MINNESOTA OFFICE OF HIGHER EDUCATION

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

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 30, 2016

MINNESOTA OFFICE OF HIGHER EDUCATION

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As of and for the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Commissioner
Minnesota Office of Higher Education
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Commissioner
Minnesota Office of Higher Education

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnesota Office of Higher Education's basic financial statements. The combining financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Minnesota Office of Higher Education's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED

Our discussion and analysis of the financial performance of the Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2016.

Introduction

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

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

The Agency works to:

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

The Agency employs a staff of 64 FTE, of which 23 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. However, statutory provisions authorize the Agency to request the Governor to include in the Governor's budget or supplemental budget amounts sufficient to (1) cure any deficiency in the Debt Service Reserve Fund, (2) restore the loan capital fund maintained by the Issuer as an Enterprise Fund and not pledged to any of its bonds or obligations (the "Loan Capital Fund") to the minimum required amount and (3) cover any expected shortfall in the moneys available to pay principal of and interest on the any bond in the current or immediately following fiscal year.

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

The Minnesota State Grant Program (which provides more than $180 million in need-based aid to Minnesota students annually), and other student financial aid programs such as the Postsecondary Child Care Grant Program, State Work Study Program, and the Public Safety Officers' Survivors Benefit Program enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities. Other core programs are the Student Educational Loan Fund ("SELF") and SELF Refi, the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program.The Agency's publications, web content, interactive media, and direct contact with students and families enable the Agency to provide outreach to communities of color, low-income families, and families with no previous higher education experience. The Get Ready! Program, working in tandem with the federally sponsored GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) and Intervention for College Attendance Program Grants, helps to sustain a continuum of contact and service to low-income students from fourth grade through high school as they prepare for college admission and attendance.

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

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

Through state laws which undergird the registration and licensure of private colleges, universities, career schools, and certain out-of state public postsecondary institutions, the Agency provides students with consumer protection by assuring that private postsecondary institutions meet state standards in order to operate legally in Minnesota. Minnesota is an approved SARA (State Authorization Reciprocity Agreement) state. An institution authorized under SARA criteria in its home state is considered authorized in all other SARA states.

Financial Highlights

- The Agency's net position increased $14.4 million or 3.2% from fiscal year 2015 to 2016 mainly as a result of student loan financing activities.
- The Agency received $221.7 million for fiscal year 2016 state appropriations. Unexpended funds will be carried forward to fiscal year 2017.
- The Minnesota College Savings Plan has increased to over $1.2 billion in assets.
- The Loan Capital Fund issued 8,587 and 8,350 new loans in fiscal years 2016, and 2015, respectively, with the average student loan amount of $7,768 and $6,521, respectively.
- Net Loan Receivables in the Loan Capital Fund shrunk by $10.5 million or 1.8% during fiscal year 2016 and shrunk by $46.6 million or 7.6% during fiscal year 2015.
- In January, the Agency implemented a new student loan refinancing program (SELF Refi). Approximately $23.6 million of refinancing loans were disbursed in fiscal year 2016.
- The Agency has legislative approval to enter into interest rate exchange or swap agreements, or other comparable interest rate protection agreements. This option is limited to agreements related to bonds and notes with an aggregate value of no more than $20 million. As of June 30, 2016 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- Over the course of the fiscal year $47.9 million of fixed rate and variable rate bonds were redeemed. The 2012 bonds were restructured in a private placement transaction.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

- ***Governmental Activities*** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the state work study program, negotiating and administering reciprocity agreements, publishing and distributing financial aid information and materials, collecting and maintaining student enrollment and financial aid data, and administering various federal grant programs that affect students and postsecondary institutions. Licensing and registration fees finance the cost for administering the registration and licensing of private college and career schools and certain out-of-state public postsecondary institutions.
- ***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 and refinance educational loans. The loan programs currently being administered by the Agency are the Student Educational Loan Fund ("SELF") Program and the SELF Refi Program.

Fund Financial Statements

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

- ***Governmental Funds*** — Governmental funds are used for primarily the same functions reported as governmental activities. The governmental fund financial statements are used to analyze resources available in the near-term to manage the Agency's near-term financial obligations. These funds are reported using the modified accrual basis of accounting. Governmental fund information assists the reader in determining whether there are enough financial resources to finance the Agency's programs in the near-term. The differences are illustrated between governmental activities and governmental funds in a statement following each governmental fund financial statement.
- ***Proprietary Funds*** — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Agency's proprietary funds are the same as the business-type activities the Agency reports in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Basic Financial Statements

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

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency's budget and actual results of its major governmental fund and schedules for the state employees' retirement fund. This information can be found beginning on page 35 of this report.

Additional Supplemental Information

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

The Agency as a Whole

The Agency's combined net position increased by $14.4 million or 3.2%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

Table 1
Net Position

	2016			2015		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Assets						
Current and other assets	$ 16,087,375	$ 942,227,873	$ 958,315,248	$ 20,937,956	$ 976,380,429	$ 997,318,385
Deferred Outflows of Resources						
Pension related amounts	490,211	133,789	624,000	163,510	49,491	213,001
Liabilities						
Current liabilities	2,657,765	4,662,905	7,320,670	17,494,564	2,646,906	20,141,470
Non-current liabilities	1,804,499	468,970,081	470,774,580	1,854,214	519,012,960	520,867,174
Total liabilities	4,462,264	473,632,986	478,095,250	19,348,778	521,659,866	541,008,644
Deferred Inflows of Resources						
Unearned revenue	10,328,075	-	10,328,075	366,821	-	366,821
Pension related amounts	1,822,486	553,514	2,376,000	1,882,282	569,718	2,452,000
Total deferred inflows of resources	12,150,561	553,514	12,704,075	2,249,103	569,718	2,818,821
Net position						
Restricted for grants and licensing	2,102,330	-	2,102,330	2,026,961	-	2,026,961
Restricted for debt service	-	468,175,162	468,175,162	-	454,200,336	454,200,336
Unrestricted (deficit)	(2,137,569)	-	(2,137,569)	(2,523,376)	-	(2,523,376)
Total net position	$ (35,239)	$ 468,175,162	$ 468,139,923	$ (496,415)	$ 454,200,336	$ 453,703,921

Net position of the Agency's governmental activities increased by $461,176 during the current fiscal year. State appropriations are retained for the portion of severance liability and retired employees insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — increased from ($2,523,376) at June 30, 2015 to ($2,137,569) at the end of this year.

Net loans receivable have decreased by approximately $10.5 million, or 1.8%, to $558.7 million. Due to federal changes and an increase in private student loan lenders, the Agency's loan volume has decreased significantly since 2010. However, there was an increase in fiscal year 2016 loan volume in comparison to fiscal year 2015. In May 2015 the state legislature passed language allowing the maximum amount of the SELF loan to be determined annually by the Agency, not to exceed cost of attendance less all other financial aid. The Agency has set the maximum SELF loan amount at $20,000 for four-year postsecondary and graduate programs for fiscal year 2016 and fiscal year 2017.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess earnings generated from the student loans must either be paid back to the IRS every 10 years or reduced through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. The Agency has no current arbitrage or excess yield liability.

Table 2
Changes in Net Position

	2016			2015		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	$ 974,565	$ 24,995,651	$ 25,970,216	$ 1,115,392	$ 24,456,259	$ 25,571,651
State appropriations	221,748,360	-	221,748,360	224,106,656	-	224,106,656
Federal appropriations	3,959,099	-	3,959,099	4,385,659	-	4,385,659
Total revenues	226,682,024	24,995,651	251,677,675	229,607,707	24,456,259	254,063,966
EXPENSES						
Program expenses						
General government	786,545	11,020,825	11,807,370	617,613	10,204,934	10,822,547
State appropriations	221,893,833	-	221,893,833	224,194,449	-	224,194,449
Federal grants	3,540,470	-	3,540,470	3,976,318	-	3,976,318
Total expenses	226,220,848	11,020,825	237,241,673	228,788,380	10,204,934	238,993,314
CHANGE IN NET POSITION	$ 461,176	$ 13,974,826	$ 14,436,002	$ 819,327	$ 14,251,325	$ 15,070,652

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) decreased by $2.9 million (or 1.3%) to $226.7 million, while total expenses decreased by $2.6 million (or 1.1%). The decrease in revenue was largely due to unused funds for state grant programs. The decrease in expenditures was due to a decrease in state grant payments, although this was partially offset by an increase in the Interstate Reciprocity program payments to North Dakota.

- State appropriation expenditures decreased by $2.4 million to $221.7 million. $174.9 million was appropriated by the legislature for the State Grant program. If the appropriation for either year of the biennium is insufficient for the State Grant program, the appropriation for the other year is available for it.

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

Business-Type Activities

The excess of revenues over expenses of the Agency's business-type activities was $14.0 million in fiscal year 2016, which was 126.8% of expenses.

Financial Analysis of the Agency's Major Funds

Governmental Funds

The General Fund is the chief governmental fund of the Agency representing approximately 97.8% of the Agency's governmental spending. At the end of fiscal year 2016, the fund balance was $0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund. At the end of the first fiscal year, unused appropriations are deferred to the second fiscal year in the biennium.

For the General Fund, student grant payments were $199.7 million, a decrease from $205.0 million in fiscal year 2015. Grant aid to postsecondary institutions and organizations decreased $0.8 million to $2.6 million. Employee salaries increased 3.3% from fiscal year 2015. Interstate reciprocity increased $4.2 million due to an increase in the number of Minnesota students attending North Dakota institutions.

Proprietary Fund

The Agency's proprietary fund statement provides the same type of information found in the government-wide financial statements, but in greater detail. Revenues of the Agency's proprietary fund (see Table 2) increased by 2.2% and expenses increased by 8.0%. In fiscal year 2016, there was a slightly higher return for interest and investment interest income. The current variable interest rate charged to SELF II program student loans is set at a rate of 2.25%, and the current variable interest rate charged to SELF III, SELF IV, and SELF V program student loans is set at a rate of 3.40%. Rates for the SELF II program have increased 0.25% over the past fiscal year, and rates for the SELF III, SELF IV and SELF V programs have increased 0.10% over the past fiscal year. The SELF III, SELF IV and SELF V variable rate loans use the same method to calculate the variable interest rate. Under the SELF IV and SELF V programs, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance.

The interest rate for the SELF V fixed rate program changes periodically. Rate changes are as follows:

Effective Date	Rate
10/2010	7.25%
05/2013	6.90%
04/2015	6.50%

The SELF Refi loan has a variety of rate and repayment term options.

SELF Refi Loan rates as of June 30, 2016			
Repayment Term	5 years	10 years	15 years
Fixed rate	4.50%	5.75%	6.95%
Variable rate	3.20%	3.85%	4.55%

General Fund Budgetary Highlights

Over the course of the fiscal year, changes were made to the Agency's budget. Actual expenditures were $11.0 million below the total original budgeted expenditures. Student grant aid is lower than expected for the current fiscal year. Unspent funding for fiscal year 2016 is deferred to fiscal year 2017 and will be used for the state grant program and other student summer grant programs. The tuition maximums and the living and miscellaneous expense reimbursement amounts will increase in fiscal year 2017.

Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investment. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was up from 2015 by $0.29 million. As of June 30, 2016, the fair value of the Agency's investments was greater than cost by $94,661. The Agency's policy is to hold all securities until maturity; therefore, it is highly unlikely that any differences between cost and market in investments would be realized.

Debt Administration

At year-end, the Agency had $471,015,000 in bonds outstanding — as shown in Table 3

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

	2016			2015		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Revenue bonds	$ -	$ 471.0	$ 471.0	$ -	$ 518.9	$ 518.9

The 2008 supplemental revenue bonds have a rating of Aa2 by Moody's rating agency and AA by Fitch rating agency.

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

The 2011A supplemental revenue bonds have a rating of Aa2 and the 2011B supplemental revenue bonds have a rating of Aa1 by Moody's rating agency.

The 2012B supplemental revenue bonds are currently held as a private placement bond and do not require a rating.

Other obligations of the Agency include accrued compensated absences and net pension liability. More detailed information about the Agency's long-term liabilities is presented in Note II.D. 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 2017 budget, rates, and fees that will be charged for the business-type activities.

The SELF loan program has several phases based on changes in calculating interest and other loan terms. For the SELF II phase, the current margin rate is set at 2.0%, the highest margin allowed under the SELF II phase, to compensate for the additional interest cost and other charges associated with the bonds. In fiscal year 2002, the Agency received approval for the SELF III phase of the loan program which bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The SELF IV phase of the loan program began in July 2006 with minor changes. The SELF V phase of the loan program began in October 2010 with a fixed and variable interest rate option. The SELF III, SELF IV, and SELF V current margin is 2.80% for variable rate loans.

For the fixed rate option of the SELF V phase of the loan program, effective August 1, 2016 the rate is set at 6.00% for new loans.

For the fixed rate option of the SELF Refi loan program, interest rate changes are as follows:

SELF Refi Loan rates as of October 1, 2016			
Repayment Term	5 years	10 years	15 years
Fixed rate	4.25%	5.50%	6.75%

For students enrolled in a bachelor's degree, post-baccalaureate, or graduate program the annual loan limit is $20,000. The undergraduate student annual loan limit for non-four-year degree programs is $7,500 and the annual loan limit for programs less than one year is $3,500.

On September 1, 2015 the Agency redeemed $46.8 million of variable rate revenue bonds ahead of their regularly scheduled redemption dates. On November 2, 2015 the Agency redeemed $1.1 million of fixed rate revenue bonds according to their scheduled redemption date.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2017. For fiscal year 2017, the private tuition maximums used in the state grant formula are a maximum of $11,753 for students enrolled in four-year programs and $7,528 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at $9,320 for the upcoming fiscal year. Grant awards are based on the lesser of the average tuition and fees charged by the institution for the term, or the maximum established by law. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it.

The maximum annual award per eligible child for Postsecondary Child Care Grants is set at $2,800 for the fiscal year 2017.

The MN Dream Act benefits are available for undocumented students who meet eligibility criteria: in-state resident tuition rates at public colleges and universities; state financial aid; and privately funded financial aid through public colleges and universities.

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

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

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

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

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

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

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

The Agency's cash and investment balance decreased $27.3 million, and the loans receivable – net balance decreased $10.5 million. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, reimbursing defaulted loans, and administrative expenses.

Contacting the Agency's Financial Management

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

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET POSITION
As of June 30, 2016

ASSETS	Governmental Activities	Business-type Activities	Totals
CURRENT ASSETS			
Cash and investments	$ 15,051,712	$ 163,700,406	$ 178,752,118
Receivables			
Accounts	171,293	633,787	805,080
Interest	-	2,002,437	2,002,437
Loans receivable - net	-	89,709,192	89,709,192
Due from other governments	864,370	-	864,370
Total Current Assets	16,087,375	256,045,822	272,133,197
NONCURRENT ASSETS			
Restricted cash and investments	-	217,185,328	217,185,328
Loans receivable - net	-	468,996,723	468,996,723
Total Noncurrent Assets	-	686,182,051	686,182,051
Total Assets	16,087,375	942,227,873	958,315,248
DEFERRED OUTFLOWS OF RESOURCES			
Pension related amounts	490,211	133,789	624,000
Total Deferred Outflows of Resources	490,211	133,789	624,000
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	2,361,051	739,832	3,100,883
Accrued liabilities	204,979	58,569	263,548
Accrued interest	-	798,170	798,170
Due to other governments	46,429	-	46,429
Due to primary government - unspent appropriations	6,658	-	6,658
Compensated absences payable	38,648	21,334	59,982
Revenue bonds payable	-	3,045,000	3,045,000
Total Current Liabilities	2,657,765	4,662,905	7,320,670
NONCURRENT LIABILITIES			
Revenue bonds payable	-	468,385,191	468,385,191
Compensated absences payable	359,910	146,479	506,389
Net pension liability	1,444,589	438,411	1,883,000
Total Noncurrent Liabilities	1,804,499	468,970,081	470,774,580
Total Liabilities	4,462,264	473,632,986	478,095,250
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	10,328,075	-	10,328,075
Pension related amounts	1,822,486	553,514	2,376,000
Total Deferred Inflows of Resources	12,150,561	553,514	12,704,075
NET POSITION			
Restricted for licensing and grant administration	2,102,330	-	2,102,330
Restricted for debt service	-	468,175,162	468,175,162
Unrestricted (deficit)	(2,137,569)	-	(2,137,569)
TOTAL NET POSITION	$ (35,239)	$ 468,175,162	$ 468,139,923

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-type Activities	Net (Expenses) Revenues and Changes in Net Position: Totals
Governmental Activities						
State appropriations	$ 221,893,833	$ -	$ 221,748,360	$ (145,473)	$ -	$ (145,473)
Federal grants	3,540,470	-	3,959,099	418,629	-	418,629
Registration and licensing fees and other	786,545	974,565	-	188,020	-	188,020
Total Governmental Activities	226,220,848	974,565	225,707,459	461,176	-	461,176
Business-type Activities						
Loan capital fund	11,020,825	24,995,651	-	-	13,974,826	13,974,826
Totals	$ 237,241,673	$ 25,970,216	$ 225,707,459			
Change in Net Position				461,176	13,974,826	14,436,002
NET POSITION (DEFICIT) - Beginning of Year				(496,415)	454,200,336	453,703,921
NET POSITION (DEFICIT) - END OF YEAR				$ (35,239)	$ 468,175,162	$ 468,139,923

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2016

	General	Other Governmental Funds	Totals
ASSETS			
Cash and investments	$ 11,673,602	$ 3,378,110	$ 15,051,712
Accounts receivable	122,613	48,680	171,293
Due from other governments	-	864,370	864,370
TOTAL ASSETS	$ 11,796,215	$ 4,291,160	$ 16,087,375
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	$ 1,561,571	$ 799,480	$ 2,361,051
Accrued liabilities	93,911	111,068	204,979
Due to other governments	-	46,429	46,429
Due to primary government - unspent appropriations	6,658	-	6,658
Total Liabilities	1,662,140	956,977	2,619,117
Deferred Inflows of Resources			
Unearned revenue	10,134,075	194,000	10,328,075
Total Deferred Inflows of Resources	10,134,075	194,000	10,328,075
Fund Balances			
Restricted for licensing and grant administration	-	2,102,330	2,102,330
Assigned	-	1,037,853	1,037,853
Total Fund Balances	-	3,140,183	3,140,183
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 11,796,215	$ 4,291,160	$ 16,087,375

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
As of June 30, 2016

Total fund balance - governmental funds	$ 3,140,183
Amounts reported for governmental activities in the statement of net position are different because:	
Some deferred outflows of resources and deferred inflows of resources do not relate to current financial resources and are not reported in the fund statements. These consist of:	
Deferred outflow - pension related amounts	490,211
Deferred inflow - pension related amounts	(1,822,486)
Certain liabilities are not due in the current period and, therefore, are not reported in the fund statements. These liabilities at year end consist of:	
Compensated absences payable	(398,558)
Net pension liability	(1,444,589)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	$ (35,239)

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Other Governmental Funds	Totals
REVENUES			
State appropriations	$ 221,748,360	$ -	$ 221,748,360
Federal grants	-	3,959,099	3,959,099
Registration and licensing fees	-	524,790	524,790
Other revenue	-	449,775	449,775
Total Revenues	221,748,360	4,933,664	226,682,024
EXPENDITURES			
General government	3,567,451	955,461	4,522,912
State and other grants	218,180,909	-	218,180,909
Federal grants	-	3,959,099	3,959,099
Total Expenditures	221,748,360	4,914,560	226,662,920
Excess of revenues over expenditures	-	19,104	19,104
FUND BALANCE - Beginning of Year	-	3,121,079	3,121,079
FUND BALANCE - END OF YEAR	$ -	$ 3,140,183	$ 3,140,183

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, 2016

Net change in fund balances - total governmental funds	$ 19,104
Amounts reported for governmental activities in the statement of activities are different because:	
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following did not require the use of current financial resources:	
Compensated absences payable	18,596
Net pension liability	36,979
Deferred outflows of resources related to pensions	326,701
Deferred inflows of resources related to pensions	59,796
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 461,176

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2016

OPERATING REVENUES	
Interest on student loans	$ 23,891,331
OPERATING EXPENSES	
General and administrative	8,599,665
Provision for loans losses - net	(944,980)
Total Operating Expenses	7,654,685
Operating Income	16,236,646
NONOPERATING REVENUES (EXPENSES)	
Investment income	1,104,320
Interest expense	(3,366,140)
Total Nonoperating Revenues (Expenses)	(2,261,820)
CHANGE IN NET POSITION	13,974,826
NET POSITION - Beginning of Year	454,200,336
NET POSITION - END OF YEAR	$ 468,175,162

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF CASH FLOWS
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from loan holders	$ 126,724,908
Cash paid for loan origination	(90,261,490)
Cash paid to employees and suppliers	(9,575,340)
Net Cash Flows From Operating Activities	26,888,078
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(98,530,565)
Proceeds from maturity of investments	82,468,677
Interest received from investments	972,355
Net Cash Flows From Investing Activities	(15,089,533)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Bond redemption	(47,890,000)
Interest paid on bonds	(3,028,509)
Net Cash Flows From Noncapital Financing Activities	(50,918,509)
Net Decrease in Cash and Cash Equivalents	(39,119,964)
CASH AND CASH EQUIVALENTS - Beginning of Year	390,012,037
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 350,892,073
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	$ 163,700,406
Restricted cash and investments per Statement of Net Position	217,185,328
Less: Non-cash equivalents	(29,993,661)
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	$ 350,892,073
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	$ 16,236,646
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income/expense	
Provision for loan loss	5,501,982
Write-off of loans	(5,684,844)
Decrease in net pension liability	(10,021)
Increase in fair value of investments	(83,303)
Origination of student loans	(90,261,490)
Principal payments on student loans	100,938,166
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Interest receivable	74,466
Other receivables	741,470
Deferred outflows - pension related amounts	(84,298)
Accounts payable and accruals	(464,492)
Deferred inflows - pension related amounts	(16,204)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 26,888,078

NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

None.

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

INDEX TO NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

In February 2015, the GASB issued statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This standard was implemented effective July 1, 2015.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

Fund Financial Statements (cont.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

Fund Financial Statements (cont.)

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

All Financial Statements

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

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

1. Deposits and Investments

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

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

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

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

See Note II.A for further information.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (cont.)

2. Receivables

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

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

3. Restricted Assets

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

4. Capital Assets

Government-Wide Statements

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The Agency had no capital assets at year-end.

Fund Financial Statements

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

5. Deferred Outflows of Resources

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

NOTE I – Summary of Significant Accounting Policies (cont.)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (cont.)

6. Compensated Absences

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

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

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

All eligible employees accrue vacation at a rate that varies with length of service. Any employee who has been employed more than six months and who has separated from state of Minnesota service is compensated in cash at his or her current rate at the time of separation. However, no payment shall exceed 275 to 280 hours (depending on employment contract terms), except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2016 are determined on the basis of current salary rates.

7. Long-Term Obligations

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

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

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for gains/losses is shown as a deferred outflow/inflow in the statement of net position.

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

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

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

8. Deferred Inflows of Resources

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

9. Equity Classifications

Government-Wide Statements

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

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

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

c. Unrestricted net position – All other net positions that do not meet the definitions of “restricted” or “net investment in capital assets.”

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

Fund Statements

Governmental fund equity is classified as fund balance and displayed as follows:

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

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

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

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

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

9. Equity Classifications (cont.)

Fund Statements (cont.)

d. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The Commissioner may take official action to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.

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

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

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

NOTE II – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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

	Carrying Value	Bank Balance	Associated Risks
Money market mutual fund investments	$ 218,367,763	$ 218,288,500	None
Demand deposits	323,269	329,278	Custodial credit risk
Commercial paper	29,993,661	29,993,661	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled Cash held by State Treasury	147,252,753	147,252,753	N/A
Total Cash and Investments	$ 395,937,446	$ 395,864,192	
Reconciliation to financial statements			
Per statement of net position			
Cash and investments	$ 178,752,118		
Restricted cash and investments	217,185,328		
Total Cash and Investments	$ 395,937,446		

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

A. DEPOSITS AND INVESTMENTS (cont.)

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for time and savings accounts (including NOW accounts) and $250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of $250,000 for the combined amount of all deposit accounts.

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

Deposits in accounts at U.S. Bank are also secured by a $5,000,000 Federal Home Loan Bank letter of credit.

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, 2016, the Agency did not have any financial institution deposits exposed to custodial credit risk.

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

As of June 30, 2016, 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, 2016, the Agency's investments in commercial paper were rated as follows:

Commercial Paper	S&P	Moody's
Abbey National	A-1	P-1
Toyota Motor	A-1+	P-1

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

A. DEPOSITS AND INVESTMENTS (cont.)

Concentration of Credit Risk

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

As of June 30, 2016, the Agency's investment in Toyota Motor commercial paper was 8.05% of the Agency's total investments.

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, 2016, the Agency's investment of commercial paper had a fair value of $29,993,661 and a weighted average maturity of .65 years.

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

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The market approach valuation method is used for recurring fair value measurements of the commercial paper.

Investment Type	Level 1	Level 2	Level 3	Total
Commercial paper	$ -	$ 29,993,661	$ -	$ 29,993,661

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

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	$ 122,613	$ -	$ 122,613	$ -
Loan Capital	570,428,867	9,086,728	561,342,139	468,996,723
Nonmajor Funds	913,050	-	913,050	-

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 17.4% of the balance is expected to be collected during fiscal year 2017.

SELF II loans are no longer being issued by the Agency. The interest rate on the loans is equal to the average of the weekly auction average (investment) interest rate on three-month U.S. Treasury bills, plus a current margin of 2.0%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 2.25% as of June 30, 2016.

SELF III loans are no longer being issued by the Agency. The interest rate on the loans is equal to the three month average of the London InterBank Offered Rate (LIBOR) plus a current margin of 2.8%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.4% as of June 30, 2016.

SELF IV loans are no longer being issued by the Agency. The interest rate on the loans is equal to the three month average of LIBOR, plus a current margin of 2.8%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.4% as of June 30, 2016.

SELF V variable rate loans, offered for the first time in October 2010, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the three month average of LIBOR, plus a current margin of 2.8%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.4% as of June 30, 2016.

SELF V fixed rate loans, offered for the first time in October 2010 at a rate originally set at 7.25%, are made to students who meet the eligibility requirements set forth by the Agency. On May 20, 2013 and April 1, 2015 the fixed rate for new loans was lowered to 6.9% and 6.5%, respectively. The interest rate will not change over the life of the loan. The Agency has the option to offer a different fixed rate to future borrowers.

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

B. RECEIVABLES (cont.)

SELF Refi variable rate loans, offered for the first time January 2016 at rates ranging from 3.00% - 4.35% based on repayment term, are made to borrowers who have graduated or obtained a certificate of completion and meet other eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the three month average of the one-month LIBOR, plus a current margin ranging from 2.80% - 4.15%. The rates ranged from 3.20% - 4.55% on June 30, 2016.

SELF Refi fixed rate loans, offered for the first time January 2016 at rates ranging from 4.50% - 6.95% based on repayment term, are made to borrowers who have graduated or obtained a certificate of completion and meet other eligibility requirements set forth by the Agency. The interest rate will not change over the life of the loan. The Agency has the option to offer different fixed rates to future borrowers.

Repayment of interest for SELF loans begins within 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or when the borrower drops below less than half time enrollment. The balance of all SELF loans at June 30, 2016 was $567,792,643.

All SELF loans are unsecured. However, the Agency does require a credit worthy cosigner on each SELF II, III, IV, and V loan. For SELF Refi loans, if a borrower meets the minimum credit score and debt to income ratio, a cosigner is not required. For all SELF loans and SELF Refi loans, the Agency is able to intercept state tax refunds for both borrower and cosigner (where applicable) in the event of default in addition to other collection methods.

An allowance for uncollectible SELF II, SELF III, SELF IV, SELF V, and SELF Refi loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the Loan Capital Fund. The Loan Capital Fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.6% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. Recoveries on defaulted SELF loans are credited to the Loan Capital Fund as revenue in the year received.

The activity for the allowance for uncollectible loans on all loan types for the year ended June 30, 2016 is as follows:

Beginning balance	$ 9,269,590
Provision for loan losses	5,501,982
Write-off of loans	(5,684,844)
Ending Balance	$ 9,086,728

Recovery on defaulted loans of $6,446,963 for the year ended June 30, 2016 is recognized as a reduction in the provision for loan losses.

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

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

Revenue – Used to deposit student loan payments of principal and interest. Payments from this account are made to investors for bond interest and to finance additional student loans.

Surplus – Used to deposit excess funds from the revenue account and to finance additional student loans.

Debt Service Reserve – Used to reserve funds based on bond indenture requirements for potential deficiencies in the revenue account or the surplus account.

Bad Debt Reserve Account

The Loan Capital Fund established a bad debt reserve account to purchase uncollectible student loans. This account equals the allowance for uncollectible SELF loans and SELF Refi loans. This fund is replenished quarterly.

Following is a list of restricted assets (long term debt and bad debt reserve accounts) at June 30, 2016:

	Restricted Assets
Revenue account	$ 8,559,618
Surplus account	187,922,779
Debt service reserve account	11,616,203
Bad debt reserve account	9,086,728
Total Restricted Assets	$ 217,185,328

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

D. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	$ 417,154	$ 291,856	$ 310,452	$ 398,558	$ 38,648
Net pension liability	1,481,568	315,504	352,483	1,444,589	-
Total Governmental Activities Long-Term Liabilities	$ 1,898,722	$ 607,360	$ 662,935	$ 1,843,147	$ 38,648
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
Revenue bonds	$ 518,905,000	$ -	$ 47,890,000	$ 471,015,000	$ 3,045,000
Add/(Subtract) Amounts For:					
(Discounts)/Premiums	610,905	-	195,714	415,191	-
Subtotal	519,515,905	-	48,085,714	471,430,191	3,045,000
Other Liabilities					
Vested compensated absences	158,615	105,627	96,429	167,813	21,334
Net pension liability	448,432	85,496	95,517	438,411	-
Subtotal	607,047	191,123	191,946	606,224	21,334
Total Business-type Activities Long-Term Liabilities	$ 520,122,952	$ 191,123	$ 48,277,660	$ 472,036,415	$ 3,066,334

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 $471,015,000.

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

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

D. LONG-TERM OBLIGATIONS (cont.)

	Date of Issue	Final Maturity	Interest Rate as of 6-30-16	Interest Rates Reset (days)	Original Indebtedness	Balance 6-30-16
Supplemental Student Loan Program Variable Rate Revenue Bonds						
Series 2008A taxable revenue bonds	Dec 08	Dec 43	.43%	7	$ 66,700,000	$ 66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.42	7	33,300,000	33,300,000
Series 2011A revenue bonds	Oct 11	Oct 46	.42	7	35,000,000	35,000,000
Series 2011B revenue bonds	Oct 11	Oct 46	.42	7	50,000,000	50,000,000
Series 2012B revenue bonds	Sept 12	Aug 47	1.14	30	270,800,000	224,000,000
Supplemental Student Loan Program Fixed Rate Revenue Bonds						
Series 2010 revenue bonds	Dec 10	Nov 29	2 – 5%	n/a	53,400,000	24,615,000
Series 2012B revenue bonds	Sept 12	May 38	2.58	n/a	37,400,000	37,400,000
Total Business-type Activities Revenue Bonds						$ 471,015,000

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2016 rates for variable rate bonds, are as follows:

	Business-type Activities		
Years Ending June 30	Principal	Interest	Total
2017	$ 3,045,000	$ 4,967,634	$ 8,012,634
2018	4,255,000	4,752,401	9,007,401
2019	4,905,000	4,539,326	9,444,326
2020	4,600,000	4,293,463	8,893,463
2021	4,185,000	4,076,213	8,261,213
2022 - 2026	3,625,000	18,964,065	22,589,065
2027 - 2031	-	18,819,065	18,819,065
2032 - 2036	-	18,819,065	18,819,065
2037 - 2041	93,400,000	16,592,508	109,992,508
2042 - 2046	168,000,000	9,540,608	177,540,608
2047 - 2048	185,000,000	2,637,140	187,637,140
Totals	$ 471,015,000	$ 108,001,488	$ 579,016,488

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

D. LONG-TERM OBLIGATIONS (cont.)

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

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A bonds and Series 2011B bonds cannot exceed 12%. The interest on the Series 2011A bonds and Series 2011B bonds is paid semi-annually. No principal payments are required until final maturity on the Series 2011A bonds and Series 2011B bonds.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2% to 5%. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.40% for the year ended June 30, 2016.

The rates on the tax-exempt Series 2012B bonds are both fixed rate and variable rate. For the fixed rate bonds, the rate is set at 2.58%. For the variable rate bonds, the rate is a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

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

The Agency maintains unsecured irrevocable direct-pay letters of credit as additional collateral for the Series 2008A, 2008B, 2011A, and 2011B bonds. The fees to maintain these letters of credit are calculated as 0.85% for the Series 2008A, 2008B, 2011A, and 2011B of the outstanding principal amount per year. In addition there is a remarketing fee of 0.1% of the outstanding principal amount per year. General and administrative expenses include letters of credit and remarketing fees of $2,670,320 for the year ended June 30, 2016. The letters of credit for the Series 2008A, 2008B, 2011A, and 2011B bonds expire October 1, 2017.

There is no additional collateral maintained for the Series 2010 and 2012B bonds.

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

D. LONG-TERM OBLIGATIONS (cont.)

The Series 2008A, 2008B, 2011A, and 2011B bonds require the Agency to maintain a debt service account equal to 2% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $3,700,000 and the Agency met this requirement. For the Series 2010 bonds the Agency is required to maintain a debt service account equal to the maximum amount scheduled to be due during the current or any future fiscal year. The amount required to be on deposit at year end is $4,905,000 and the Agency met this requirement. The Series 2012B bonds require the Agency to maintain a debt service account equal to 1% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $2,614,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures (see also Note II.C.). The Agency believes it is in compliance with all significant limitations and restrictions.

All bond series are to be repaid solely from the money and investments held by the trustees. For all bonds, an early repayment provision exists. For the Series 2008A and 2008B bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days but not greater than 60 days prior to the redemption date. For the Series 2010 tax-exempt bonds, bonds maturing on or after November 1, 2021 are subject to optional redemption on any date after November 1, 2020. The Agency must give written notice to exercise its option to redeem bonds not less than 35 days prior to the redemption. For the Series 2011A and 2011B tax-exempt bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days, but not greater than 60 days, prior to the redemption date. For the Series 2012B bonds, the Agency must receive the written consent of the credit provider or bank purchaser, as applicable, prior to an optional redemption. The Agency must also pay a fee to the bank purchaser in connection with each optional redemption prior to the second anniversary of the effective date of the Continuing Covenant Agreement.

On October 8, 2015, the 2012B bonds were restructured in a private placement transaction.

During the year ended June 30, 2016, the Agency used available trust cash to redeem $46,800,000 of outstanding bonds at par value. Details of these transactions are as follows:

Date Redeemed	Bond Issue Series	Amount Redeemed
September 2015	2012B	$ 46,800,000

Arbitrage Regulations

The $404,315,000 of tax-exempt bonds issued by the Agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield plus 2% must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2016, the Agency accrued no liability resulting from the excess yield on interest rates.

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

D. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information

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

E. NET POSITION

Certain net positions are classified in the statement of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2016, the business-type activities restricted net position is restricted for debt service.

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

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

As the Agency's net position is less than the required minimum per the bond covenants, the entire net position is shown as restricted for Loan Capital Fund use, as required in the bond financial covenants.

NOTE III – OTHER INFORMATION

A. PENSION

Summary of Significant Accounting Policies

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

Plan Description

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

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

Benefits Provided

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

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

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5 percent of their annual covered salary in fiscal year 2015. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2016 was $198,648. These contributions were equal to the contractually required contributions as set by state statute.

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0 percent every January 1st through 2043 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Actuarial Assumptions (cont.)

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

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

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2016, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability

At June 30, 2016, the Agency reported a liability of $1,883,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015, the Agency's proportion was .1639 percent.

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Net Pension Liability (cont.)

There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System.

A change in assumptions affected the measurement of the total pension liability since the prior measurement date. The post-retirement benefit increase changed from 2 percent through 2015, to 2 percent through 2043, and 2.5 percent thereafter.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Agency's proportionate share of the net pension liability:	$3,854,000	$1,883,000	$242,000

Pension Plan Fiduciary Net Position

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

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

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

For the year ended June 30, 2016, the Agency recognized pension expense of $(533,999). At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 515,000
Changes of assumptions	-	1,076,000
Net difference between projected and actual earnings on investments	384,000	766,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	57,000	19,000
Contributions paid to MSRS subsequent to the measurement date	183,000	-
Totals	$ 624,000	$ 2,376,000

Amounts reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (637,000)
2018	(637,000)
2019	(637,000)
2020	(24,000)

B. RISK MANAGEMENT

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

NOTE III – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

The Governmental Accounting Standards Board (GASB) has approved the following:

> Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

> Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

> Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

> Statement No. 77, *Tax Abatement Disclosures*

> Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

> Statement No. 80*, Blending Requirements for Certain Component Units*

NOTE III – OTHER INFORMATION (cont.)

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

> Statement No. 81*, Irrevocable Split-Interest Agreements*

> Statement No. 82*, Pension Issues - an amendment of GASB Statements 67, 68, 73*

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
REVENUES				
General Administration	$ 2,527,000	$ 2,005,521	$ 2,005,521	$ -
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counseling	150,000	37,536	37,536	-
American Indian Scholarship	3,500,000	3,580,789	3,580,789	-
Tribal College Grant	150,000	139,920	139,920	-
High School to College	-	52,563	52,563	-
State Grant Program	180,281,000	174,942,420	174,942,420	-
Child Care Grants	6,684,000	5,152,356	5,152,356	-
Safety Officer Survivors	100,000	69,197	69,197	-
Summer Academic Enrichment	100,000	100,000	100,000	-
Interstate Reciprocity	11,018,000	9,891,364	9,891,364	-
State Work Study	14,502,000	14,478,768	14,478,768	-
MNSCU Two-Year Public College Program - Admin.	225,000	99,988	99,988	-
Large Animal Veterinarian Loan Forgiveness	250,000	-	-	-
Teacher Shortage Loan Forgiveness	200,000	6,000	6,000	-
MN GI Bill Program	1,600,000	1,599,003	1,599,003	-
MN GI Bill Administration	100,000	93,342	93,342	-
Student Parent Information	122,000	102,370	102,370	-
MN Education Equity Partnership	45,000	69,890	69,890	-
Get Ready	180,000	585,540	585,540	-
Intervention College Attendance	671,000	573,531	573,531	-
Statewide Longitudinal Data	882,000	298,141	298,141	-
College Possible	250,000	250,000	250,000	-
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	463,500	463,500	-
HCMC Program	645,000	806,250	806,250	-
Spinal Cord & Traumatic Brain Injury Research Grants	500,000	202,500	202,500	-
Campus Sexual Assault Reporting	25,000	25,000	25,000	-
Dual Training Competency Grants: OHE	1,000,000	65,860	65,860	-
Dual Training Competency Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	17,973	17,973	-
Concurrent Enrollment Courses - Existing	115,000	19,038	19,038	-
Total Revenues	232,768,000	221,748,360	221,748,360	-

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

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts			Variance With Final
	Original	Final	Actual	Budget
EXPENDITURES				
General Administration	$ 2,527,000	$ 2,054,767	$ 2,005,521	$ 49,246
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counseling	150,000	37,536	37,536	-
American Indian Scholarship	3,500,000	3,580,789	3,580,789	-
Tribal College Grant	150,000	139,920	139,920	-
High School to College	-	-	52,563	(52,563)
State Grant Program	180,281,000	180,253,665	174,942,420	5,311,245
Child Care Grants	6,684,000	6,644,525	5,152,356	1,492,169
Safety Officer Survivors	100,000	100,000	69,197	30,803
Summer Academic Enrichment	100,000	100,000	100,000	-
Interstate Reciprocity	11,018,000	9,891,364	9,891,364	-
State Work Study	14,502,000	14,478,768	14,478,768	-
MNSCU Two-Year Public College Program - Admin.	225,000	99,988	99,988	-
Large Animal Veterinarian Loan Forgiveness	250,000	-	-	-
Teacher Shortage Loan Forgiveness	200,000	6,000	6,000	-
MN GI Bill Program	1,600,000	1,599,003	1,599,003	-
MN GI Bill Administration	100,000	93,342	93,342	-
Student Parent Information	122,000	102,370	102,370	-
MN Education Equity Partnership	45,000	45,000	69,890	(24,890)
Get Ready	180,000	688,756	585,540	103,216
Intervention College Attendance	671,000	573,531	573,531	-
Statewide Longitudinal Data	882,000	308,141	298,141	10,000
College Possible	250,000	250,000	250,000	-
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	501,000	463,500	37,500
HCMC Program	645,000	645,000	806,250	(161,250)
Spinal Cord & Traumatic Brain Injury Research Grants	500,000	500,000	202,500	297,500
Campus Sexual Assault Reporting	25,000	25,000	25,000	-
Dual Training Competency Grants: OHE	1,000,000	65,860	65,860	-
Dual Training Competency Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	35,946	17,973	17,973
Concurrent Enrollment Courses - Existing	115,000	32,052	19,038	13,014
Total Expenditures	232,768,000	228,872,323	221,748,360	7,123,963
NET CHANGE IN FUND BALANCE	$ -	$ (7,123,963)	$ -	$ 7,123,963

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

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF NET PENSION LIABILITY
STATE EMPLOYEES RETIREMENT FUND
For the Year Ended June 30, 2016

	2016	2015
Agency's proportion of the net pension liability	0.1639%	0.1608%
Agency's proportionate share of the net pension liability	$ 1,883,000	$ 1,930,000
Agency's covered employee payroll	$ 3,674,811	$ 3,365,517
Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	51.24%	57.35%
Plan fiduciary net position as a percentage of the total pension liability	88.32%	87.64%

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

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

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

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND
For the Year Ended June 30, 2016

	2016	2015
Contractually required contributions	$ 198,648	$ 182,084
Contributions in relation to the contractually required contributions	(198,648)	(182,084)
Contribution deficiency (excess)	$ -	$ -
Agency's covered employee payroll	$ 3,674,811	$ 3,365,517
Contributions as a percentage of covered employee payroll	5.41%	5.41%

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

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

BUDGETARY INFORMATION

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

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

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

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2016) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2017) 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.

MINNESOTA STATE RETIREMENT SYSTEM

The amounts determined for each fiscal year were determined as of June 30 of the prior fiscal year.

The Agency is required to present the last 10 fiscal years of data; however accounting standards allow the presentation of as many years as are available until 10 fiscal years are presented.

Changes in benefit terms. There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System.

Changes in assumptions. The post-retirement benefit increase changed from 2 percent through 2015, to 2 percent through 2043, and 2.5 percent thereafter.

SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2016

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
ASSETS			
Cash and investments	$ 3,370,413	$ 7,697	$ 3,378,110
Accounts receivable	9,898	38,782	48,680
Due from other governments	-	864,370	864,370
TOTAL ASSETS	$ 3,380,311	$ 910,849	$ 4,291,160
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 7,278	$ 792,202	$ 799,480
Accrued liabilities	38,850	72,218	111,068
Due to other governments	-	46,429	46,429
Total Liabilities	46,128	910,849	956,977
Deferred Inflows of Resources			
Unearned revenue	194,000	-	194,000
Total Deferred Inflows of Resources	194,000	-	194,000
Fund Balances			
Restricted for licensing and grant administration	2,102,330	-	2,102,330
Assigned	1,037,853	-	1,037,853
Total Fund Balances	3,140,183	-	3,140,183
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 3,380,311	$ 910,849	$ 4,291,160

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
REVENUES			
Federal grants	$ -	$ 3,959,099	$ 3,959,099
Registration and licensing fees	524,790	-	524,790
Other revenue	449,775	-	449,775
Total Revenues	974,565	3,959,099	4,933,664
EXPENDITURES			
General government	955,461	-	955,461
Federal grants	-	3,959,099	3,959,099
Total Expenditures	955,461	3,959,099	4,914,560
Excess of revenues over expenditures	19,104	-	19,104
FUND BALANCE - Beginning of Year	3,121,079	-	3,121,079
FUND BALANCE - END OF YEAR	$ 3,140,183	$ -	$ 3,140,183