

**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

## TABLE OF CONTENTS

June 30, 2009

---

Independent Auditors' Report	i – ii
Management's Discussion and Analysis	iii – xi
Basic Financial Statements	
Government-Wide Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenses and Changes in Net Assets – Enterprise Fund	7
Statement of Cash Flows – Enterprise Fund	8
Index to Notes to the Financial Statements	9
Notes to Financial Statements	10 – 28
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	29
Notes to Required Supplementary Information	30
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	32

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

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 Library Information 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
<b>Assets</b>						
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
<b>Total assets</b>	<b>12,617,598</b>	<b>990,546,780</b>	<b>1,003,164,378</b>	<b>12,575,468</b>	<b>871,303,988</b>	<b>883,879,456</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>11,870,503</b>	<b>630,623,059</b>	<b>642,493,562</b>	<b>11,360,024</b>	<b>530,426,700</b>	<b>541,786,724</b>
<b>Net assets</b>						
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
<b>Total net assets</b>	<b>\$ 747,095</b>	<b>\$ 359,923,721</b>	<b>\$ 360,670,816</b>	<b>\$ 1,215,444</b>	<b>\$ 340,877,288</b>	<b>\$ 342,092,732</b>

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
<b>REVENUES</b>						
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	<u>192,166,343</u>	<u>41,956,120</u>	<u>234,122,463</u>	<u>194,467,460</u>	<u>54,762,705</u>	<u>249,230,165</u>
<b>EXPENSES</b>						
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	<u>192,634,692</u>	<u>22,909,687</u>	<u>215,544,379</u>	<u>195,513,238</u>	<u>37,317,890</u>	<u>232,831,128</u>
CHANGE IN NET ASSETS	<u>\$ (468,349)</u>	<u>\$ 19,046,433</u>	<u>\$ 18,578,084</u>	<u>\$ (1,045,778)</u>	<u>\$ 17,444,815</u>	<u>\$ 16,399,037</u>

### *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

	<b>ASSETS</b>	Governmental Activities	Business- type Activities	Totals
<b>CURRENT ASSETS</b>				
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		<u>12,599,998</u>	<u>323,160,328</u>	<u>335,760,326</u>
<b>NON-CURRENT ASSETS</b>				
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		<u>17,600</u>	<u>667,386,452</u>	<u>667,404,052</u>
Total Assets		<u>12,617,598</u>	<u>990,546,780</u>	<u>1,003,164,378</u>
	<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>				
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		<u>11,478,221</u>	<u>1,143,245</u>	<u>12,621,466</u>
<b>NON-CURRENT LIABILITIES</b>				
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		<u>392,282</u>	<u>629,479,814</u>	<u>629,872,096</u>
Total Liabilities		<u>11,870,503</u>	<u>630,623,059</u>	<u>642,493,562</u>
	<b>NET ASSETS</b>			
Invested in capital assets		17,600	11,733	29,333
Restricted for debt service		-	359,911,988	359,911,988
Unrestricted		<u>729,495</u>	-	<u>729,495</u>
<b>TOTAL NET ASSETS</b>		<u>\$ 747,095</u>	<u>\$ 359,923,721</u>	<u>\$ 360,670,816</u>

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF ACTIVITIES For the Year Ended June 30, 2009

Functions/Programs	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets			
	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	<u>192,634,692</u>	<u>659,228</u>	<u>191,507,115</u>	<u>(468,349)</u>	<u>-</u>	<u>(468,349)</u>
Business-type Activities						
Loan capital fund	<u>22,909,687</u>	<u>41,956,120</u>	<u>-</u>	<u>-</u>	<u>19,046,433</u>	<u>19,046,433</u>
Totals	<u>\$ 215,544,379</u>	<u>\$ 42,615,348</u>	<u>\$ 191,507,115</u>			
Change in Net Assets				(468,349)	19,046,433	18,578,084
NET ASSETS - Beginning of Year				<u>1,215,444</u>	<u>340,877,288</u>	<u>342,092,732</u>
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
<b>ASSETS</b>			
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
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,600,685</u></b>	<b><u>\$ 2,028,546</u></b>	<b><u>\$ 12,629,231</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
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	<u>10,600,685</u>	<u>870,841</u>	<u>11,471,526</u>
Fund Balances			
Unreserved	-	1,157,705	1,157,705
Total Fund Balances	<u>-</u>	<u>1,157,705</u>	<u>1,157,705</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 10,600,685</u></b>	<b><u>\$ 2,028,546</u></b>	<b><u>\$ 12,629,231</u></b>

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		<u>(43,247)</u>	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**

# 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
<b>REVENUES</b>			
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	<u>185,892,985</u>	<u>6,273,358</u>	<u>192,166,343</u>
<b>EXPENDITURES</b>			
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	<u>185,892,985</u>	<u>6,331,097</u>	<u>192,224,082</u>
Excess (deficiency) of revenues over expenditures	-	(57,739)	(57,739)
FUND BALANCE - Beginning of Year	<u>-</u>	<u>1,215,444</u>	<u>1,215,444</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 1,157,705</u>	<u>\$ 1,157,705</u>

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	<u>(428,210)</u>
------------------------------	------------------

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(468,349)</u></b>
--	----------------------------

# 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	<u>11,871,801</u>

Operating Income	<u>26,181,324</u>
------------------	-------------------

### NON-OPERATING REVENUES (EXPENSES)

Investment income	3,902,995
Interest expense	(10,917,882)
Amortization expense	<u>(120,004)</u>
Total Non-operating Revenues (Expenses)	<u>(7,134,891)</u>

CHANGE IN NET ASSETS	19,046,433
----------------------	------------

NET ASSETS - Beginning of Year	<u>340,877,288</u>
--------------------------------	--------------------

NET ASSETS - END OF YEAR	<u>\$ 359,923,721</u>
--------------------------	-----------------------

# 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	<u>(297,428)</u>

### 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	<u>3,804,627</u>

### 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	<u>88,235,667</u>

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	<u>(39,293,468)</u>

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	<u>\$ (297,428)</u>

### 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	Page
I. Summary of Significant Accounting Policies	10
A. Reporting Entity	10
B. Government-Wide and Fund Financial Statements	10
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	12
D. Assets, Liabilities, and Net Assets or Equity	13
1. Deposits and Investments	13
2. Receivables	14
3. Prepaid Items	14
4. Restricted Assets	14
5. Capital Assets	14
6. Other Assets	14
7. Compensated Absences	15
8. Long-Term Obligations	15
9. Claims and Judgments	16
10. Equity Classifications	16
II. Stewardship, Compliance, and Accountability	17
A. Budgetary Information	17
III. Detailed Notes on All Funds	17
A. Deposits and Investments	17
B. Receivables	19
C. Restricted Assets	21
D. Capital Assets	22
E. Interfund Receivables/Payables	22
F. Long-Term Obligations	23
G. Net Assets	26
IV. Other Information	27
A. Employees' Retirement System	27
B. Risk Management	28
C. Commitments and Contingencies	28
D. Effect of New Accounting Standards on Current Period Financial Statements	28

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO 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 administering 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

---

### 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	<u>\$ 277,902,194</u>	<u>\$ 266,409,760</u>	
Reconciliation to financial statements			
Per statement of net assets			
Cash and investments	\$ 232,109,918		
Restricted cash and investments	<u>45,792,276</u>		
Total Cash and Investments	<u>\$ 277,902,194</u>		

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

---

### 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 Delaware 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:

	<u>Percentage of Portfolio</u>
Bayerische Landesbk Giro	25.4%
Dexia Delaware LLC	23.7%
FCAR Owner Trust	25.5%
Metlife Short Term Fund	25.4%

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

### 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.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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	<u>(8,819,170)</u>
Ending Balance	<u>\$ 8,676,026</u>

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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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:

	<u>Restricted Assets</u>
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	<u>8,676,026</u>
Total Restricted Assets	<u>\$ 45,792,276</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

#### **D. CAPITAL ASSETS**

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

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

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

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

\$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:

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### 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
<b>GOVERNMENTAL ACTIVITIES</b>					
Other Liabilities					
Vested compensated absences	\$ 407,407	\$ 20,803	\$ -	\$ 428,210	\$ 35,928
<b>BUSINESS-TYPE ACTIVITIES</b>					
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
<b>Total Business-type Activities</b>					
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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### 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
<u>Supplemental Student Loan Program Variable Rate Revenue Bonds</u>						
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						<u>\$ 627,000,000</u>

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

Years Ending June 30	Business-type Activities		
	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	<u>\$ 627,000,000</u>	<u>\$ 168,561,660</u>	<u>\$ 795,561,660</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

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

---

#### *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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

---

### 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		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
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)
<b>EXPENDITURES</b>				
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
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 795,152</b>	<b>\$ 7,420,668</b>	<b>\$ -</b>	<b>\$ (7,975,834)</b>

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

---

### ***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
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>	<b>\$ 1,302,310</b>	<b>\$ 726,236</b>	<b>\$ 2,028,546</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
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
<b>Fund Balances</b>			
Unreserved (deficit)	1,207,936	(50,231)	1,157,705
Total Fund Balances	1,207,936	(50,231)	1,157,705
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,302,310</b>	<b>\$ 726,236</b>	<b>\$ 2,028,546</b>

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