the Bonds. No Indenture Agent shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Issuer. No Indenture Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any other Indenture Agent. No Indenture Agent shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect of the Indenture, or to advance any of its own moneys, unless indemnified to its satisfaction. No Indenture Agent shall be liable in connection with the performance of its duties under the Indenture except for its own negligence (or, with respect to the Trustee, for its own gross negligence) or willful default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than sixty (60) days' written notice to the Issuer, and mailing notice thereof specifying the date when such resignation shall take effect, to the registered Owners, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in "Appointment of Successor Trustee" below, in which event such resignation shall take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee under the Indenture shall become effective until a successor Trustee has been appointed and accepted its appointment.

Removal of Trustee. The Trustee shall be removed by the Issuer if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Issuer and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer. Notwithstanding the foregoing, no removal of the Trustee under the Indenture shall become effective until a successor has been appointed and has accepted such appointment.

Appointment of Successor Trustee.

(a) If at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Issuer covenants and agrees that it will promptly thereupon appoint a successor Trustee. The Issuer shall mail notice of any such appointment made by it within 20 days after such appointment to all Owners of Bonds.

(b) If no appointment of a successor Trustee shall have been made pursuant to the provisions of subsection (a) above within 45 days after the Trustee shall have given to the Issuer written notice, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

**Defeasance; Miscellaneous Provisions**

Defeasance. If the Issuer shall pay or cause to be paid to the Owners of the Bonds, the principal or Redemption Price and interest to become due thereon at the times and in the manner stipulated in the Bonds and in the Indenture, and pay or cause to be paid (i) all Rebate Amounts and Excess Interest required to be paid to the U.S. Treasury and (ii) to each Indenture Agent its fees, costs and expenses, then the pledge of the Trust Estate, including any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted by the Indenture shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Issuer, execute and deliver to the Issuer all such instruments as may be desirable to evidence such discharge and satisfaction and the Indenture Agents shall pay over or deliver to the Issuer all moneys or securities held by them pursuant to the Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment. The Issuer shall also provide (i) an accountant's verification and (ii) an opinion of Bond Counsel.

Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the Stated Maturity or Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) in case any of said Bonds are to be redeemed on any date prior to their Stated Maturity, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in the General Indenture notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or noncallable and nonprepayable Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due, without reinvestment, will provide moneys which together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest to become due on such Bonds on and prior to the Redemption Date or Stated Maturity date thereof, as the case may be, verified as to sufficiency by a report of an Accountant, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such Stated Maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Neither Governmental Obligations or moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such Governmental Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Governmental Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments shall, as contemplated by a report of an Accountant verifying continued sufficiency, be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien or pledge; provided, however, that such reinvestment may be effected only upon receipt by the Trustee of a Favorable Opinion.

Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) the Issuer has given notice of redemption of the Bonds, which redemption shall take place no later than 45 days from the date the Bonds are deemed to have been paid, and (ii) there shall have been deposited with the Trustee moneys in an amount which, when added to the other moneys in the Indenture certified to be available by the Issuer, is certified by the Issuer to be sufficient to pay the principal and interest on the Bonds to the Redemption Date. The Trustee shall deposit the moneys to be set aside for payment of the Redemption Price of the Bonds under the Indenture in a separate redemption account or pursuant to a separate escrow agreement, if the Issuer so designates. The money shall be invested only in non-callable and non-prepayable Governmental Obligations which mature prior to the Redemption Date.

The deposit required by second and third paragraphs under the heading Defeasance may be made with respect to any Series of Bonds, or a portion thereof, within any particular Stated Maturity, in which case such Bonds shall no longer be deemed to be Outstanding under the terms of the Indenture, and the Owners of such defeased Bonds shall be secured only by such trust funds and not by any other part of the Trust Estate, and the Indenture shall remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter. Notwithstanding the foregoing and the second and third paragraphs under the heading Defeasance and the definition of "Bondholder" "Owner," or "owner," the provisions of the Indenture relating to payment, registration, transfer and redemption of Bonds shall remain in effect until final Stated Maturity or the Redemption Date of the Bonds.

In addition to the foregoing provisions, Bonds or interest installments for the payment of which moneys shall have been set aside and shall be held in trust by the Indenture Agents (through deposit by the Issuer of funds for such payment or otherwise) shall, upon Stated Maturity or upon the Redemption Date established therefor, be deemed to have been paid and no longer Outstanding. Should any of the Bonds not be presented for payment when due, the Trustee shall retain from any moneys transferred to it for the purpose of paying said Bonds so due, for the benefit of the Owners thereof, a sum of money sufficient to pay such Bonds when the same are presented by the Owners thereof for payment (upon which sum the Trustee shall not be required to pay interest). All liability of the Issuer to the Owners of such Bonds and all rights of such Owners against the Issuer under the Bonds or under the Indenture shall thereupon be and become limited to amounts on deposit with the Trustee and set aside for such payment, and the sole right of such Owners shall thereafter be against such deposit. The Trustee shall bear no duty or liability to the Owners of such nonpresented Bonds other than to disburse funds from such deposit upon presentation of the appropriate Bond. If any Bond shall not be presented for payment within the period of six years following its Stated Maturity, the Trustee shall, to the extent permitted by law, turn over the money theretofore held by it for payment of such Bond to the Issuer, provided, however, that such amounts shall not be so transferred until at least one year after the final Stated Maturity date of the Bonds of the related Series.

From and after the date of payment in full of all Bonds outstanding, the Issuer shall have the right to receive payments with respect to all Student Loans.

## THE FIRST SUPPLEMENTAL INDENTURE

The following is a summary or extract of certain provisions of the First Supplemental Indenture. Such summary or extract does not purport to be complete and is subject to change prior to delivery of the Series 2010 Bonds.

The First Supplemental Indenture, dated as of December 1, 2010, is entered into by and between the Issuer and the Trustee and supplements the General Indenture, dated as of December 1, 2010, between the Issuer and the Trustee.

**Authorization, Terms and Issuance of Series 2010 Bonds**

Principal Amount, Designation and Series. Pursuant to the provisions of the General Indenture, a Series of Bonds entitled to the benefit, protection and security of the General Indenture is authorized to be issued in the aggregate principal amount of $53,400,000 pursuant to and subject to the terms, conditions and limitations established in the General Indenture and the First Supplemental Indenture.

Purposes of Issuance. The purposes for which the Series 2010 Bonds are being issued are to obtain funds to originate or refinance Student Loans and to fund a portion of the Debt Service Reserve Requirement with respect to the Series 2010 Bonds.

**Deposits into Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2010 Bonds; and Use and Disbursements of Funds**

Deposits into Funds and Accounts on the Issue Date. The net proceeds of the sale of the Series 2010 Bonds will be distributed and applied in accordance with the following provisions.

(a) On the Issue Date, the Trustee shall deposit into the Series 2010 Account of the Debt Service Reserve Fund from an equity contribution of the Issuer in an amount equal to $2,208,494.91 and from net proceeds of the Series 2010 Bonds an amount equal to $5,499,505.09 (the sum of which equals the initial Debt Service Reserve Requirement for the Series 2010 Bonds). On the Issue Date, the Trustee shall deposit into the Series 2010 Account of the Capitalized Interest Fund an amount equal to $4,710,000.00 from an equity contribution of the Issuer, to be used to pay interest on the Series 2010 Bonds and Program Expenses in accordance with the provisions of the First Supplemental Indenture. On the Issue Date, the Trustee shall deposit into the Series 2010 Account of the Acquisition Fund an amount equal to $49,495,545.81, consisting of the remaining net proceeds of the Series 2010 Bonds and an amount equal to $2,204,454.19 from an equity contribution of the Issuer.

(b) Throughout the Loan Origination Period, the Trustee shall transfer the amount deposited in the Series 2010 Account of the Acquisition Fund to the Issuer (i) to make disbursements on Student Loans (in the case of that portion of any Student Loans to be Originated with amounts from the Series 2010 Account of the Acquisition Fund), or (ii) in exchange for a like aggregate principal amount as of the date of transfer of Student Loans (in the case of Student Loans (including Student Loans which have not been fully disbursed as of the date of transfer) to be refinanced with amounts from the Series 2010 Account of the Acquisition Fund). Such transfers, as well as any subsequent acquisitions of Student Loans by the Trustee under the General Indenture, will be evidenced by an Assignment in substantially the form attached to the First Supplemental Indenture. All Student Loans so transferred will be deposited to the credit of the Series 2010 Account of the Student Loan Fund and constitute a part of the Trust Estate.

Capitalized Interest Fund. Amounts deposited to the credit of the Series 2010 Account of the Capitalized Interest Fund shall be transferred to the Revenue Fund on each Monthly Payment Date to the extent amounts available therefor in the Revenue Fund (after taking into account any transfers from the Surplus Fund but not from the Acquisition Fund or the Debt Service Reserve Fund) are not sufficient to pay (i) all Program Expenses required to be paid pursuant to clause (2) of paragraph (b) under "SUMMARIES OF DOCUMENTS – The General Indenture

– Pledge of Indenture; Establishment of Funds and Accounts – Revenue Fund" herein, and (ii) if such Monthly Payment Date immediately precedes an Interest Payment Date, all interest due and payable on the Series 2010 Bonds on such Interest Payment Date. If on any Capitalized Interest Fund Determination Date (after taking into account any amounts to be transferred to the Revenue Fund on that date), the amount on deposit in the Capitalized Interest Fund exceeds the Capitalized Interest Fund Requirement with respect to that date, such excess amount shall be transferred to the Revenue Fund.

Recycling Limitations. Student Loans may be Originated or refinanced under the General Indenture, with amounts credited to the Series 2010 Account of the Surplus Fund, only during the Recycling Period.

Subaccounts for Series 2010 Bonds.

(1) For purposes of tracking amounts and loans attributable to the Series 2010 Bonds, the Trustee shall establish a separate subaccount entitled "Series 2010 Account" in each of the Acquisition Fund, the Debt Service Reserve Fund and the Student Loan Fund and these subaccounts shall be administered in the same manner as the Fund in which such subaccount is created as provided in the General Indenture, provided, however, as follows:

(a) For the purpose of tracking amounts and loans attributable to the Series 2010 Bonds, amounts transferred to the Acquisition Fund attributable to the Series 2010 Bonds shall be deposited in the Series 2010 Account of the Acquisition Fund as provided the First Supplemental Indenture; and

(b) Student Loans acquired with proceeds of or attributable to the Series 2010 Bonds shall be credited to the Series 2010 Account of the Student Loan Fund. In addition, Student Loans acquired with amounts on deposit in the Series 2010 Account of the Revenue Fund or the Surplus Fund (created pursuant to (2) below) shall be credited to the Series 2010 Account of the Student Loan Fund.

(2) The Trustee shall also establish separate subaccounts entitled "Series 2010 Account" in the Revenue Fund, the Redemption Fund, the Surplus Fund, the Excess Interest Fund and the Capitalized Interest Fund, which subaccounts shall be administered in accordance with the applicable provisions of the General Indenture. Amounts transferred to the Revenue Fund attributable to the Series 2010 Bonds, the proceeds or investment thereof or any Student Loans acquired, in whole or in part, with proceeds thereof shall be deposited into the Series 2010 Account of the Revenue Fund.

(3) The yield restriction provisions under "SUMMARIES OF DOCUMENTS – The General Indenture – Pledge of Indenture; Establishment of Funds and Accounts – Surplus Fund" (governing the Surplus Fund) and "– Acquisition Fund" (governing the Acquisition Fund) herein shall apply to the Series 2010 Accounts of the Surplus Fund and the Acquisition Fund.

Limitation on Sale of Loans. The Issuer shall not direct the sale of Student Loans credited to the Series 2010 Account of the Student Loan Fund pursuant to any provision of the General Indenture if, at the time of such sale, the Parity Ratio is less than 121%.

Limitation on Program Expenses Paid From Revenue Fund. The amount of Program Expenses payable from the Revenue Fund pursuant to clause (2) of paragraph (b) under "SUMMARIES OF DOCUMENTS – The General Indenture – Pledge of Indenture; Establishment of Funds and Accounts – Revenue Fund" herein shall not exceed the amounts assumed in (i) the Cash Flow Projection provided to the Trustee on the Closing Date or (ii) a Cash Flow Projection provided to the Trustee on the closing date for a subsequent Series of Bonds, unless the requirements of a Rating Agency Notification have been satisfied with respect to any such excess.

Financial Covenants.

(a) The Issuer shall not permit its Tangible Net Worth less any loans to the State of Minnesota to be less than $425,000,000 on or after June 30, 2011, $450,000,000 on or after June 30, 2012, $475,000,000 on or after June 30, 2013, $500,000,000 on or after June 30, 2014, $525,000,000 on or after June 30, 2015, $550,000,000 on or after June 30, 2016, $575,000,000 on or after June 30, 2017, $590,000,000 on or after June 30, 2018, $605,000,000 on or after June 30, 2019, $620,000,000 on or after June 30, 2020, and $635,000,000 on or after June 30, 2021 and thereafter until no Series 2010 Bonds are outstanding. The failure of the Issuer to comply with this covenant shall not constitute an Event of Default under the First Supplemental Indenture unless the Issuer has withdrawn moneys from the Loan Capital Fund for a purpose other than to pay expenses related to the administration of loans made by the Issuer, to make loans under the Issuer's supplemental student loan programs under the Act or to repurchase defaulted student loans held under an indenture.

(b) For purposes (a) above, "Tangible Net Worth" means, as of any date of determination, the aggregate net worth of the Issuer determined in accordance with GAAP, less the book value of all assets of the Issuer that are treated as intangibles under GAAP.

(c) Amounts credited to the Loan Capital Fund may be used to (i) make loans under the Issuer's supplemental student loan programs under the Act; (ii) repurchase defaulted student loans from the trust estate of any outstanding indenture; and (iii) to pay expenses related to the administration of its outstanding bonds and of student loans under the Issuer's supplemental student loan programs under the Act.

Limitation on Student Loans. The Issuer shall not use monies in the Series 2010 Account of the Acquisition Fund or the Surplus Fund to Originate or refinance Student Loans that are or were made to pay the costs of attending (i) any school that is not a four-year college or a graduate school (a "Non-Four-Year School"), or (ii) a vocational or proprietary school (a "Vocational or Proprietary School") to the extent:

a. in the case of a Non-Four-Year School, it would cause the aggregate of the Original Principal Balances of such Student Loans Originated or refinanced during the Loan Origination Period to exceed 25% of the aggregate of the Original Principal Balances of all Series 2010 Financed Student Loans Originated or refinanced during the Loan Origination Period; or

b. in the case of a Vocational or Proprietary School, it would cause the aggregate of the Original Principal Balances of such Student Loans Originated or refinanced during the Loan Origination Period to exceed 15% of the aggregate of the Original Principal Balances of all Series 2010 Financed Student Loans Originated or refinanced during the Loan Origination Period.

Student Loan Requirements. The Issuer hereby covenants that all Student Loans to be Originated or refinanced hereunder will meet the following criteria at the time of such Origination or refinancing, provided, however, that the provisions of (a) and (b)(1), (2), (3) and (6) were met only when the Student Loan was Originated:

(a) The borrower of each Student Loan is either enrolled in an Eligible Institution in Minnesota or a Minnesota resident enrolled in an Eligible Institution.

(b) The borrower of each Student Loan (1) is enrolled at least half time in a program leading to a certificate, associate, baccalaureate, masters, doctorate or other professional degree, (2) is making satisfactory progress in an approved course of study, (3) is not currently in default under any State, federal or other private student loan program, (4) is not delinquent in the payment of principal or interest on any SELF loan, (5) has agreed to the release of information to a consumer credit reporting agency and (6) has a Creditworthy Cosigner.

(c) The interest rate on the Student Loan is fixed at 7.25%.

(d) The maximum loan amount of the Student Loan according to Grade Level: i.e. $10,000 per year for bachelors, post baccalaureate or graduate program, subject to a maximum of $70,000 for Student Loans, and $7,500 per year for all other programs, subject to a maximum of $37,500 for Student Loans.

(e) For each Student Loan, the quarterly interest payments begin within 3 months of disbursement on such Student Loan, monthly interest payments are required for 12 months after the borrower leaves school unless the borrower has already entered repayment. Student Loans are required to enter repayment no later than 9 years after the first disbursement date on the loan. If the aggregate principal loan balances from all SELF phases are less than $20,000 the repayment period on the Student Loans shall not exceed 10 years from graduation/termination and if the aggregate principal loan balances from all SELF phases are between $20,000 and $40,000 the repayment period on the Student Loans shall not exceed 15 years from graduation/termination. If the aggregate principal loan balances from all SELF phases is $40,000 or greater the Student Loans shall have a repayment period not to exceed 20 years from graduation/termination. An additional 24-month period of interest only payments after the standard 12-month grace period is available upon request, subject to the same maximum repayment terms described above.

(f) Payment notices are sent to each borrower at least 20 days prior to the payment due date. If payment is not received on the due date it is considered late, and late notices are sent beginning on the 16th day of delinquency. Payment demands upon the Creditworthy Cosigner begin on the 30th day of delinquency, and the loan is considered in default on the 165th day of delinquency.

The foregoing criteria may be changed upon satisfaction of requirements of a Rating Agency Notification with respect thereto.

Perfection of Student Loans and Defaulted Student Loans. The Trustee shall have a first perfected security interest in all Student Loans. The Issuer shall (a) defend the Student Loans against all claims and demands of all Persons at any time claiming the same or any interest therein, (b) comply with the requirements of all state and federal laws in order to grant to the Trustee (for the benefit of the Owners of the Series 2010 Bonds) valid and perfected first priority security interests in the Student Loans, and (c) take such actions to effect the purposes of the Indenture including filing notices of liens, UCC financing statements and amendments, renewals and continuations thereof.

Servicing of Student Loans. The Issuer will perform an audit of the Servicer at least once each calendar year and provide such report to the Trustee. Upon the occurrence of a Default or an Event of Default under the First Supplemental Indenture, the Issuer will perform an additional audit of the Servicer to ensure that the Servicer is complying with the terms of the Servicing Agreement and the rules and regulations of the Issuer and provide such report to the Trustee. Such report shall report such compliance in writing (or otherwise describe any noncompliance in such detail as shall be reasonably satisfactory to the Trustee) and the Issuer shall provide such report to the Trustee. In the event that the Issuer is notified (whether by such accountants or otherwise) of any material noncompliance by the Servicer with the due diligence standards, the Issuer shall use its best efforts to cause the Servicer to do all things necessary to cure such noncompliance. If a required audit of the Servicer is not received within 30 days after the time required or if the Servicer shall fail to cure noncompliance described in the preceding sentence within 60 days after the Issuer received notice thereof, the Issuer shall arrange for the prompt substitution of a Servicer for the Student Loans, and with respect to which the Issuer has satisfied the requirements of a Rating Agency Notification, under a Servicing Agreement granting rights substantially identical to the rights granted under the initial Servicing Agreement with respect to the Student Loans. All written information required under this Section shall be delivered within 15 days after receipt thereof by the Issuer. The Issuer covenants that the Servicer shall hold all notes evidencing the Student Loans and that such notes shall be held by the Servicer in accordance with the Bailment Agreement.

Prohibited Uses. The Issuer covenants and agrees that no portion of the Gross Proceeds of the Series 2010 Bonds will be used to provide any airplane, skybox, or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

2% Limit on Costs of Issuance. The Issuer covenants and agrees that Costs of Issuance paid with proceeds of the Series 2010 Bonds will not exceed two percent (2%) of the proceeds of the Series 2010 Bonds.

Form 8038. The Issuer covenants and agrees that not later than the fifteenth day of the second month following the end of the calendar quarter in which the Issue Date for the Series 2010 Bonds occurs, the Issuer shall complete, execute and deliver to the Internal Revenue Service Form 8038, or such other form as the Commissioner of Internal Revenue shall prescribe, setting forth such information as such form shall require with respect to the Series 2010 Bonds.

Yield Restriction. The Issuer covenants and agrees that except as otherwise provided in the Issuer's tax certificate delivered upon issuance of the Series 2010 Bonds, or as otherwise permitted upon delivery of an opinion of Bond Counsel to the effect that such investment will not cause interest on the Series 2010 Bonds to be included in the gross income of the Owner thereof, the Issuer shall not, at any time prior to the final stated maturity of the Series 2010 Bonds, directly or indirectly invest Gross Proceeds of the Series 2010 Bonds in any Investment (or use Gross Proceeds of the Series 2010 Bonds to replace money so invested), if, as a result of such investment, the Yield, from the Issue Date of such Series 2010 Bonds of all Investments acquired with Gross Proceeds of the Series 2010 Bonds (or with money replaced thereby) whether then held or previously disposed of, exceeds the Yield of the Series 2010 Bonds.

Federal Guarantee. Except as permitted by Section 149(b)(3) of the Code, the Issuer covenants that it shall neither (1) use any Gross Proceeds of the Series 2010 Bonds (i) to make loans which are guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States, or (ii) to invest in any deposit or account in a financial institution to the extent such deposit or account is insured under federal law by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any similar federally-chartered corporation, nor (2) otherwise permit payment of principal of or interest on the Series 2010 Bonds to be directly or indirectly guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States (e.g., by the investment of amounts held for the credit of any fund created hereunder in federally-guaranteed or federally-insured obligations).

Prohibited Payments. The Issuer covenants that it shall not, at any time prior to the final maturity of the Series 2010 Bonds, enter into any transaction that reduces the amount required to be paid to the United States because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Series 2010 Bonds not been relevant to either party. Notwithstanding the foregoing limitation, however, the Issuer may purchase directly from the United States Treasury any obligation of the United States Treasury at any price, including obligations of the State and Local Government Series.

Expenditure Expectation. The Issuer represents and warrants that it reasonably expects to spend 85% of the proceeds from the sale of the Series 2010 Bonds for the purpose for which such Series 2010 Bonds were issued within three years from the Issue Date. The Issuer covenants that it shall not invest more than 50% of Gross Proceeds of the Series 2010 Bonds in Nonpurpose Investments having a substantially guaranteed Yield for a period of four years or more.

Preservation of Tax-Exempt Status of Series 2010 Bonds. The Issuer shall maintain the tax-exempt status of interest on the Series 2010 Bonds, including refraining from taking or joining in any act or action which might result in the loss of tax-exempt status of the interest payable on the Series 2010 Bonds.

Borrower Benefits. The Issuer shall not offer Borrower Benefits to a borrower under any Series 2010 Financed Student Loan prior to December 9, 2012. Thereafter, any Borrower Benefits so offered shall not exceed the amounts assumed in the Cash Flow Projection provided to the Trustee on the Closing Date.

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## APPENDIX C

## BOOK-ENTRY ONLY SYSTEM

*The following information concerning DTC and DTC's book-entry system has been obtained from information made publicly available by DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Issuer and the Underwriters take no responsibility for the accuracy of such statements.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010 Bond certificate will be issued for each maturity of the Series 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2010 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If fewer than all of the Series 2010 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal of, redemption price of, and interest on, the Series 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal on, redemption price of, interest on, and the purchase price to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

December 9, 2010

Morgan Stanley & Co. Incorporated
U.S. Bancorp Investments, Inc.
c/o Morgan Stanley & Co. Incorporated
1221 Avenue of Americas, 30th Floor
New York, NY 10020

U.S. Bank National Association, as Trustee
425 Walnut Street
Cincinnati, OH 45202

Standard and Poor's Credit Rating Service
55 Water Street
New York, NY 10041

Fitch Ratings
One State Street Plaza, 31st Floor
New York, NY 10004

Minnesota Office of Higher Education
1450 Energy Park Drive, Suite 350
St. Paul, MN 55108-5227

RE: $53,400,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2010 Series

Ladies and Gentlemen:

We have acted as Bond Counsel to the Minnesota Office of Higher Education (the "Issuer"), an agency of the State of Minnesota (the "State"), in connection with the issuance of $53,400,000 aggregate principal amount of the Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2010 Series (the "Series 2010 Bonds"). We are providing this opinion to you pursuant to Paragraph 7(d)(iv) of the Bond Purchase Agreement, dated December 1, 2010 (the "Bond Purchase Agreement"), between the Issuer and Morgan Stanley & Co. Incorporated. The capitalized terms used and not defined herein are defined in the Bond Purchase Agreement or in the General Indenture, dated as of December 1, 2010 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture, dated as of December 1, 2010 (the "First Supplemental Indenture") (collectively, the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and pursuant to which the Series 2010 Bonds are being issued.

We have examined such documents and have reviewed such questions of law as we have considered necessary and appropriate for the purposes of our opinions set forth below.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures and the conformity to authentic originals of all documents submitted to us as copies. We have also assumed the legal capacity for all purposes relevant hereto of all natural persons and, with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise) executed and delivered by such parties, and that such agreements or instruments are the valid, binding and enforceable obligations of such parties. As to questions of fact material to our opinions, we have relied upon the representations made in the Bond Purchase Agreement and upon certificates of officers of the Issuer and of public officials (including, without limitation, those certificates delivered to others at the Closing). Finally, we take no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2010 Bonds and express no opinion with respect thereto.

Based on the foregoing, we are of the opinion that:

(1) The Issuer is an agency of the State and is validly existing under the laws of the State.

(2) The Issuer has full right, power and authority to enter into, execute, deliver and perform its obligations under the Series 2010 Bonds, the Bond Purchase Agreement, the General Indenture, the First Supplemental Indenture, the Bailment Agreement, and the Continuing Disclosure Agreement (collectively, the "Bond Documents").

(3) The execution, delivery and performance of the Series 2010 Bonds and the Bond Documents, for and in the name of the Issuer, have been duly authorized by all necessary action on the part of the Issuer.

(4) The Series 2010 Bonds and the Bond Documents have been duly authorized, executed and delivered on behalf of the Issuer by the Director and are valid and binding obligations of the Issuer enforceable in accordance with their terms.

(5) All consents, approvals, licenses or exemptions of, or any filings or registrations with, any federal or state regulatory agency required at the date hereof in connection with the Issuer's execution, delivery and performance of the Series 2010 Bonds and the Bond Documents have been obtained; provided that no opinion is expressed as to the registration requirements of the securities or "Blue Sky" laws of any state.

(6) The execution and delivery by the Issuer of the Series 2010 Bonds and the Bond Documents will not, to the best of our knowledge, conflict with, violate or constitute a breach of or default under any indenture or other agreement known to us to which the Issuer is a party or by which the Issuer is bound, or, to the best of our knowledge, any applicable law, administrative regulation, order or court decree.

(7) To the best of our knowledge, there is no action, suit or proceeding, before or by any court against the Issuer, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2010 Bonds and the Bond Documents.

(8) Interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes. The Series 2010 Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code. Interest on the Series 2010 Bonds is not an item of tax preference required to be included in the computation of alternative minimum taxable income for purposes of the federal alternative minimum taxes.

(9) Interest on the Series 2010 Bonds is not includible in gross income for the purpose of State income taxes, except for State corporate and bank excise taxes measured by income. Interest on the Series 2010 Bonds is not an item of tax preference required to be

included in the computation of alternative minimum taxable income for purposes of the State alternative minimum taxes.

The opinions expressed in paragraphs (8) and (9) above are subject to the condition of compliance by the Issuer with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2010 Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes and State income tax purposes. Noncompliance with such requirements could result in the inclusion of interest on the Series 2010 Bonds in gross income for federal income tax purposes and individuals, estates and trusts for State income tax purposes, retroactive to the date of issuance of the Series 2010 Bonds. The Indenture and the Arbitrage and Use of Proceeds Certificate relating to the Series 2010 Bonds contain provisions which, if complied with, will satisfy such requirements. Except as stated in this opinion, we express no opinion regarding other federal or State tax consequences to owners of the Series 2010 Bonds.

The opinions set forth above are subject to the following qualifications and exceptions:

(a) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar law of general application affecting creditors' or secured creditors' rights.

(b) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law).

(c) Our opinion in paragraph (4) above concerning enforceability, insofar as it relates to indemnification provisions, is subject to the effect of federal and state securities laws and public policy relating thereto.

Our opinions expressed above are limited to the laws of the State and the federal laws of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the laws of any other jurisdiction. This opinion is rendered as of the date set forth above and is based upon laws, regulations, rulings and decisions in effect on such date, and we express no opinion as to circumstances or events which may occur subsequent to such date.

Respectfully submitted,

BEST & FLANAGAN LLP

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## APPENDIX E

## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 1, 2010 (this "Disclosure Agreement"), is executed and delivered by the Minnesota Office of Higher Education (the "Issuer") and U.S. Bank National Association (the "Dissemination Agent") in connection with the issuance of $53,400,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2010 Series (the "Bonds"). The Bonds are being issued pursuant to a General Indenture, dated as of December 1, 2010 (the "General Indenture"), between the Issuer and U.S. Bank National Association, trustee (the "Trustee"), as amended and supplemented by the First Supplemental Indenture, dated as of December 1, 2010 (the "First Supplemental Indenture"), between the Issuer and the Trustee (the General Indenture, as amended and supplemented by the First Supplemental Indenture, is herein referred to as the "Indenture").

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement constitutes the written undertaking of the Issuer, for the benefit of the Bondholders (including any Beneficial Owners thereof when the Bonds are held in the book-entry system) to the extent stated herein and required by the Rule (defined below) thereby providing for the public availability of certain information relating to the Bonds and the security therefor and to permit participating underwriters in the primary offering of the Bonds to comply with the Rule, which will enhance the marketability of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" shall comprise the following (subject to modification as provided in Section 3 hereof):

(1) A complete audit report and opinion of an Accountant and the financial statements of the Issuer for such Fiscal Year, containing balance sheets as of the end of such Fiscal Year and a statement of operations, changes in fund balance and cash flows for the Fiscal Year then ended, and showing in comparative form such figures for the preceding Fiscal Year of the Issuer, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Issuer, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the Chief Financial Officer of the Issuer, to the best of his or her knowledge; and

(2) To the extent not included in the financial statements referred to in paragraph (1) hereof, the information for such Fiscal Year or the period most recently available of the type identified below, which information may be unaudited, but shall be certified as to accuracy and completeness by the Chief Financial Officer of the Issuer to the best of his or her knowledge, which certification may be based on the reliability of information obtained from governmental or other third-party sources, in the following general categories:

(a) Information regarding the principal amount of outstanding bonds of the Issuer as of the end of the current Fiscal Year, the operating budget of the Issuer for the current Fiscal Year and the Loan Capital Fund for the most recent Fiscal Year, of the type contained under the caption "MINNESOTA OFFICE OF HIGHER EDUCATION — Financial Information" in the Official Statement.

(b) Information for the most recent Fiscal Year regarding the amount of SELF Loans originated and the principal balance of SELF Loans as of the end of such Fiscal Year of the type contained under the caption "THE SUPPLEMENTAL STUDENT LOAN PROGRAM — SELF Program Overview" in the Official Statement.

(c) Information for the most recent Fiscal Year regarding loan loss, recovery experience and borrower delinquencies with respect to SELF II, III and IV Loans of the type contained under the caption "THE SUPPLEMENTAL STUDENT LOAN PROGRAM — Loss and Delinquency Experience for SELF II, SELF III and SELF IV Loans" in the Official Statement.

"Beneficial Owners" means any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of any Bonds (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bondholder" shall mean the registered owner or owners of a Bond appearing in the registration books maintained by the Registrar or any Beneficial Owner thereof, if the Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee.

"Disclosure Representative" shall mean the Chief Financial Officer of the Issuer, or such other person as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean the Dissemination Agent, if any, designated in writing by the Issuer pursuant to the terms hereof. Initially, U.S. Bank National Association shall act as the Dissemination Agent.

"Listed Event" means any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Bonds;
(7) Modifications to rights of Bondholders, if material;
(8) Bond calls, if material;
(9) Tender offers;
(10) Defeasances;
(11) Release, substitution, or sale of property securing repayment of the Bonds, if material;
(12) Rating changes;
(13) Bankruptcy, insolvency, receivership, or similar event of the obligated person;
(14) The consummation of a merger, consolidation, or acquisition involving an obligated person, other than in the ordinary course of business, or the sale of all or substantially all of the assets of the obligated person, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"Listed Event Notice" means written or electronic notice of a Listed Event prepared in accordance with applicable federal securities laws.

"MSRB" means the Municipal Securities Rulemaking Board or any successors to its functions. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

"National Repository" shall mean the Electronic Municipal Market Access System ("EMMA") operated by the MSRB as a National Repository for continuing disclosure under the Rule, or any other repository authorized by the Rule.

"Official Statement" means the Official Statement dated December 1, 2010, delivered in connection with the original issue and sale of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Underwriters" shall mean Morgan Stanley & Co. Incorporated and U.S. Bancorp Investments, Inc., and any other underwriter of the Bonds required to comply with the Rule in connection with the primary offering of the Bonds for sale.

SECTION 3. Undertaking to Provide Ongoing Disclosure.

(a) It is the express intention of the Issuer that the Bondholders (including any Beneficial Owners hereof when the Bonds are in the book-entry system) be a beneficiary of this Disclosure Agreement with the right to enforce this Disclosure Agreement directly against the Issuer to the extent set forth in Section 9 hereof.

(b) The Issuer, as an "obligated person" within the meaning of the Rule, undertakes to provide the following information:

(1) Annual Financial Information, and

(2) Listed Event Notices.

(c) The Issuer shall provide, or shall cause the Dissemination Agent to provide, while any Bonds are outstanding, Annual Financial Information to each National Repository not later than 155 days after the end of the Issuer's Fiscal Year (the "Report Date"), commencing with the Fiscal Year ending June 30, 2011. In addition, five days prior to the Report Date (the "Submission Date"), the Disclosure Representative shall submit the Annual Financial Information to the Dissemination Agent. If a Dissemination Agent has been designated, the Disclosure Representative shall include with each submission of Annual Financial Information to the Dissemination Agent a written representation addressed to the Dissemination Agent to the effect that the Annual Financial Information is the Annual Financial Information required by this Section and that it complies with the applicable requirements of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such written representation of the Disclosure Representative. The Dissemination Agent's obligation to deliver the information at the times and with the contents described above shall be limited to the extent the Disclosure Representative has provided such information to the Dissemination Agent as required hereby. The Dissemination Agent shall have no duty or obligation to review such Annual Financial Information. If the Issuer changes its Fiscal Year (thereby changing the Report Date and the Submission Date), the Disclosure Representative shall provide written notice of the change of Fiscal Year and the new Report Date and Submission Date to the Dissemination Agent, if any, and each then existing National Repository, provided that the period between the final Report Date relating to the former Fiscal Year and the initial Report Date relating to the new Fiscal Year shall not exceed one year in duration.

Notwithstanding the foregoing, if the audited financial statements comprising part of the Annual Financial Information are not available by the date specified, the Issuer shall provide, on or before the Report Date and the Submission Date, unaudited financial statements in the format required as part of the Annual Financial Information and, within 10 days after the receipt of the audited financial statements, the Issuer shall provide the audited financial statements.

Any or all of the Annual Financial Information may be incorporated, if it is updated as required hereby, by reference from other documents, including official statements, which have been submitted to each National Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify in the Annual Financial Information each document so incorporated by reference.

If any part of the Annual Financial Information can no longer be generated because the operations of the Issuer have materially changed or been discontinued, such Annual Financial Information need no longer be provided if the Issuer includes in the Annual Financial Information a statement to such effect; provided, however, if such operations have been replaced by other Issuer operations in respect of which data is not included in the Annual Financial Information and the Issuer determines that certain specified data regarding such replacement operations would be material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time, then, from and after such determination, the Annual Financial Information shall include such additional specified data regarding the replacement operations.

If the Annual Financial Information is changed or this Disclosure Agreement is amended as permitted by this Section 3(c) or Section 7 hereof, then the Issuer shall include in the next Annual Financial Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(d) If a Listed Event occurs while any Bonds are outstanding, the Disclosure Representative shall provide, or shall provide to the Dissemination Agent, if any, for dissemination a Listed Event Notice in a timely manner not in excess of ten (10) business days following the occurrence of the Listed Event, to each then existing National Repository (or the MSRB). Each Listed Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds. The Dissemination Agent shall have no duty to prepare any Listed Event Notice, nor shall the Dissemination Agent be responsible for filing any Listed Event Notice not provided to it by the Issuer or the Disclosure Representative in a timely manner and in a form suitable for filing. The Dissemination Agent shall not be responsible in any manner for the content of any Listed Event Notice prepared by the Issuer or the Disclosure Representative pursuant to this Disclosure Agreement.

(e) The Dissemination Agent shall promptly (but in any event within five Business Days) advise the Disclosure Representative whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee obtains actual knowledge of an occurrence which would require the Issuer to provide a Listed Event Notice pursuant to clause (d) above; provided that the failure of the Trustee so to advise the Disclosure Representative of such occurrence shall not constitute a breach by the Trustee of any of its duties and responsibilities under the Indenture and shall not excuse or suspend any obligation of the Issuer under subsection (d). If in response to a notice under this subsection, the Disclosure Representative determines, with respect to an event described in the definition of "Listed Event" which would not be required to be reported if it is determined that such event is not be material, that such event is not material, then the Disclosure Representative shall so notify the Trustee and shall not be required to report the occurrence pursuant to subsection (d). The Trustee and the Dissemination Agent shall have no responsibility for determining the materiality of any occurrence which may constitute a Listed Event.

(f) The Disclosure Representative shall provide notice in a timely manner to each then existing National Repository (or the MSRB) of any failure while any Bonds are outstanding to provide Annual Financial Information on or before the Report Date (for any reason) as provided herein.

(g) The Disclosure Representative may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Issuer and the Disclosure Representative. If no Dissemination Agent has been appointed or engaged or if a Dissemination Agent resigns or is otherwise removed and no successor Dissemination Agent is appointed or engaged, the Disclosure Representative shall perform all of the duties and assume all of the obligations of the Dissemination Agent hereunder.

(h) If a Dissemination Agent has been designated, the Dissemination Agent shall:

(i) If the Disclosure Representative provides to the Dissemination Agent information, which information is not designated as a Listed Event Notice, and directs the Dissemination Agent to provide such information to information repositories, provide such information in a timely manner to each then existing National Repository (or the MSRB);

(ii) If by the Submission Date, the Dissemination Agent has not received a copy of the Annual Financial Information, contact the Disclosure Representative to determine if the Issuer is in compliance with subsection (c);

(iii) If the Dissemination Agent has not itself provided or received the representation from the Disclosure Representative that it has provided the Annual Financial Information to each then existing National Repository by the Report Date send a notice to each then existing National Repository in substantially the form attached as Exhibit A; and

(iv) If the Annual Financial Information has been disseminated by the Dissemination Agent, file a report with the Disclosure Representative certifying that the Annual Financial Information has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all parties to which it was provided.

(i) The Disclosure Representative shall determine prior to each date for providing the Annual Financial Information or Listed Event Notices, the name and address of each National Repository.

(j) Unless otherwise required by the Rule, the Disclosure Representative and the Dissemination Agent, if any, shall employ such methods of information transmission as shall be required or recommended by the designated recipients of the Annual Financial Information and Listed Event Notices.

(k) Notwithstanding the foregoing,

(i) notice of the occurrence of an event described in clauses (1), (8) or (10) of the definition of "Listed Event" shall be given by the Dissemination Agent, if any, to the Disclosure Representative if the Disclosure Representative is not an officer or employee of the Issuer; and such Disclosure Representative shall be responsible for reporting the occurrence of such event pursuant to subsection (d) above unless the Disclosure Representative gives the Dissemination Agent notice that it will not disclose such occurrence; and

(ii) notice of events described in clauses (8) and (10) of the definition of "Listed Event" need not be given under this subsection to the Disclosure Representative pursuant to subsection (i) above any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Bonds pursuant to the Indenture.

SECTION 4. Obligated Persons.

(a) In the event that any other person subsequently becomes an obligated person on the Bonds (as defined in the Rule), the Issuer agrees to use its best efforts to cause such person to enter into a written undertaking to comply with the provisions set forth in this Disclosure Agreement.

(b) Any such obligated person (other than the Issuer) reserves the right to terminate its obligation to provide Annual Financial Information, and notices of Listed Events, as set forth above, if and when such person is no longer an obligated person with respect to the Bonds within the meaning of the Rule. The Disclosure Representative will provide notice of any such termination to the Trustee, each then existing National Repository.

(c) If the Issuer's obligations under the Indenture are assumed in full by some other person or entity, such person or entity shall assume, in a written agreement satisfactory in form and substance to the Trustee, and be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Issuer and the Issuer shall have no further responsibility hereunder.

SECTION 5. Termination of Reporting Obligation. The continuing obligation hereunder of the Issuer to provide Annual Financial Information and Listed Event Notices hereunder shall terminate immediately once the Bonds are no longer Outstanding (as defined in the Indenture).

SECTION 6. Disclosure Representative. The Issuer shall, from time to time, appoint or engage a Disclosure Representative to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Disclosure Representative, upon appointment of a successor Disclosure Representative. If at any time there is not any other designated Disclosure Representative, the Issuer shall perform all the obligations and duties of the Disclosure Representative hereunder.

SECTION 7. Amendments. This Disclosure Agreement (and the form and requirements of the Annual Financial Information) may not be amended or supplemented except in a writing executed by the parties hereto and with the consent of the Trustee (which consent shall not be unreasonably withheld or delayed) accompanied by an opinion of counsel expert in federal securities law, who may rely on certificates of the Issuer and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the Issuer or the type of operations conducted by the Issuer, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this Disclosure Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondholders under the Rule. This Disclosure Agreement may be amended or supplemented from time to time without notice to or the consent of the Bondholders (except as otherwise provided in Section 11 hereof).

If the Annual Financial Information is amended pursuant to this Section 7, the Issuer agrees to provide to each existing National Repository (or the MSRB) contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement.

SECTION 9. Default. In the event of a failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with any provision of this Disclosure Agreement, the Dissemination Agent may and, at the written request of the Underwriter or the Bondholders of at least 25% aggregate principal amount of outstanding Bonds, shall, solely to the extent indemnified to its satisfaction, including attorney fees and expenses), or any Bondholders, as third-party beneficiaries hereof, may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bonds or the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover any monetary damages hereunder in any circumstance.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. In the absence of bad faith on its part, the Dissemination Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Dissemination Agent and conforming to the requirements of this Disclosure Agreement. In the case of any Annual Financial Information disclosure, or any Listed Event disclosure, or any opinions which, by any provision hereof, are specifically required to be furnished to the Dissemination Agent, the Dissemination Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Disclosure Agreement as to form only, but shall be under no duty to verify independently or investigate the accuracy or completeness of any information contained therein or the correctness of any opinion furnished hereunder. If the Dissemination Agent is other than the Issuer, no provision of this Continuing Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, provided that the Dissemination Agent shall pay such reasonable expenses, disbursements and advances necessary to perform its obligations hereunder, which expenses, disbursements and advances are expected to be reimbursed under Section 12 hereof.

SECTION 11. Binding Effect; Bondholders as Third-Party Beneficiaries. This Disclosure Agreement shall inure to the benefit of and shall be binding upon the Issuer and the Dissemination Agent and their respective successors and permitted assigns. In addition, this Disclosure Agreement shall constitute a third-party beneficiary contract for the benefit of the Bondholders from time to time. Said third-party beneficiaries shall be entitled to enforce performance and observance by the parties of the respective agreements and covenants herein contained as fully and completely as if said third-party beneficiaries were parties hereto; provided that this Disclosure Agreement (other than this Section 11) may be amended or supplemented from time to time without notice to or the consent of such third-party beneficiaries. Nothing in this Disclosure Agreement, express or implied, shall give to any Person, other than the parties hereto and their respective successors and permitted assigns as provided herein, and the Bondholders, any benefit or other legal or equitable right, remedy or claim under this Disclosure Agreement.

SECTION 12. Compensation. The Issuer hereby agrees to compensate the Dissemination Agent, if someone other than the Issuer is appointed, for the services provided and the reasonable expenses incurred pursuant to this Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Governing Law; Construction. The Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. This Disclosure Agreement is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

SECTION 15. Notices. Notices to be given to the Issuer or, if it is the Dissemination Agent hereunder, the Trustee shall be given to them at the addresses and in the manner specified in or pursuant to the Indenture.

SECTION 16. Representations. Each of the parties hereto represents and warrants to each other party that (i) it has all requisite power and authority to execute, deliver and perform this Disclosure Agreement under applicable law and any resolutions or other actions of such party now in effect, (ii) it has duly authorized the execution and delivery of this Disclosure Agreement, (iii) the execution and delivery of this Disclosure Agreement and performance of the terms hereof by such party do not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument to which it is a party or by which it is bound, and (iv) to its best knowledge, no litigation, proceeding or administrative matter is pending to which it is a party, or overtly threatened, contesting or questioning the legal existence of such party, its power and authority to enter into and perform this Disclosure Agreement or its due authorization, execution and delivery of this Disclosure Agreement.

The Issuer represents and warrants that it is the only "obligated person" in respect of the Bonds within the meaning of the Rule and that it has complied in all material respects with all undertakings previously entered into by it under the Rule.

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By: ______________________________
Authorized Officer

MINNESOTA OFFICE OF
HIGHER EDUCATION

By: ______________________________
Its: Director

**EXHIBIT A**

**MINNESOTA OFFICE OF HIGHER EDUCATION**
**SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Minnesota Office of Higher Education

Name of Bond Issue: $53,400,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2010 Series

Date of Issuance: December 9, 2010

NOTICE IS HEREBY GIVEN that the Issuer has not provided the annual financial information with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of December 1, 2010, between the Minnesota Office of Higher Education, as Issuer, and U.S. Bank National Association, as dissemination agent. [The Issuer has informed the undersigned that it anticipates that the annual financial information will be filed by _______________.]

Dated:

U.S. BANK NATIONAL ASSOCIATION,
on behalf of the Issuer

By:___________________________
Its:___________________________

cc: Disclosure Representative
[if notice is sent by Dissemination
Agent.]

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Minnesota Office of Higher Education • Supplemental Student Loan Program Revenue Bonds, 2010 Series

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