

OFFICIAL STATEMENT DATED SEPTEMBER 21, 2005

NEW ISSUE

RATING: Moody's: Aa1
Standard & Poor's: AAA
Fitch's: AAA

In the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel, according to present federal and Minnesota laws, regulations, rulings and decisions, the interest to be paid on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is subject to Minnesota franchise taxes imposed on corporations and financial institutions; is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes. For a discussion of tax matters see "Tax Exemption and Collateral Tax Matters" herein.

\$557,960,000
STATE OF MINNESOTA
General Obligation
State Bonds

Dated: October 1, 2005

Due: October 1, as shown below

Year	Amount	Interest Rate	Price or Yield	CUSIP 604129	Year	Amount	Interest Rate	Price or Yield	CUSIP 604129
2006	\$25,515,000	5.00%	2.80%	AA4	2016	\$27,000,000	5.00%	3.69%	AL0
2007	\$36,430,000	5.00	2.88	AB2	2017	\$18,725,000	5.00	3.74	AM8
2008	\$38,640,000	5.00	2.97	AC0	2018	\$18,725,000	5.00	3.79	AN6
2009	\$38,630,000	5.00	3.05	AD8	2019	\$18,725,000	5.00	3.84	AP1
2010	\$38,600,000	5.00	3.13	AE6	2020	\$18,725,000	5.00	3.91	AQ9
2011	\$36,560,000	5.00	3.25	AF3	2021	\$18,725,000	5.00	3.96	AR7
2012	\$39,000,000	5.00	3.37	AG1	2022	\$18,725,000	5.00	3.98	AS5
2013	\$36,445,000	5.00	3.44	AH9	2023	\$18,725,000	5.00	4.02	AT3
2014	\$36,370,000	5.00	3.53	AJ5	2024	\$18,725,000	5.00	4.06	AU0
2015	\$36,245,000	5.00	3.61	AK2	2025	\$18,725,000	5.00	4.10	AV8

(Plus accrued interest from October 1, 2005)

The Bonds comprise \$285,400,000 General Obligation State Various Purpose Bonds, \$111,600,000 General Obligation State Trunk Highway Bonds, and \$160,960,000 General Obligation State Refunding Bonds.

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE BONDS AND INTEREST THEREON WHEN DUE.

The Bonds maturing after October 1, 2015 will be subject to redemption and prepayment by the State as provided herein.

Form and Payment:

The Bonds will be available to the purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds.

The Bonds are offered by the State subject to the legal opinions of Dorsey & Whitney LLP, bond counsel, as to the validity of the Bonds and tax exemption, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or about October 3, 2005.

This cover page contains certain information for quick reference only. It is *not* a summary of this issue or this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Unless otherwise indicated, information contained in this Official Statement is based upon material provided by the State and available at the date of publication of this Official Statement.

No dealer, broker, salesman or other person has been authorized by the State to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. Certain information contained herein has been obtained from sources other than records of the State and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

STATE OF MINNESOTA OFFICIALS

GOVERNOR	Tim Pawlenty
LIEUTENANT GOVERNOR	Carol Molnau
SECRETARY OF STATE	Mary Kiffmeyer
STATE AUDITOR	Patricia Anderson
ATTORNEY GENERAL	Mike Hatch
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF FINANCE

Peggy S. Ingison

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OFFICIAL STATEMENT
STATE OF MINNESOTA
\$557,960,000
General Obligation
State Bonds
Dated October 1, 2005

INTRODUCTION

General

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 17 through 59, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to \$285,400,000 General Obligation State Various Purpose Bonds, \$111,600,000 General Obligation State Trunk Highway Bonds and \$160,960,000 General Obligation State Refunding Bonds of the State of Minnesota (the "State") to be dated October 1, 2005 (the "Bonds"), to prospective purchasers and actual purchasers of the Bonds. This Introduction contains only a brief description of or references to a portion of such information, and prospective and actual purchasers should read this entire Official Statement.

Purpose

The Bonds are being issued by the State of Minnesota, acting by and through its Commissioner of Finance (the "Commissioner" or "Commissioner of Finance"), pursuant to the constitutional and statutory authority described under the section hereof entitled "The Bonds — Authorization and Purpose" and in Appendix C hereto.

Bonds in the principal amount of \$285,400,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises. Bonds in the principal amount of \$111,600,000 are being issued for the purpose of financing the cost of certain construction, improvement and maintenance of the State trunk highway system.

Bonds in the principal amount of \$160,960,000 are being issued for the purpose of refunding \$80,850,000 in principal amount of outstanding general obligation bonds of the State dated May 1, 1996 and \$82,750,000 in principal amount of outstanding general obligation bonds of the State dated November 1, 1996 (the "Refunded Bonds"). Such proceeds of the Bonds will be placed in an irrevocable escrow fund and used, together with other available funds, to pay the principal of and interest on the bonds being refunded to the dates on which such bonds mature or have been called for redemption and prepayment. The bonds being refunded and the dates on which they will be called for redemption are described in Appendix C.

Security

The Bonds are general obligations of the State secured by the pledge of the full faith and credit and taxing powers of the State. (See the section hereof entitled "The Bonds — Security".) For information as to the credit ratings assigned to the Bonds by various rating agencies see the section hereof entitled "Ratings."

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months, and is payable semiannually on each April 1 and October 1 to maturity or prior redemption, commencing April 1, 2006. If principal or interest is due on a date on which commercial banks are not open for business, then payment will be made on the first day thereafter when such

banks are open for business. The Bonds are subject to redemption and prepayment at the option of the State on the terms and conditions stated in the section hereof entitled "Redemption and Prepayment."

The Bonds are issued in book entry form and in denominations of \$5,000 or multiples thereof of a single maturity. The Bonds will be issued initially registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Accordingly, printed Bonds will not be available to purchasers of the Bonds. For a description of the book entry system pursuant to which the Bonds will be issued see the section hereof entitled "Book Entry System."

Bond Maturity Schedule

The Bonds are comprised of \$285,400,000 General Obligation State Various Purpose Bonds, \$111,600,000 General Obligation State Trunk Highway Bonds, and \$160,960,000 General Obligation State Refunding Bonds. The maturity schedules are shown below.

\$285,400,000 General Obligation State Various Purpose Bonds

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2006	\$16,145,000	2016	\$13,145,000
2007	16,145,000	2017	13,145,000
2008	16,145,000	2018	13,145,000
2009	16,145,000	2019	13,145,000
2010	16,145,000	2020	13,145,000
2011	14,145,000	2021	13,145,000
2012	16,645,000	2022	13,145,000
2013	14,145,000	2023	13,145,000
2014	14,145,000	2024	13,145,000
2015	14,145,000	2025	13,145,000

\$111,600,000 General Obligation State Trunk Highway Bonds

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2006	\$5,580,000	2016	\$5,580,000
2007	5,580,000	2017	5,580,000
2008	5,580,000	2018	5,580,000
2009	5,580,000	2019	5,580,000
2010	5,580,000	2020	5,580,000
2011	5,580,000	2021	5,580,000
2012	5,580,000	2022	5,580,000
2013	5,580,000	2023	5,580,000
2014	5,580,000	2024	5,580,000
2015	5,580,000	2025	5,580,000

\$160,960,000 General Obligation State Refunding Bonds

<u>Year</u>	<u>Principal Amount</u>
2006	\$ 3,790,000
2007	14,705,000
2008	16,915,000
2009	16,905,000
2010	16,875,000
2011	16,835,000
2012	16,775,000
2013	16,720,000
2014	16,645,000
2015	16,520,000
2016	8,275,000

Legal Opinions — Tax Exemption

The Bonds are approved as to validity by the State Attorney General and Dorsey & Whitney LLP, bond counsel.

In the opinion of Dorsey & Whitney LLP, bond counsel, according to present federal and Minnesota laws, regulations, rulings and decisions, the interest to be paid on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is subject to Minnesota franchise taxes imposed on corporations and financial institutions; is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes.

For a discussion of tax matters see “Tax Exemption and Collateral Tax Matters” herein.

Additional Bonds

The State does not plan to sell additional tax-exempt general obligation bonds within 30 days after the date of the sale of the Bonds.

Revenue and Expenditure Forecasting

The State operates on a biennial budget basis with each biennium ending on June 30 of an odd numbered year and comprising two fiscal years with each fiscal year running July 1 through June 30 (“Fiscal Year”). Legislative appropriations for each biennium are typically adopted by the State’s legislature (the “Legislature”) during the final legislative session prior to the beginning of the current biennium.

Revenue forecasts are prepared by the Department of Finance using for forecasting purposes data provided by Global Insight, Inc. (“GII”), an independent forecasting service. Expenditure forecasts are prepared by the Department of Finance based upon current annual budgets and upon current cash expenditure estimates provided by State agencies responsible for significant expenditure items.

Budget — Current Biennium

Approved revenue and expenditure measures for the biennium ending June 30, 2007 (the “Current Biennium”) are summarized as set forth below. The General Fund is defined on page 18 and the Trunk Highway Fund is defined on page 49.

**CURRENT BIENNIUM
GENERAL FUND
END OF 2005 LEGISLATIVE SESSIONS
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,683
Dedicated Revenues, Transfers In and Other	<u>903</u>
Total Resources	\$31,589
Expenditures	<u>30,574</u>
Projected Unreserved Balance at June 30, 2007	\$ 1,015
Cash Flow Account	653
Budget Reserve Account	<u>350</u>
Projected Unrestricted Balance at June 30, 2007	\$ 12

**CURRENT BIENNIUM
TRUNK HIGHWAY FUND
END OF 2005 LEGISLATIVE SESSIONS
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 20
Highway User Taxes	1,558
Federal Aid ⁽¹⁾	782
Dedicated Revenues, Transfers In and Other	<u>42</u>
Total Resources	\$2,402
Expenditures	<u>2,366</u>
Projected Unreserved Balance at June 30, 2007	\$ 36

Bonds Outstanding

The total amount of State general obligation bonds outstanding on October 1, 2005, including this issue will be approximately \$3.6 billion. The total amount of general obligation bonds authorized but unissued as of October 1, 2005, will be approximately \$1,043.3 million. See Appendix B, pages B-1 and B-2.

Cash Flow Information

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout the Current Biennium. The Statutory General Fund is defined in Appendix D.

Additional Information

Questions regarding this Official Statement should be directed to Peter Sausen, Assistant Commissioner, State Department of Finance, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 296-8372, email peter.sausen@state.mn.us, or Susan Gurrola, Financial Bond Analyst, State Department of Finance, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 296-8373, email sue.gurrola@state.mn.us. Questions regarding legal matters should be directed to Leonard S. Rice, Dorsey & Whitney LLP, 50 South Sixth Street, Suite 1500, Minneapolis, Minnesota 55402, telephone (612) 343-7971, email rice.len@dorsey.com.

(1) See table and footnote on page 53.

THE BONDS

Authorization and Purpose

Constitutional Provisions. Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred for the acquisition and betterment of public land, buildings and other improvements of a capital nature, or for appropriations or loans to State agencies or political subdivisions for this purpose, as the Legislature by a three-fifths vote of both the House of Representatives and the Senate may direct, and to finance the development of the agricultural resources of the State by extending credit on real estate security and to finance the promotion of forestation, as the Legislature may direct. Article XI requires all such debt to be evidenced by the issuance of State bonds maturing within 20 years of their date of issue, for which the full faith and credit and taxing powers of the State are irrevocably pledged. Public debt is defined by Article XI, Section 4 to include any obligation payable directly, in whole or in part, from a tax of statewide application on any class of property, income, transaction or privilege, but does not include any obligation which is payable from revenues other than taxes. The Minnesota Constitution places no limitation on the amount or interest rate of bonds that may be authorized for these and certain other purposes. Article XIV, Section 11 and Article XI, Section 5 of the Minnesota Constitution authorize the Legislature to provide by law for the issuance of State general obligation bonds to finance the construction of improvements to and maintenance of the Trunk Highway System. Article XI, Section 5 of the Minnesota Constitution authorizes the State to refund outstanding bonds of the State.

Statutory Provisions. The \$285,400,000 General Obligation State Various Purpose Bonds and \$111,600,000 General Obligation State Trunk Highway Bonds being issued comprise bonds authorized by several different laws.

General Obligation State Various Purpose Bonds.

Laws 1999, Chapter 240, as amended, authorizes the issuance of \$439,530,100 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$500,000 are included in this issue.

Laws 1999, Chapter 240, authorizes the issuance of \$38,440,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public lands, buildings, and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which \$186,000 are included in this issue.

Laws 2000, Chapter 479, as amended, authorizes the issuance of \$7,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public land, buildings and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which \$455,000 are included in this issue.

Laws 2000, Chapter 492, as amended, authorizes the issuance of \$528,426,300 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$3,600,000 are included in this issue.

Laws 2002, Chapter 374, authorizes the issuance of \$75,120,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to

16A.675, 116.17 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$1,600,000 are included in this issue.

Laws 2002, Chapter 393, authorizes the issuance of \$624,712,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$33,900,000 are included in this issue.

Special Session Laws 2003, Chapter 20, authorizes the issuance of \$236,915,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17, 174.50 to 174.51 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$28,400,000 are included in this issue.

Laws 2005, Chapter 20, authorizes the issuance of \$944,980,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17, 174.50 to 174.51 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which \$214,259,000 are included in this issue.

Special Session Laws 2005, Chapter 3, authorizes the issuance of \$18,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, Section 5, paragraph (h), for the purpose of developing the State's agricultural resources by financing the Rural Finance Authority's programs, of which \$2,500,000 are included in this issue.

General Obligation State Trunk Highway Bonds.

Laws 2000, Chapter 479, authorizes the issuance of \$100,100,000 State Trunk Highway Bonds pursuant to the Minnesota Constitution, Articles XI and XIV, and Minnesota Statutes, Sections 167.50 to 167.52 to finance capital improvements to the trunk highway system including interstate routes, of which \$100,000 are included in this issue.

Special Session Laws 2003, Chapter 19, Article 3, authorizes the issuance of \$400,400,000 State Trunk Highway Bonds pursuant to the Minnesota Constitution, Articles XI and XIV, and Minnesota Statutes, Sections 167.50 to 167.52, to finance capital improvements to the trunk highway system including interstate routes, of which \$110,000,000 are included in this issue.

Special Session Laws 2003, Chapter 19, Article 4, authorizes the issuance of \$110,110,000 State Trunk Highway Bonds pursuant to the Minnesota Constitution, Articles XI and XIV, and Minnesota Statutes, Sections 167.50 to 167.52 to finance capital improvements to the trunk highway system including interstate routes, of which \$1,500,000 are included in this issue.

General Obligation State Refunding Bonds.

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council of which \$160,960,000 are included in this issue. The issuance of such Bonds was approved by resolution of the State Executive Council on March 5, 2003.

Security⁽¹⁾

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State

(1) While the State has adopted the revised Article 9 of the Uniform Commercial Code that generally eliminates the exclusion for security interests created by government debtors, Minnesota Statutes, Section 475.78 provides that Article 9 does not apply to security interests created by the State (except security interests in equipment and fixtures).

to the payment of the principal of and interest on the Bonds when due. The Minnesota Constitution, Article XI, requires the maintenance of a State bond fund (the "Debt Service Fund"), and provides that when the full faith and credit of the State has been pledged for the payment of State general obligation bonds, the State Auditor is required to levy each year a tax on all taxable property in the State in the amount needed, if any, with the balance then on hand in the Debt Service Fund, to pay all principal and interest due and to become due on such State bonds through July 1 of the second ensuing year.

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (as defined on page 18) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfer of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

Minnesota Statutes, Section 16A.641, makes an annual appropriation to the Debt Service Fund from the General Fund of the amount that, added to the amount already on hand in the Debt Service Fund, is an amount needed to pay the principal of and interest on all State bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the General Fund to the Debt Service Fund for the Bonds included in this issue will be made by December 1 of each year. (Also see information on page B-4 with respect to Debt Service Fund transfer.)

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula may be made within six years of the last previous change. The current distribution formula was established in the 1997 legislative session.

Minnesota Statutes, Section 167.51, makes an annual appropriation to the trunk highway bond account in the Debt Service Fund from the State Trunk Highway Fund of the amount that, when added to the amount already on hand in the trunk highway bond account in the Debt Service Fund, is the amount needed to pay the principal of and interest on all State trunk highway bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the State Trunk Highway Fund to the trunk highway bond account in the Debt Service Fund for the State trunk highway bonds included in this issue will be made by December 1 of each year.

Waiver of Immunity: Under Minnesota Statutes, Section 3.751, the State has waived immunity from suit with respect to the controversies arising out of its debt obligations incurred pursuant to Article XI of the Minnesota Constitution, and has conferred jurisdiction on State District Courts to hear and determine such controversies. Accordingly, if the State fails to pay in full the principal of and interest on the Bonds when due, a holder of a Bond on which principal or interest is past due is entitled to commence an action in the District Court for Ramsey County, Minnesota, to enforce the pledge of the State's full faith and credit to the payment of such principal and interest.

BOOK ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity in a principal amount equal to the aggregate principal amount of each maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct Participants and Indirect Participants (collectively, the "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is, in turn, to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in

beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar of the Bonds ("Registrar") and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or its nominee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the completeness or the accuracy thereof, or as to the absence of material adverse changes in such information subsequent to the date hereof.

The State cannot and does not give any assurances that DTC, or a successor securities depository, or Participants will distribute to the Beneficial Owners of the Bonds: (i) payments of

principal of or interest and premium, if any, on the Bonds; (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in the Bonds; or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, or a successor securities depository, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC or the Participants will serve and act in the manner described in this Official Statement.

The State will have no responsibility or obligation to any Participant, or any Beneficial Owner or any other person with respect to: (i) the Bonds; (ii) the accuracy of any records maintained by DTC, or a successor securities depository, or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iii) the payment by DTC, or a successor securities depository, or any Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iv) the delivery by DTC, or a successor securities depository, or any Participant of any notice to any Beneficial Owner which is required or permitted to be given to owners of the Bonds; (v) the selection of which Beneficial Owners will receive payment in the event of any partial redemption of the Bonds; (vi) any consent given or other action taken by DTC, or a successor securities depository as a Bondholder; or, (vii) the performance by DTC, or any successor securities depository, of any other duties as securities depository.

REDEMPTION AND PREPAYMENT

Bonds maturing on or before October 1, 2015 will not be subject to redemption prior to their stated maturity dates, but Bonds maturing on or after October 1, 2016 will be subject to redemption and prepayment by the State at its option on October 1, 2015 and any interest payment date thereafter, in whole or in part, in an order determined by the State and by lot within each maturity, at a price of par plus accrued interest to the date specified for redemption.

Notice of any redemption of Bonds will be published in financial newspapers circulated in the Minneapolis-St. Paul metropolitan area and in the Borough of Manhattan, City and State of New York, not less than thirty days before the redemption date, stating: (i) the series, original date of issue, maturity dates, CUSIP numbers, and interest rates of the Bonds to be redeemed, (ii) if less than all Bonds of any maturity are to be redeemed, the registration numbers of those to be redeemed, (iii) the principal amount to be redeemed if less than the entire principal amount of any Bond, (iv) the redemption date and price and the name and address of the paying agent where such Bonds must be presented for payment, (v) that on the redemption date the redemption price of the Bonds or portions thereof to be redeemed will be payable, and (vi) that after the redemption date interest will cease to accrue or be payable thereon. Notice will also be mailed to the registered owner of any such Bond at the address shown on the bond register, not less than twenty days before the redemption date. During the period when the book entry system is in effect, the Bonds will be registered in the name of the nominee of DTC or another securities depository designated for this purpose as indicated in the section hereof entitled "Book Entry System," and thus notice of redemption will be mailed only to such securities depository which in turn is obligated to notify its participants who are obligated to notify the Beneficial Owners of the Bonds. However, the State assumes no responsibility with respect to the giving of such notice of redemption by the securities depository or its participants.

Notice of redemption having been so published and mailed, the Bonds or portion of Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the paying agent so as to be available therefor, interest thereon shall cease to accrue, and such Bonds or portions thereof shall no longer be considered outstanding under the Commissioner's order authorizing their issuance. The failure to publish notice of redemption shall not affect the validity or effectiveness of mailed notice, and the failure to mail notice to any registered owner, or any defect in the notice mailed to any registered owner, shall not affect the validity or effectiveness of the notice of redemption mailed to any other registered owner.

TAX EXEMPTION AND COLLATERAL TAX MATTERS

In the opinion of Dorsey & Whitney LLP, bond counsel, according to present federal and Minnesota laws, regulations, rulings and decisions, the interest to be paid on the Bonds:

- (1) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes;
- (2) is subject to Minnesota franchise taxes imposed on corporations and financial institutions;
- (3) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and
- (4) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal alternative minimum taxes.

The form of legal opinion to be issued by Dorsey & Whitney LLP with respect to the Bonds is set forth in Appendix K.

Arbitrage/Use of Proceeds

Failure to comply with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), may cause interest on the Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Bonds. These provisions include investment restrictions, required periodic payments of arbitrage profits to the United States, and requirements concerning the timely and proper use of Bond proceeds and the facilities and activities financed therewith and certain other matters. The documents authorizing the issuance of the Bonds include provisions which, if complied with by the State, meet the requirements of the Code. Such documents also include a covenant of the Commissioner to take all legally permissible actions necessary to preserve the tax exemption of interest on the Bonds. However, no provision is made for redemption of the Bonds or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes subject to federal or Minnesota income taxation.

Future Tax Legislation

The exemption of interest to be paid on the Bonds for federal or Minnesota income tax purposes is not mandated or guaranteed by the United States or Minnesota Constitutions. Accordingly, federal and Minnesota laws providing for tax-exemption of the interest may be subject to change. In the event federal or Minnesota law is changed to provide that interest on the Bonds is subject to federal or Minnesota income taxation, or if federal or Minnesota income tax rates are reduced, the market value of the Bonds may be adversely affected.

Future Judicial Decisions

The Minnesota Legislature enacted a statement of intent, in Minnesota Statutes, Section 289A.50, subdivision 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest unlawfully discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. The Commissioner is not aware of any judicial decision holding that a state's exemption of interest on its own bonds or those of its political subdivisions or Indian tribes, but not of interest on the bonds of other states or their political subdivisions or Indian tribes, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. Nevertheless, the Commissioner cannot predict the likelihood that interest on the Bonds would become taxable (for Minnesota income tax purposes) under this Minnesota statutory provision.

Premium Bonds

The Bonds are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Bonds at a premium must, from time to time, reduce their federal and Minnesota tax bases for the Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized for

federal and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Bonds acquired at a premium.

Collateral Tax Matters

The following tax provisions also may be applicable to the Bonds and interest thereon:

(1) Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and Railroad Retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Bonds, may be subject to taxation under Section 1375 of the Code and corresponding provisions of Minnesota law for an S corporation that has accumulated earnings and profits at the close of the taxable year if more than 25 percent of its gross receipts is passive investment income;

(3) interest on the Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code;

(4) in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Bonds that is received or accrued during the taxable year;

(5) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest expense in the case of individuals, estates and trusts; indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds;

(7) in the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Bonds within the meaning of Section 265(b) of the Code; and

(8) because of the Code's basis reduction rules for amortizable bond premium, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if the Bonds are sold for an amount equal to or less than their original cost.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership, disposition, or receipt of interest on the Bonds. Prospective purchasers or bondholders should consult their tax advisors with respect to collateral tax consequences and applicable state and local tax rules in states other than Minnesota.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Dorsey & Whitney LLP, bond counsel, and the State Attorney General. Only Dorsey & Whitney LLP will offer an opinion as to tax-exemption. The form of legal opinion to be issued by Dorsey & Whitney LLP with respect to the Bonds is set forth in Appendix K.

FINANCIAL ADVISOR

The State has retained Public Financial Management of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the refunding portion of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading for its own account, or distributing municipal securities or other public securities.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement Supplement, which comprises pages 17 through 59 and Appendices A through K, and is a part of this Official Statement.

LITIGATION

There is not now pending or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any manner questioning or affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 22 to the State Financial Statements for the Fiscal Year Ended June 30, 2004, set forth in Appendix A and additional actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of \$10 million on the State's expenditures or revenues during the Current Biennium.

The following is a discussion of developments regarding the actions described in the referenced Note 22 that occurred and are subsequent to the date of the financial statements contained in Appendix A, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix A and are material for purposes of this Official Statement.

1. *Tort Claims.* The Tort Claims appropriations for the fiscal years ending June 30, 2005 is \$761,000 and for the fiscal years ending June 30, 2006 is also \$761,000.

2. *Austin, et al. v. Goodno.* The Minnesota Court of Appeals affirmed the decision of the District Court in favor of Plaintiffs on December 28, 2004. The Minnesota Supreme Court denied the Commissioner's petition for review on March 15, 2005. The parties reached an agreement regarding attorneys' fees in May 2005, which finalized the litigation.

3. *ARRM, et al. v. Goodno; Masterman, et al. v. Goodno, et al.* The State reached a settlement in the AARM litigation in late 2004, which did not result in payment of additional funds, costs, or attorneys' fees.

4. *Council of Independent Tobacco Manufacturers of America, et al. v. The State of Minnesota, et al.* The Minnesota Supreme Court accepted review of this matter. An opinion is expected during the fall of 2005.

5. *Dahl, et al. v. Goodno (Ramsey County District Court).* Medicaid recipients filed a class action challenging a provision of 2003 Minnesota legislation authorizing Medicaid co-payments. The challenged provision allows providers to deny services for nonpayment of past due Medicaid co-pay debt. Plaintiffs also assert that the state failed to provide adequate notice when the statute was implemented and following each provider denial. Plaintiffs seek declaratory and injunctive relief, reimbursement of all co-pays paid by class members since October 1, 2003 (which may exceed \$10 million), costs and attorneys' fees. The court heard arguments on Plaintiffs' motion for class certification on June 30, 2005, and arguments on the parties' cross-motions for summary judgment on July 14, 2005. Rulings on the motions are expected during the fall of 2005. Appeals are anticipated.

6. *Gerber v. Gerber.* Minnesota Supreme Court. The Court of appeals held that income withholding for child support collections is "a judicial remedy," rather than an "administrative remedy"

determining the income withholding order was unenforceable by Anoka County because the underlying judgment had expired under the ten year statute of limitation provided by Minnesota Statutes section 541.04. The Supreme Court granted the Commissioner of Human Services' request to participate in an amicus to discuss the statewide policy impact and financial ramifications of the Court of Appeals' decision. If allowed to stand, the Commissioner of Human Services believes that the Court of Appeals' ruling will bar county child support agencies from collecting approximately \$52.8 million in child support arrearages in upwards of 8,200 child support cases statewide. The counties' inability to collect support arrearages for families with children raises the possibility that some of these families may seek public assistance, thereby increasing demand on the State's public assistance programs. It is difficult to determine the dollar impact of this decision to the State's public assistance programs, however, and therefore an estimate has not been generated. Appellant Anoka County's brief is due in late August and the Commissioner of Human Services' amicus brief is due September 2, 2005.

7. *Hutchinson Technology, Inc. v. Commissioner of Revenue.* The Minnesota Supreme Court ruled against the Commissioner on all three issues listed in Note 22. At the time that report was prepared, the Commissioner of Revenue estimated a potential fiscal impact of \$117 million for the then current 2004/05 biennium. The Commissioner of Revenue's current estimate for the 06/07 biennium is a \$165-\$200 million retroactive, and \$85-\$100 million prospective, fiscal impact, and for the 08/09 biennium a \$100-\$135 million retroactive, and \$50-\$65 million prospective, fiscal impact. The Commissioner of Revenue provides range estimates because he believes there is uncertainty about which companies are impacted by the decision and how they have been interpreting corporate tax law since the lower court's decision approximately one year ago.

8. *Medical Assistance Supplemental Payments to Government Owned Facilities.* The federal Centers for Medicaid and Medicare Services ("CMS") has disapproved a Minnesota Medicaid state plan amendment that provides for increased payments to local government owned nursing homes. DHS is challenging the disapproval through an administrative appeal and anticipates appeals in the federal courts. In addition, CMS has disallowed and seeks to recover the federal share of the increased supplemental payments through a separate administrative proceeding, which will also likely lead to appeals in the federal courts. If CMS is successful in the present disapproval litigation and its threatened disapproval of other similar state plan amendments, the State could lose federal financial participation of approximately \$11 million per year. In the disapproval litigation, the parties have conducted discovery and submitted briefs for dispositive determination by the federal hearing officer. In the disallowance litigation, the federal Department of Appeals Board issued an order on May 12, 2005 granting the State's motion to stay the State's disallowance appeal, pending determination of the disapproval litigation.

9. *MBNA American Bank v. State.* Three related cases challenging the State's jurisdiction to tax corporate income for tax years 1991-95, and 1997. For some years the matter is in tax court, for other years the matter is in district court. At issue is whether, under the Commerce Clause of the United States Constitution, MBNA had sufficient contacts with the state to create "nexus" and therefore to allow the State to impose its corporate franchise tax upon MBNA. The first of these cases is currently scheduled for trial on January 19, 2006. Although the amount in controversy in these cases does not exceed \$10 million, a decision in MBNA's favor could result in a potential revenue impact in excess of \$10 million when taking into account potential claims by similarly situated taxpayers.

10. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* Ramsey County District Court. Defendant cigarette manufacturers and the State executed a settlement agreement on May 8, 1998, under which defendants agreed to make annual payments in perpetuity to the State, and the State released defendants from all future claims for reimbursement for healthcare costs. Effective August 1, 2005, the Legislature imposed a tobacco use health impact fee to recover State health costs related to tobacco use and to deter youth smoking. All revenue from the fee must be credited to the Health Impact Fund. Defendants have moved to enforce the settlement agreement alleging that imposition of the fee violates the agreement's release of claims provisions. The Department of Revenue estimates that a decision favorable to defendants would have an estimated \$340 million impact on the Health Impact Fund for the Current Biennium. Defendants' motion is currently set for September 29, 2005. The Court is expected to rule quickly.

CONTINUING DISCLOSURE

The Commissioner, in the order authorizing and ordering the issuance of the Bonds, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5); and, for this purpose, to provide to nationally recognized securities repositories and any Minnesota state information depository, annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of events which materially affect the terms, payment, security, rating or tax status of the Bonds. The State is the only "obligated person" in respect of the Bonds within the meaning of paragraph (b)(5). A description of the Commissioner's undertaking is set forth in Appendix I.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Bonds at public sale to Merrill Lynch & Company as Underwriters, for a price of \$605,190,479.76 and accrued interest, with the Bonds to bear interest at the rates set forth on the cover page of this Official Statement.

The Underwriters have advised the Commissioner that they will offer the Bonds to the public at the initial public offering prices set forth on the cover page of this Official Statement, and that after the Bonds are released for sale to the public, the offering prices and other selling terms may from time to time be varied by the Underwriters.

RATINGS

The Bonds described herein have been rated "Aa1" by Moody's Investors Service, Inc., "AAA" by Standard and Poor's Ratings Group, and "AAA" by Fitch Ratings. The ratings reflect only the views of these services. For an explanation of the ratings as described by those services see Appendix J. These bond ratings are subject to change or withdrawal by the rating agencies at any time. Therefore, after the date hereof investors should not assume that such ratings are still in effect. A revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

AUTHORIZATION OF OFFICIAL STATEMENT

The State has prepared and delivered this Official Statement to the Underwriters of the Bonds and has authorized the Underwriters to use it in connection with the offering and sale of the Bonds to investors.

Peggy S. Ingison
Commissioner of Finance
State of Minnesota

The Official Statement Supplement

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2004 are included herein as Appendix A. These financial statements provide financial information for the State's general fund, as defined by generally accepted accounting principles, as set forth in the audited financial statements included in Appendix A and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise fund, of which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor of the State to the extent indicated in his report included in Appendix A. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in the Appendix in reliance upon the report of the Legislative Auditor and upon the expertise of the Legislative Auditor in accounting and auditing.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2004 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2005 will be available by December 31, 2005. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2005 and the two-month period ending August 31, 2005 with comparative data for the same period ending June 30, 2004 and August 31, 2005 are summarized on pages 22 and 23.

FINANCIAL INFORMATION

Budgeting Process

The State's constitutionally prescribed fiscal period is a biennium, and the State adopts budgets on a biennial basis. Each biennium ends on June 30 of an odd-numbered year and includes two fiscal years, each beginning on July 1 and ending on June 30. The biennium which began on July 1, 2001, and which ended on June 30, 2003, is referred to herein as the "FY 2002-2003 Biennium." The biennium which began on July 1, 2003 and which ended on June 30, 2005, is referred to herein as the "Previous Biennium." The biennium which began on July 1, 2005 and which will end on June 30, 2007, is referred to herein as the "Current Biennium." The biennium which will begin July 1, 2007 and will end on June 30, 2009 is referred to herein as the "Next Biennium."

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (in odd-numbered calendar years). Appropriations for the Current Biennium were enacted by the 2005 Legislature in the special session ending in July 2005. Supplemental appropriations and changes in revenue measures are usually adopted during legislative sessions in even-numbered calendar years.

Preliminary planning for the Current Biennium budget began in February 2003 when the Department of Finance began forecasting the Current Biennium revenues that would be available or generated and expenditures that would be incurred if the Governor's then proposed Previous Biennium revenues and expenditures were as forecasted and associated laws were to continue unchanged into the Current Biennium. Throughout the budget process, and at the end of the 2003 and 2004 legislative sessions, the Department of Finance continued to project the ongoing effects (called "planning estimates") of the Previous Biennium budget on Current Biennium revenues and spending. Planning estimates from the end of the 2004 legislative sessions became the basis for the Governor's Current Biennium budget proposals as described below.

The Current Biennium budget process officially began when the Governor issued budgetary policies and objectives in July 2004. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2004. In November 2004, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor

for submission to the Legislature in January 2005. In February 2005, the Department of Finance prepared a revised forecast of revenues and expenditures, and on the basis of this forecast, the Governor provided supplemental budget recommendations to the Legislature in March 2003. Legislative hearings were conducted, after which the Legislature enacted appropriation and tax bills having the effect of either adopting or modifying the Governor's proposals. The Governor signed into law most of the bills passed by the Legislature, and also exercised his authority to veto certain items of appropriation. The financial summary presented under the heading "BUDGET — CURRENT BIENNIUM" portrays the effects of the appropriation and tax bills that were enacted by the Legislature and approved by the Governor. The Department of Finance has also developed planning estimates for the Next Biennium, based upon the Current Biennium revenue and expenditure forecasts and existing laws.

The budget process just outlined, beginning with the development of planning estimates in February 2004, and finishing with gubernatorial approvals and vetoes, describes the process that is generally followed for each biennium.

During each biennium, there are four new Revenue and Expenditure Forecasts. Based upon the results of these forecasts, the Governor may recommend tax law and expenditure changes for the biennium for which the changes are recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve tax law changes and budget changes for the biennium for which the changes are approved.

Pages 36 to 45 show in summary form the results of the Revenue and Expenditure Forecasts, the Governor's Recommendations to the Legislature and the legislative changes made for the Current Biennium.

General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

Revenues, expenditures, transfers and fund balance information in budgetary fund statements may differ from those in the State's GAAP based Comprehensive Annual Financial Report ("CAFR") (see Appendix A). The primary difference is the recognition of accruals, reimbursements, deferred revenue, intrafund transactions and the budgetary basis of accounting for encumbrances. In the modified accrual basis used in the CAFR, expenditures are recognized when goods or services are received regardless of the year encumbered. In budgetary fund statements, encumbrances are recognized as expenditures in the year encumbered. The budgetary fund statements do not represent the State's official financial report but rather are prepared as a supplement to the budget documents.

Cash Flow Account

The cash flow account ("the Cash Flow Account") was established in the General Fund for the purpose of providing sufficient cash balances to cover monthly revenue and expenditure imbalances. The use of funds in the Cash Flow Account is governed by statute. The Legislature established the Cash Flow Account at \$350 million for the Current Biennium.

Budget Reserve Account

The budget reserve account (the "Budget Reserve Account") was established in the General Fund for the purpose of reserving funds to cushion the State from an economic downturn. The use of funds from the Budget Reserve Account is governed by statute.

The Legislature established the Budget Reserve Account at \$653 million for the Current Biennium. Previously enacted laws designating the allocation of future forecast positive balances remain unchanged. Any unrestricted General Fund balances resulting from future forecasts are to be used to further reduce school payment shifts enacted in 2003. The estimated remaining cost of completely reversing these payment shifts is \$830 million.

Control Procedures

Dollar Control: Expenditures in excess of legislative appropriations are prohibited by law. In order to prevent spending in excess of appropriations, the Department of Finance requires State agencies to identify their appropriations and establish them in the State's accounting system as the limit on spending. The accounting system will reject transactions that exceed these limits. This control procedure is designed to prevent agencies from spending from unauthorized sources of funds.

Allotment and Encumbrance Control: Before money can be disbursed pursuant to an appropriation, it must first be allotted (administratively allocated and approved for expenditure). Prior to each Fiscal Year, therefore, the Department of Finance allots the applicable State agency appropriations based on legislatively-enacted budgets. An allotment is a subdivision of an appropriation into smaller, detailed components used by agencies to budget expenditures by category of expenditure. The accounting system prevents allotments from exceeding appropriations.

Once allotments have been established, but before spending obligations can be incurred, for most purchases agencies must establish encumbrances against their allotments. Encumbrances are the accounting control device agencies use for reserving portions of their allotments for expenditures that will soon be incurred. The encumbrance process helps agencies keep track of their outstanding obligations, and the accounting system prevents agencies from encumbering more funding than has been allotted.

Executive Budget Officer Oversight: The Department of Finance assigns an Executive Budget Officer to each State agency for the purposes of approving agency accounting structures, appropriations, and allotments, and for monitoring overall agency revenues and expenditures.

Monthly Reports: The Department of Finance maintains a data warehouse which is used to produce periodic and ad hoc reports on revenues and expenditures that agency staff and Executive Budget Officers use to monitor agency spending and receipts.

REVENUE AND EXPENDITURE FORECASTING

General

The State's biennial budget appropriation process relies on revenue and expenditure forecasting as the basis for establishing aggregate revenue and expenditure levels. Revenue forecasting for the State is conducted within the Department of Finance by the Economic Analysis Division. Expenditure forecasts for the State are prepared by the Department of Finance based on current annual budgets and on current cash expenditure estimates provided by State agencies responsible for significant expenditure items.

In addition to the forecasts prepared for the Legislature before the commencement of each new biennium, forecasts are updated periodically through the biennium. Based on each revenue and expenditure reforecast, the Department of Finance prepares a new cash flow analysis for the biennium.

Forecasting Risks

Risks are inherent in the revenue and expenditure forecasts. Assumptions about U.S. economic activity and federal tax and expenditure policy underlie these forecasts. In the forecast it is assumed that existing federal tax law will remain in place and that current federal budget authority will remain in place. Reductions in federal spending programs may affect State spending. Finally, even if economic and federal tax assumptions are correct, revenue forecasts are still subject to other variables and some normal level of statistical deviations.

Current Forecast Methods and Assumptions

The baseline economic forecast which the State Economist uses in preparing the State revenue and expenditure forecast is provided by Global Insight, Inc. ("GII") of Lexington, Massachusetts. GII furnishes a monthly forecast of economic growth and individual incomes across all segments of the national economy.

The GII national economic forecasts are reviewed by Minnesota's Council of Economic Advisors, a group of macro-economists from the private sector and academia. The Council provides an independent check on the GII forecast. If the Council determines that the GII forecast is significantly more optimistic than the current consensus, the Commissioner of Finance may base the State forecast on a less optimistic scenario of national economic growth.

Forecasts of individual income tax receipts are based on GII forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The GII forecasts are then entered into an economic model of Minnesota maintained by the Minnesota Department of Finance. State forecasts of employment by major industry sector as well as wage and aggregate earnings are obtained from this model. Aggregate annual earnings are used, in turn, to forecast calendar year tax liabilities through a micro-simulation of the State's individual income tax. Calendar year liabilities are converted into fiscal year income tax revenues, with regard given to the timing of withholding tax receipts, quarterly estimated payments, refunds and final payments.

Capital gains realizations have become an increasingly volatile and important share of Minnesota's income tax base. Net capital gains realizations by Minnesota resident taxpayers are estimated to have totaled \$9.0 billion in tax year 2000, 7.8 percent of resident's adjusted gross income. In tax year 2002 net capital gains realizations by Minnesota residents were estimated to total \$2.8 billion or 2.5 percent of adjusted gross income.

Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth, and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium level rather than adjust instantaneously to a shock to model variables. Capital gains are estimated to have grown 25% in 2003 and 16.4% in 2004 and are forecast to grow 9.4%, 8.8% and 9.0% in 2005, 2006 and 2007 respectively.

Corporate income tax receipts are forecast using GII's forecast of major variables affecting pre-tax corporate profits. The volatility of corporate profits and the various loss carry-forward and carry-back provisions make this the most difficult revenue source to forecast.

Sales tax receipts are estimated on the basis of a forecast of the sales tax base. The historical base is constructed largely on the basis of national data for items that would be subject to tax if sold in Minnesota. Those data are then allocated to Minnesota on the basis of Minnesota's share of national income and employment to arrive at a Minnesota specific base. By means of a regression equation, the base is calibrated to historical collections. Using national forecasts of sales of taxable items and allocating them to Minnesota on the basis of forecasts on Minnesota's share of national income and employment the base is extended into the future. Using information from the aforementioned regression equation the forecast collections are derived from the forecast of the base.

Numerous other revenue sources are forecast, some by the Department of Finance and others by the agencies responsible for their collection. In general, none is of significant size, and historically, variances among them have frequently been offsetting.

The February 2005 baseline forecast from GII, the scenario which GII considered to be the most likely at the time it was made, was the baseline for the February 2005 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. GII estimated potential GDP growth at 3.4 percent over the 2004 to 2009 period. Forecast growth rates for 2004 through 2006 are more or less consistent with the potential rate of growth. Inflation, as measured by the implicit price deflator for GDP, was expected to remain moderate.

**GII FEBRUARY 2005
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)**

	<u>Calendar Year 2002 Actual %</u>	<u>Calendar Year 2003 Actual %</u>	<u>Calendar Year 2004 Forecast %</u>	<u>Calendar Year 2005 Forecast %</u>	<u>Calendar Year 2006 Forecast %</u>
REAL GDP Growth Rate	1.9	3.0	4.4	3.5	3.1
GDP DEFLATOR (Inflation)	1.6	1.8	2.1	1.8	1.7
NOMINAL GDP Growth Rate	3.5	4.9	6.6	5.4	4.9

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2005 revenue and expenditure forecast is expected to be released in early December 2005. The November 2005 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the State's General Fund revenues and expenditures for the Fiscal Years ending June 30, 2002 through 2004, and for the additional time periods shown. For the Fiscal Years ended June 30, 2002 through 2004 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2004 and June 30, 2005 and for the two-month periods ending August 31, 2004 and August 31, 2005, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2004, 2005 and 2006, respectively. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the second table are presented by object of expenditure, the State's historical method of presentation, whereas forecasts of expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

**STATE OF MINNESOTA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES
(THOUSANDS OF DOLLARS)
UNAUDITED**

	Fiscal Year Ended June 30 (1)			July 1,2003 through June 30 2004 (1)	July 1,2004 through June 30 2005 (1)	July 1,2004 through August 31 2004 (1)	July 1,2005 through August 31 2005 (1)
	2002	2003	2004				
UNRESTRICTED REVENUES:							
Income Tax - Individual.....	\$6,259,345	\$6,458,630	\$6,799,651	\$6,625,308	\$7,222,347	\$828,053	\$909,869
Income Tax - Corporation.....	631,826	700,221	764,351	765,121	1,023,240	59,284	59,835
Sales Tax	3,996,652	3,983,067	4,160,205	4,164,968	4,457,210	597,559	622,287
Statewide Property Tax (2)	305,573	585,416	599,622	429,029	577,084	245	272
Inheritance and Gift Tax.....	63,990	130,814	91,326	88,924	72,251	10,910	129,421
Liquor, Wine and Malt Beverage Tax.....	53,922	64,973	66,667	64,803	69,110	8,731	8,252
Cigarette and Tobacco Tax	157,021	178,721	159,558	154,155	152,720	22,361	28,499
Mining Taxes.....	165	2,019	2,040	2,040	5,660	0	0
Gross Earnings Taxes.....	163,749	242,218	274,218	268,404	267,355	4,954	1,679
Motor Vehicle Excise Tax.....	405,072	292,852	315,836	301,882	260,046	74,576	84,408
Income Reciprocity Tax.....	44,791	49,876	47,623	46,242	49,850	0	0
Department Earnings.....	344,660	370,354	482,738	476,080	488,546	72,209	104,658
Investment Income.....	82,777	21,384	17,022	14,038	16,580	2,054	5,346
Tobacco Settlement.....	178,565	150,002	174,266	168,467	175,488	100	0
All Other Revenues.....	679,944	734,338	759,894	742,916	671,852	67,786	65,205
TOTAL UNRESTRICTED REVENUES...	\$13,368,052	\$13,964,884	\$14,715,019	\$ 14,312,376	\$ 15,509,339	\$ 1,748,831	\$ 2,020,731
RESTRICTED REVENUES.....	54,941	76,148	74,899	74,899	86,146	10,395	11,298
LESS REVENUE REFUNDS:							
Income Tax - Individual	820,159	980,831	962,861	962,861	902,243	16,550	20,913
Income Tax - Corporation.....	177,508	127,532	115,514	115,514	68,288	7,801	4,278
Sales Tax.....	224,079	162,808	202,211	202,211	240,654	29,414	26,823
All Other.....	22,763	28,856	34,193	34,193	35,323	2,757	4,932
TOTAL REFUNDS.....	\$1,244,508	\$1,300,028	\$1,314,778	\$ 1,314,778	\$ 1,247,508	\$ 56,562	\$ 56,945
NET REVENUES.....	\$12,178,485	\$12,741,004	\$13,475,141	\$ 13,072,498	\$ 14,347,977	\$ 1,702,664	\$ 1,975,083

(1) For Fiscal Years 2002, 2003 and 2004, the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the twelve-month periods ended June 30, 2004 and 2005 and the two-month periods ended August 31, 2004 and 2005, only current receipts have been included.

(2) Statewide Property Tax collections began in Fiscal Year 2002 due to 2001 Legislative action on the property tax reform which decreased the local portion of the property tax revenue and increased the State's portion. See page S-8 footnote 3.

**STATE OF MINNESOTA
GENERAL FUND
COMPARATIVE STATEMENT OF EXPENDITURES AND
TRANSFERS TO OTHER FUNDS
(THOUSANDS OF DOLLARS)
(UNAUDITED)**

	Fiscal Year Ended June 30 (1)			July 1,2003 through June 30 2004 (1)	July 1,2004 through June 30 2005 (1)	July 1,2004 through August 31 2004 (1)	July 1,2005 through August 31 2005 (1)
	2002	2003	2004				
EXPENDITURES:							
Personal Services.....	\$1,002,723	\$1,118,911	\$1,038,657	\$945,090	\$ 966,953	\$115,975	\$115,174
Purchased Services.....	377,895	334,492	289,637	259,244	314,513	36,536	40,680
Materials and Supplies.....	49,748	59,872	47,672	41,576	53,765	5,391	5,209
Capital Outlay:							
Equipment.....	16,991	22,145	20,307	17,224	31,397	1,481	901
Real Property.....	38,723	57,682	4,119	2,480	2,427	219	168
Grants and Subsidies:							0
Individuals.....	2,942,472	3,513,188	3,364,514	3,174,223	3,520,011	680,638	787,509
Municipalities and Towns.....	775,956	862,138	716,824	660,791	642,534	228,363	228,122
Counties.....	744,154	894,507	784,808	730,968	624,391	207,745	235,579
School Districts.....	4,949,922	6,019,367	6,041,680	5,708,918	6,306,642	1,429,256	1,432,636
Private Organizations.....	194,628	185,857	165,166	151,818	153,613	27,347	26,163
University of Minnesota	544,626	568,702	475,994	441,570	461,289	44,389	49,398
Other.....	176,750	162,121	143,615	131,678	129,127	30,610	31,779
TOTAL EXPENDITURES.....	\$ 11,814,588	\$ 13,798,982	\$ 13,092,992	\$ 12,265,580	\$ 13,206,663	\$ 2,807,950	\$ 2,953,318
NET TRANSFERS OUT	852,123	591,225	221,992	396,193	447,508	175,680	171,742
TOTAL EXPENDITURES and NET TRANSFERS OUT.....	\$ 12,666,711	\$ 14,390,207	\$ 13,314,984	\$ 12,661,773	\$ 13,654,171	\$ 2,983,630	\$ 3,125,060

For Fiscal Years 2002, 2003 and 2004, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For (1) the twelve-month periods ended June 30, 2004 and 2005 and the two-month periods ended August 31, 2004 and 2005, only current year expenditures have been included.

BUDGET — PREVIOUS BIENNIUM

November 2002 Forecast

The Department of Finance prepared a forecast of General Fund revenues and expenditures for the Previous Biennium in November 2002. The November 2002 forecast of Previous Biennium resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
NOVEMBER 2002 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ (332)
Non-dedicated Revenues	26,562
Dedicated Revenues, Transfers In and Other	<u>295</u>
Total Resources	\$26,525
Expenditures	<u>30,975</u>
Projected Unreserved Balance at June 30, 2005	\$ (4,450)
Budget Reserve Account	79
Dedicated Reserves	<u>31</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ (4,560)</u></u>

**COMPARISON OF PREVIOUS BIENNIUM
TO 2002-03 BIENNIUM
NOVEMBER 2002 FORECAST**

	<u>Percent Change</u>
Receipts:	
Individual Income Tax	10.5%
Sales Tax	6.7%
Corporate Income Tax	25.8%
Motor Vehicle Sales Tax	(23.5)%
Statewide Property Tax	35.1%
Tobacco Settlements	24.7%
Other Non-Dedicated Revenues	<u>(8.8)%</u>
Total Net Non-Dedicated Revenues	7.8%
Expenditures	14.3%

February 2003 Governor's Budget Recommendation

In February 2003 the Governor submitted a proposed budget to the Legislature for the Previous Biennium that was based on the November 2002 forecast of General Fund revenues and expenditures. The February Governor's recommendation is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
FEBRUARY 2003 GOVERNOR'S RECOMMENDATION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 186
Non-dedicated Revenues	26,937
Dedicated Revenues, Transfers In and Other	<u>1,501</u>
Total Resources	\$28,624
Expenditures	<u>28,120</u>
Projected Unreserved Balance at June 30, 2005	\$ 504
Budget Reserve Account	<u>500</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 4</u></u>

Revenues Proposed in the Governor's Budget:

The February 2003 Governor's recommendation reflected a net increase in General Fund revenues of \$1.581 billion from the November 2002 forecast for the Previous Biennium. Current resources (total resources less the balance from the Previous Biennium) in the February Governor's recommendation would have increased by \$3.047 billion (12.0 percent) over the 2002-03 Biennium.

Expenditures Proposed in the Governor's Budget:

The February 2003 Governor's recommendation for the Previous Biennium decreased General Fund spending by \$2.855 billion from the November 2002 projected forecast of current law. The total recommended spending of \$28.120 billion equaled a \$1.020 billion (3.8 percent) increase over the November 2002 forecast for the 2002-03 Biennium.

Reserves:

Current law provided for a total of \$96 million in reserves including \$55 million in the Budget Reserve Account and \$41 million in a separate education reserve account. The Governor recommended eliminating the education reserve account and adding \$404 million to restore the Budget Reserve Account to \$530 million, approximately 3.8 percent of second year expenditures. The Governor also recommended statutory changes requiring that any future forecast balances first be directed to restoring the state Cash Flow Account to \$350 million and then to increasing the Budget Reserve Account to 5 percent of second year expenditures.

February 2003 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium at the end of February 2003. The February 2003 Previous Biennium forecast of resources, expenditures, and fund balances, without regard to the Governor's February 2003 recommendation, is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
FEBRUARY 2003 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ (11)
Non-dedicated Revenues	26,450
Dedicated Revenues, Transfers In and Other	<u>256</u>
Total Resources	\$26,695
Expenditures	<u>30,828</u>
Projected Unreserved Balance at June 30, 2005	\$ (4,133)
Budget Reserve Account	55
Dedicated Reserves	<u>41</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ (4,229)</u></u>

The February 2003 forecast reflected unallotment actions taken in the Previous Biennium and a negative \$11 million Unreserved Balance from the 2002-03 Biennium.

The net impact of the February 2003 forecast and unallotment actions taken in the 2002-03 Biennium was to slightly increase the projected shortfall for the Previous Biennium from \$4.204 billion to \$4.229 billion, a \$25 million increase.

April 2003 Governor's Budget Recommendation Revisions

Updated February 2003 revenue and expenditure estimates resulted in only minimal change in the current law forecast. However, much of the expenditure savings reflected in the forecast had been previously recognized in the Governor's February recommendations. The revenue reductions projected in the February forecast produced a \$125 million shortfall in the Governor's proposed budget. The Governor submitted supplemental budget recommendations to balance his proposed budget to the Legislature in March 2003, with minor updates in April 2003. The Previous Biennium resources, expenditures, and fund balances based on the final Governor's Budget Recommendation is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
APRIL 2003 GOVERNOR'S RECOMMENDATION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 179
Non-dedicated Revenues	26,894
Dedicated Revenues, Transfers In and Other	<u>1,489</u>
Total Resources	\$28,562
Expenditures	<u>28,026</u>
Projected Unreserved Balance at June 30, 2005	\$ 536
Budget Reserve Account	<u>530</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 6</u></u>

Budget Reserves:

The April budget revision added \$30 million to the Governor's initial \$500 million recommendation for the Budget Reserve Account, increasing it to \$530 million.

2003 Regular and First Special Legislative Sessions

The 2003 legislative session ended on the constitutional deadline of May 19, 2003. The Legislature was unable to agree on the tax and appropriation bills by that date. A ten-day special legislative session took place from May 20 to May 29, 2003.

The end of the 2003 legislative sessions estimates of revenues, expenditures and fund balances is detailed below.

**PREVIOUS BIENNIUM
GENERAL FUND
END OF 2003 LEGISLATIVE SESSIONS
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 180
Non-dedicated Revenues	27,106
Dedicated Revenues, Transfers In and Other	<u>1,536</u>
Total Resources	\$28,822
Expenditures	<u>28,300</u>
Projected Unreserved Balance at June 30, 2005	\$ 522
Budget Reserve Account	<u>522</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 0</u></u>

Enacted Budget Summary:

The enacted budget conformed closely to all the major recommendations by the Governor. Compared to the February 2003 forecast of General Fund revenues and expenditures that indicated a total budget shortfall of \$4.235 billion, the following represent the primary changes enacted to balance the budget. First, legislative actions affecting the 2002-03 Biennium added \$192 million with \$180 million as the balance brought forward from the 2002-03 Biennium to the Previous Biennium. Second, revenue changes and transfers from other funds added \$1.959 billion in additional resources, while reductions from forecast spending levels would save \$2.509 billion in authorized spending. Finally, \$426 million was added to the Budget Reserve Account to increase it to a total of \$522 million.

No general tax increases were enacted. Total spending, excluding the impact of payment schedule changes was \$367 million above the Governor's Budget Recommendation. This increase in spending above that recommended by the Governor was funded by \$258 million of additional resources in the form of increased fees and one time transfers from other state funds. Also offsetting the increased spending were additional changes in education aid and human services payment schedules that would yield \$92 million in expenditure savings in the Previous Biennium above the level recommended by the Governor.

The following table compares estimates of the 2002-03 Biennium and Previous Biennium revenues and shows the rate of revenue growth/decline.

	<u>Previous Biennium</u>	<u>Current Biennium</u>	<u>Percent Change</u>
	(\$ in billions)		
Receipts:			
Individual Income Tax	\$10.944	\$12.034	10.0%
Sales Tax	7.718	8.384	8.6%
Corporate Income Tax	1.059	1.304	23.1%
Motor Vehicle Sales Tax549	.574	4.6%
Statewide Property Tax	1.208	1.221	1.1%
All Other Taxes	1.873	2.242	19.7%
Non-Tax Revenues	<u>1.360</u>	<u>1.347</u>	<u>(1.0%)</u>
Subtotal	24.711	27.106	9.7%
Transfers, Dedicated, Other Resources	<u>.648</u>	<u>1.536</u>	<u>137.0%</u>
Total Revenues	<u>\$25.360</u>	<u>\$28.642</u>	<u>12.9%</u>

Expenditures:

Total expenditures authorized by the 2003 Legislature were similar to the April 2003 Governor's Budget Recommendation. The following table compares estimates of 2002-03 Biennium and Previous Biennium spending and shows the rate of biennial expenditure growth for some of the largest portions of the State budget.

	<u>2002-03 Biennium</u>	<u>Previous Biennium</u>	<u>Percent Change</u>
	(\$ in billions)		
Expenditures:			
K-12 Education	\$ 9.978	\$11.883	19.1%
Property Tax Aids & Credits	3.379	2.737	(19.0%)
Higher Education	2.757	2.560	(7.2%)
Health & Human Services	6.754	7.428	10.0%
Criminal Justice	1.351	1.434	6.1%
Debt Service581	.674	16.1%
All Other Spending	<u>1.953</u>	<u>1.584</u>	<u>(18.9%)</u>
Total Expenditures	<u>\$26.753</u>	<u>\$28.300</u>	<u>5.8%</u>

Reserves, Future Forecast Contingencies:

The Legislature also followed the Governor's recommendation in restoring the Budget Reserve Account and setting provisions governing future forecast balances. The General Fund Budget Reserve Account was restored to \$522 million. This total represented 3.65 percent of enacted spending for the second year of the Previous Biennium. Previously enacted laws designating the allocation of future forecast positive Unrestricted General Fund balances to restore the Budget Reserve Account to \$653 million were modified. Enacted measures required that any future forecast balances first be used to restore \$350 million to the Cash Flow Account, and that remaining balances be allocated to increase the Budget Reserve Account to \$653 million.

November 2003 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium in November 2003. The November 2003 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
NOVEMBER 2003 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	26,680
Dedicated Revenues, Transfers In and Other	<u>1,555</u>
Total Resources	\$28,604
Expenditures	<u>28,158</u>
Projected Unreserved Balance at June 30, 2005	\$ 446
Budget Reserve Account	<u>631</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ (185)</u></u>

Forecast revenues were expected to total \$28.235 billion, \$407 million, or 1.4 percent less than end-of-session estimates.

Projected current law spending was reduced to \$28.158 billion, \$143 million, or 0.6 percent less than end of session estimates.

The Budget Reserve Account was increased from \$522 million at the end of session to \$631 million at the November 2003 forecast.

February 2004 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium at the end of February 2004. The February 2004 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
FEBRUARY 2004 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 368
Non-dedicated Revenues	26,658
Dedicated Revenues, Transfers In and Other	<u>1,556</u>
Total Resources	\$28,582
Expenditures	28,111
Projected Unreserved Balance at June 30, 2005	\$ 471
Budget Reserve Account	<u>631</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ (160)</u></u>

The projected deficit for the Previous Biennium was reduced by \$25 million compared to the November 2003 forecast. Changes to forecast revenues and expenditures were small. A \$46 million decline in spending estimates was partially offset by a \$21 million drop in projected revenues.

March 2004 Governor's Budget Recommendations

In early March 2004 the Governor submitted a supplemental budget recommendation to the Legislature for the Previous Biennium to eliminate the \$160 million projected deficit that was based on the November 2003 and February 2004 forecasts of General Fund revenues and expenditures. The Governor's recommendations provided for budget changes totaling \$160 million to offset this shortfall and provided an unreserved General Fund balance of \$0 million by June 30, 2005, while maintaining a \$281 million budget reserve and establishing a \$350 million Cash Flow Account. The Governor's March 2004 recommendation is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
March 2004 GOVERNOR'S RECOMMENDATION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	26,706
Dedicated Revenues, Transfers In and Other	<u>1,631</u>
Total Resources	\$28,706
Expenditures	<u>28,074</u>
Projected Unreserved Balance at June 30, 2005	\$ 632
Cash Flow Account	350
Budget Reserve	<u>281</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 0</u></u>

Revenue Changes Proposed in the Governor's Budget:

The March 2004 Governor's recommendation proposed a net increase of \$123 million in General Fund resources from the February 2004 forecast for the Previous Biennium.

Expenditure Changes Proposed in the Governor's Budget:

The March 2004 Governor's supplemental budget for the Previous Biennium reduced General Fund spending by \$37 million from the February 2004 forecast.

Budget Reserves Recommendations:

The Governor recommended transferring \$350 million from the Budget Reserve Account to the Cash Flow Account. The Cash Flow Account was used to eliminate the deficit in the previous biennium and since that time maintained a zero balance. The February 2004 forecast balance in the Budget Reserve Account was \$631.4 million. The recommended transfer would result in a budget reserve balance of \$281.4 million and a Cash Flow Account balance of \$350 million.

2004 Legislative Session

The legislature adjourned on May 16, 2004, without enacting recommended measures affecting the Previous Biennium. Previous Biennium estimates of resources, expenditures, and fund balances at the end of the 2004 legislative session is detailed below.

**PREVIOUS BIENNIUM
GENERAL FUND
END OF 2004 LEGISLATIVE SESSION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	26,654
Dedicated Revenues, Transfers In and Other	<u>1,556</u>
Total Resources	\$28,579
Expenditures	<u>28,107</u>
Projected Unreserved Balance at June 30, 2005	\$ 472
Cash Flow Account	0
Budget Reserve Account	<u>631</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ (159)</u></u>

The 2004 Legislature passed a number of relatively minor budget items affecting the General Fund. Both the House and Senate passed budget measures that would eliminate the \$160 million forecast deficit for the Previous Biennium as well as a number of other changes that provided funding for additional priorities. However the House and Senate were unable to resolve differences in the proposals and were not able to agree on a budget solution during the regular legislative session.

May 2004 Executive Actions

Because the legislature did not successfully act on the Governor's recommendations, on May 27, 2004 the Governor took executive actions to eliminate the forecast \$160 million deficit for the Previous Biennium. These executive actions did not require approval of the legislature.

**PREVIOUS BIENNIUM
GENERAL FUND
May 2004 AFTER EXECUTIVE ACTIONS
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	26,662
Dedicated Revenues, Transfers In and Other	<u>1,556</u>
Total Resources	\$28,587
Expenditures	<u>27,955</u>
Projected Unreserved Balance at June 30, 2005	\$ 632
Cash Flow Account	0
Budget Reserve	<u>631</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 1</u></u>

Capital Budget:

The 2004 Legislature did not pass a capital budget.

November 2004 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium in November 2004. The November 2004 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
NOVEMBER 2004 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	27,093
Dedicated Revenues, Transfers In and Other	<u>1,580</u>
Total Resources	\$29,042
Expenditures	<u>28,039</u>
Projected Unreserved Balance at June 30, 2005	\$ 1,003
Cash Flow Account	350
Budget Reserve Account	<u>653</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 0</u></u>

The table reflects the automatic distribution of the forecast balances, as explained below.

Forecast revenues were expected to total \$29.042 billion, \$455 million, or 1.6 percent more than end-of-session estimates. Growth in individual income tax revenues accounted for \$362 million of the increase. Corporate income tax collections were forecast to increase by \$7 million. Sales tax revenues were \$13 million less than forecast, motor vehicle sales tax collections were \$31 million less, and statewide property taxes were \$4 million less than forecast. All other revenues accounted for an increase of \$134 million mainly due to higher insurance gross premium, mortgage and deed taxes.

Projected spending under the current law was reduced to \$27.921 billion, \$34 million less than end of session estimates before giving effect to statutory provisions allocating forecast balances. K-12 education estimates increased \$25 million due to an increase in forecast pupil units. Health and human services estimates increased by \$39 million due to higher caseloads and higher average costs in health care programs. Debt service payments were down \$36 million due to savings from recent bond sales. Estimated program cancellations of \$39 million were forecast for higher education financial aid and tuition reciprocity programs. All other changes provided a \$23 million reduction.

In addition to the \$455 million revenue increase and the \$34 million spending decrease, there was a \$6 million reduction in the budget reserve caused by the loss of an expected transfer from the assigned risk plan surplus. These all contributed to a total \$495 million surplus projected for the Previous Biennium. Under current law, the balance was allocated as follows:

- \$350 million to restore the cash flow account
- \$27 million to restore the budget reserve to \$653 million
- \$118 million to reverse a portion of the school aid shifts.

February 2005 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium at the end of February 2005. The February 2005 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM
GENERAL FUND
FEBRUARY 2005 FORECAST AND 2005 REGULAR LEGISLATIVE SESSION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2003	\$ 369
Non-dedicated Revenues	27,248
Dedicated Revenues, Transfers In and Other	<u>1,581</u>
Total Resources	\$29,198
Expenditures	<u>28,195</u>
Projected Unreserved Balance at June 30, 2005	\$ 1,003
Cash Flow Account	350
Budget Reserve Account	<u>653</u>
Projected Unrestricted Balance at June 30, 2005	<u><u>\$ 0</u></u>

The table reflects laws enacted in the 2005 legislative session as well as the automatic distribution of the forecast balance. A deficiency bill was passed into law in February 2005, that included \$31 million in emergency appropriations and \$6 million in additional revenues. The budget reserve account was reduced by \$25 million to pay for these appropriations.

Forecast revenues were expected to total \$29.198 billion for the Previous Biennium, \$156 million more than forecast in November 2004. Of the total increase, \$66 million occurred in income tax collections, \$64 million in higher corporate tax receipts and \$27 million in expected higher net sales tax collections. Other tax and non-tax revenues were expected to have no net change.

Projected spending under the current law was reduced to \$28.045 billion, \$6 million more than forecast in November before giving effect to statutory provisions allocating forecast balances. The increase in revenues and spending, and the decrease in the budget reserve account, provided for \$175 million available at the end of the Previous Biennium. As in the November forecast, the balance was allocated per current law as follows:

\$25 million to restore the budget reserve account to \$653 million, and

\$150 million to reverse a portion of the school aid shifts, increasing total spending to \$28.195 billion.

Previous Biennium Estimates — Revenues and Expenditures

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Previous Biennium based on 2005 legislative regular and special session actions. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

**PREVIOUS BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
JULY 2005 END OF LEGISLATIVE SESSION
(\$ in Thousands)**

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>	<u>Previous Biennium</u>
Forecast Resources			
Prior Year Ending Balance ⁽¹⁾	368,922	1,268,455	368,922
Net Non-dedicated Revenues	13,295,489	13,952,361	27,247,850
Dedicated Revenues	19,929	38,385	58,314
Transfers From Other Funds	1,143,977	314,187	1,458,164
Prior Year Adjustments	39,897	25,000	64,897
Subtotal Current Resources	<u>14,499,292</u>	<u>14,329,933</u>	<u>28,829,225</u>
Total Revenues Plus Prior Year Ending Balance	14,868,214	15,598,388	29,198,147
Authorized Expenditures & Transfers			
K-12 Education	5,715,704	6,329,193	12,044,897
Property Tax Aids & Credits	1,438,722	1,368,053	2,806,775
Higher Education	1,235,604	1,306,098	2,541,702
Health & Human Services	3,511,023	3,750,536	7,261,559
Environment, Agriculture & Economic Dev	365,952	373,349	739,301
Transportation	77,623	81,098	158,721
Public Safety	682,531	767,145	1,449,676
State Government	265,617	319,185	584,802
Debt Service	265,706	323,346	589,052
Other	5,491	0	5,491
Cancellation Adjustment	0	(61,000)	(61,000)
Subtotal Expenditures & Transfers	<u>13,563,973</u>	<u>14,557,003</u>	<u>28,120,976</u>
Dedicated Revenue Expenditures	35,786	38,385	74,171
Total Expenditures and Transfers	<u>13,599,759</u>	<u>14,595,388</u>	<u>28,195,147</u>
Unreserved Balance	1,268,455	1,003,000	1,003,000
Cash Flow Account	0	350,000	350,000
Budget Reserve	403,677	653,000	653,000
Appropriations Carried Forward	<u>183,613</u>	<u>0</u>	<u>0</u>
Unrestricted Balance	<u>681,165</u>	<u>0</u>	<u>0</u>

(1) Fiscal Year 2003 ended with an Unrestricted General Fund balance of \$180.4 million and an Unreserved Accounting General Fund Balance of \$368.9 million.

The following table sets forth by source the forecast amounts of nondedicated revenues allocable to the General Fund for the Previous Biennium.

**PREVIOUS BIENNIUM
GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
JULY 2005 END OF LEGISLATIVE SESSION
(\$ in Thousands)**

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>	<u>Previous Biennium</u>
Net Nondedicated Revenues:			
Income Tax — Individual	5,709,584	6,175,855	11,885,439
Income Tax — Corporate	628,048	828,900	1,456,948
Sales Tax	4,100,864	4,225,989	8,326,853
Motor Vehicle Sales Tax	274,674	262,700	537,374
Statewide Property Tax	599,622	617,774	1,217,396
Estate Tax	90,058	82,000	172,058
Liquor, Wine & Beer	69,918	66,315	136,233
Cigarette & Tobacco	161,099	149,030	310,129
Mining	1,479	2,501	3,980
Mortgage Registry Tax	231,024	148,300	379,324
Deed Transfer Tax	120,606	126,100	246,706
Gross Earnings Taxes	258,733	277,050	535,783
Lawful Gambling Taxes	59,760	59,760	119,520
Medical Assistance Surcharges	196,749	204,303	401,052
Income Tax Reciprocity	46,242	49,850	96,092
Tobacco Settlements	168,467	175,388	343,855
Investment Income	15,125	14,600	29,725
DHS RTC Collections	44,143	42,220	86,363
Lottery Revenue	46,983	48,708	95,691
Departmental Earnings	243,020	237,000	480,020
All Other Nondedicated Revenue	272,234	199,948	472,182
Tax and Non-Tax Refunds	(42,943)	(41,930)	(84,873)
Total Net Nondedicated Revenues	<u>13,295,489</u>	<u>13,952,361</u>	<u>27,247,850</u>

CURRENT BIENNIUM

November 2004 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium in November 2004. The November 2004 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

**CURRENT BIENNIUM
GENERAL FUND
NOVEMBER 2004 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,064
Dedicated Revenues, Transfers In and Other	414
Total Resources	<u>\$30,481</u>
Expenditures	<u>30,177</u>
Projected Unreserved Balance at June 30, 2007	\$ 303
Cash Flow Account	350
Budget Reserve Account	<u>653</u>
Projected Unrestricted Balance at June 30, 2007	<u>\$ (700)</u>

This was the first actual forecast of revenues and expenditures for the Current Biennium. Forecast revenues were expected to total \$30.481 billion, \$625 million more than May 2004 After Executive Actions estimates and \$1.439 billion, or 5.0 percent, greater than the Previous Biennium. Tax revenues were projected to be \$2.031 billion greater than in the Previous Biennium, and other resources were projected to be \$1.226 billion lower than in the Previous Biennium. The balance brought forward from the Previous Biennium was expected to be \$634 million higher than in the Previous Biennium.

Individual income tax revenues were expected to show the most growth in the Current Biennium, up \$1.592 billion, or 13.5 percent, from the Previous Biennium. Sales tax revenues were forecast to grow by \$433 million, or 5.3 percent, over the Previous Biennium. Corporate income tax collections were projected to decline by \$14 million, or just under one percent, while motor vehicle sales tax collections increased by \$10 million, or 1.9 percent. Expected receipts from other tax revenues were forecast to decline by \$63 million. Transfers decreased by \$1.166 billion reflecting the one-time transfer of tobacco funds used as part of the Previous Biennium budget solution.

Projected current law spending for the Current Biennium was expected to total \$30.177 billion, \$556 million greater than end of session estimates, and \$2.139 billion, or 7.6 percent, higher than spending in the Previous Biennium. Health and human services spending estimates increased by \$1.439 billion, or 19.9 percent, over the Previous Biennium due to higher caseloads and higher average costs in health care programs. Spending for post-secondary education in the Current Biennium was projected to be \$211 million, or 8.3 percent, higher than in the Previous Biennium mainly due to growing enrollment. All other spending areas resulted in an increase of \$489 million over the Previous Biennium.

The cash flow account remained at \$350 million and the budget reserve account at \$653 million for the Current Biennium. The projected deficit for the Current Biennium was \$700 million.

BUDGET — CURRENT BIENNIUM

January 2005 Budget Recommendation

In January 2005 the Governor submitted a proposed budget to the Legislature for the Current Biennium that was based on the November 2004 forecast of General Fund revenues and expenditures. The January Governor's recommendation is detailed below:

**CURRENT BIENNIUM
GENERAL FUND
January 2005 GOVERNOR'S RECOMMENDATION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,074
Dedicated Revenues, Transfers In and Other	<u>601</u>
Total Resources	\$30,678
Expenditures	<u>29,667</u>
Projected Unreserved Balance at June 30, 2007	\$ 1,011
Budget Reserve Account	653
Cash Flow Account	<u>350</u>
Projected Unrestricted Balance at June 30, 2007	<u><u>8</u></u>

Revenues Proposed in the Governor's Budget:

The January 2005 Governor's recommendation reflected a net increase in General Fund revenues of \$198 million from the November 2004 forecast for the Current Biennium. Current resources (total resources less the balance from the Previous Biennium) in the January Governor's recommendation would have increased by \$996 million (3.5 percent) over the Previous Biennium.

The Governor included no general tax increases in his January 2005 recommendations. However, the proposed budget included \$338 million in tax and non-tax revenue increases. Proposed changes in revenue compliance and collection initiatives were expected to yield \$168 million. An additional \$104 million was expected from continuing alcohol and car rental taxes scheduled to sunset under current law. Increased fees were expected to yield \$26 million, while selective federal conformity and business tax cuts were expected to reduce revenues by \$10 million in the biennium. The Governor also proposed a state partnership with several Minnesota Indian tribes to expand casino gaming. Included in the Governor's budget was \$200 million in expected revenues from a one-time casino license fee. The casino partnership was expected to generate over \$100 million annually in following biennia.

Other proposed changes acted to reduce general fund revenues. With these changes, total tax and non-tax revenue changes were expected to result in a net \$181 million increase from forecast levels. Offsetting proposed general fund revenue increases were provisions that would reduce general fund revenues and transfers by \$312 million under the Governor's proposal to restructure state health care financing, as well as dedicating a portion of general fund solid waste taxes to the state's environmental fund in a planned restructuring of a new Department of Environmental Protection.

Expenditures Proposed in the Governor's Budget:

The January Governor's recommendation for the Current Biennium decreased General Fund spending by \$510 million from the November 2004 projected forecast of current law. The total recommended spending of \$29.667 billion equaled a \$1.622 billion (5.8 percent) increase over the November 2004 forecast for the Previous Biennium.

K-12 education accounted for \$12.236 billion of total proposed expenditures — over 40 percent of total General Fund spending. This represented a \$335 million or 2.8 percent increase over the Previous Biennium. The largest single change in K-12 education spending was a proposed increase in the K-12 education per student formula of two percent per year. Additional spending increases provided \$60 million for a teacher performance pay proposal (QComp) as well as a number of targeted education initiatives for accountability reforms.

Proposed health and human services spending accounted for \$7.901 billion, or 27 percent of total recommended spending. This represented a \$656 million or 9.1 percent increase over the Previous Biennium, but a reduction of \$783 million from the November 2004 current law forecast. The budget

proposed reducing the growth in human service program costs through a combination of changes in eligibility and utilization that were expected to yield \$274 million in reductions. The budget also proposed realigning health care spending and resources by moving the General Assistance Medical Care program into the health care access fund. The proposal would utilize projected health care access fund balances to pay for future costs. The net impact of this health care refinancing was a net savings of \$220 million by redirecting general fund program costs to the state's Health Care Access Fund.

Proposed appropriations for higher education totaled \$2.774 billion, 9 percent of the budget. This represented an 8.4 percent increase from the Previous Biennium and a \$21 million increase over the November 2004 current law forecast. Funding was provided for strategic initiatives in the higher education systems as well as increases in the state student financial aid programs.

Property tax aids and credit programs paid to local units of government totaled \$2.890 billion, 10 percent of the budget. This represented a 2.9 percent increase over the Previous Biennium and a \$76 million reduction from current law forecast. The budget made no reductions in local government aid or county aid programs, only marginal adjustments were proposed to property tax credit programs.

All other spending areas accounted for \$3.866 billion, or 14 percent of the proposed budget. This funding level represented a 9.5 percent increase from the Previous Biennium. Increases in spending for public safety programs and higher debt service costs accounted for almost all of the net increase, offsetting budget reductions proposed in most other operating budget areas.

Reserves:

Current law provided for \$1.003 billion in reserves including \$653 million in the Budget Reserve Account and \$350 million in a separate cash flow account. The Governor recommended maintaining reserves at this level. Total proposed reserves equaled approximately 3.4 percent of biennial expenditures. The Governor also recommended maintaining statutory provisions that mandate that any future forecast balance first is used to reduce school aid payment changes enacted in 2003 as part of budget balancing at that time.

Next Biennium:

Based upon the Governor's budget recommendations, the planning estimates for the Next Biennium indicated that there would be structural balance of \$754 million, meaning that total revenue would exceed total expenditures.

The Governor's transportation budget included a proposed constitutional amendment that would phase in dedication of current general fund motor vehicle sales tax receipts to state transportation funds. Giving effect to this provision reduces general fund revenues for the Next Biennium by \$184 million.

February 2005 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2005. The February 2005 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

**CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2005 FORECAST
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,297
Dedicated Revenues, Transfers In and Other	414
Total Resources	<u>\$30,714</u>
Expenditures	<u>30,177</u>
Projected Unreserved Balance at June 30, 2007	\$ 537
Cash Flow Account	350
Budget Reserve Account	<u>653</u>
Projected Unrestricted Balance at June 30, 2007	<u>(\$ 466)</u>

Forecast revenues were expected to total \$30.714 billion for the Current Biennium, \$234 million more than forecast in November. Income tax collections were forecast to be \$71 million higher, sales tax collections \$115 higher, and corporate tax receipts \$89 higher than forecast in November. Motor vehicle sales taxes were forecast to be \$19 million lower and all other resources \$22 million lower than forecast in November.

Projected current law spending for the Current Biennium was mainly unchanged from the November forecast. Total spending was projected to be \$30.177 billion, no net change from November. Slightly higher spending in K-12 Education of \$44 million was largely offset by other forecast changes. Savings in health and human services spending, tax refund interest payments, and debt service accounted for almost all of the forecast reductions.

The cash flow account remained at \$350 million, the budget reserve account at \$653 million, and the projected deficit was \$466 million.

March 2005 Governor’s Budget Recommendation Revisions

Updated February 2005 revenue and expenditure estimates resulted in only minimal change in the current law forecast. The revenue and expenditure changes projected in the February forecast produced a \$225 million balance in the Governor’s proposed budget. The Governor submitted supplemental budget recommendations to his proposed budget to the Legislature in March 2005. The Current Biennium resources, expenditures, and fund balances based on the final Governor’s Budget Recommendation is detailed below:

**CURRENT BIENNIUM
GENERAL FUND
March 2005 GOVERNOR’S RECOMMENDATION
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,635
Dedicated Revenues, Transfers In and Other	<u>264</u>
Total Resources	\$30,902
Expenditures	<u>29,814</u>
Projected Unreserved Balance at June 30, 2007	\$ 1,088
Budget Reserve Account	653
Cash Flow Account	350
Federal Transition Reserve	<u>75</u>
Projected Unrestricted Balance at June 30, 2007	<u><u>\$ 10</u></u>

Additional Expenditure Changes Proposed by the Governor:

The March 2005 Governor’s recommendation made a limited number of changes to proposed spending based on the higher revenue forecast. The March 2005 final Governor’s recommendations included additional spending and budget adjustments totaling \$225 million. Of these reductions nearly \$108 million was included for proposed increases to the K-12 per pupil formula to 2.5 percent annually along with selected education initiatives.

Budget Reserves:

The April budget revision added \$75 million to create a Federal Transition Reserve. The purpose of this reserve was to provide supplemental funding in anticipation of uncertainties of proposed federal budget reductions. The recommendation provided for this money to be appropriated to mitigate the impact of federal aid reductions or to be cancelled to the general fund budget reserve by the end of the first year of the biennium.

Next Biennium:

The planning estimates for the Next Biennium, based upon the Governor’s budget recommendations, indicate that there would be structural balance of \$804 million, meaning that total revenue would exceed total expenditures.

2005 Regular and First Special Legislative Sessions

The 2005 legislative session ended on the constitutional deadline of May 23, 2005. The Legislature was unable to agree on the tax and appropriation bills by that date. The Governor immediately convened a special legislative session that took place from May 24 to July 13, 2005. By June 30, 2005 only three of seven omnibus appropriation bills were enacted into law: higher education, environment and natural resources, and state government.

On July 1, 2005 the State began a partial government shutdown for all programs for which appropriations had not been enacted. However, major portions of State programs were required to operate under district court order that mandated continuation of critical State services. The partial

shutdown of services affected approximately 9,000 of 54,000 state employees. The partial government shutdown lasted until July 9, 2005 when action was taken by the Legislature to provide interim funding until remaining tax and appropriation bills were enacted.

Final agreement was reached and remaining appropriation bills were passed by the Legislature on July 13, 2005.

The end of the 2005 legislative sessions estimates of revenues, expenditures and fund balances is detailed below.

**CURRENT BIENNIUM
GENERAL FUND
END OF 2005 LEGISLATIVE SESSIONS
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 1,003
Non-dedicated Revenues	29,683
Dedicated Revenues, Transfers In and Other	<u>903</u>
Total Resources	\$31,589
Expenditures	<u>30,574</u>
Projected Unreserved Balance at June 30, 2007	\$ 1,015
Budget Reserve Account	653
Cash Flow Account	<u>350</u>
Projected Unrestricted Balance at June 30, 2007	<u><u>12</u></u>

Enacted Budget Summary:

The enacted budget conformed closely to all the major recommendations by the Governor but resulted in slightly higher general fund revenue and expenditures than proposed by the Governor. Three components represented the primary differences. First, the enacted budget included a new health impact fee of 75 cents per pack on cigarettes and corresponding increases on other tobacco products. The additional revenues will be deposited in a separate State fund from which annual transfers will be made to reimburse the General Fund for cigarette health related program costs. Secondly, the proposed restructuring of State health care financing was not enacted, leaving GAMC spending unchanged in the General Fund. Finally, the proposed Indian casino gaming partnership was not enacted. The net additional revenues resulting from legislative action were directed primarily to additional spending for K-12 education and health and human services programs.

Compared to the February 2005 forecast of General Fund revenues and expenditures that indicated a total projected budget shortfall of \$466 million, the following represent the primary changes enacted to balance the budget. First, revenue changes and transfers from other funds added \$876 million in additional resources, while increases from forecast spending levels added \$395 million. Finally, the Budget Reserve Account and Cash Flow accounts were left unchanged at \$1.033 billion.

No general tax increases were enacted. Total spending was \$760 million above the Governor's Budget Recommendation. This increase in spending above that recommended by the Governor was funded by \$688 million of additional resources in the form of increased revenues, fees and transfers from other state funds.

Resources:

The 2005 legislative sessions produced no significant general tax law changes. General Fund revenues are forecast to be \$30.586 billion. This is an increase of \$875 million over the amount forecast in February 2005. This increase in resources is attributable primarily to a new health impact fee on cigarettes expected to yield \$304 million, changes in tax compliance and collection that were originally proposed by the Governor, and \$82 million in increased fees and other non-tax revenues that are deposited to the General Fund.

The enacted health impact fee includes 75 cents per pack that will be collected at the wholesale distributor level. Corresponding increases were also enacted for other tobacco products. The State sales tax on cigarettes was replaced by a wholesale tax. In total, changes enacted are expected to yield \$401 million over the biennium. The new fees will be deposited into a new separate State fund. Annual transfers will be made from the health impact fund to the General Fund to reimburse the cost of smoking related health program costs. The continuing proceeds will be reflected as transfers in to the General Fund, not as General Fund revenues.

The following table compares estimates of the Previous Biennium and Current Biennium revenues and shows the rate of revenue growth/decline.

	<u>Previous Biennium</u>	<u>Current Biennium</u>	<u>Percent Change</u>
	(\$ in billions)		
Receipts:			
Individual Income Tax	\$11.885	\$13.516	13.7%
Sales Tax	8.327	8.906	7.0%
Corporate Income Tax	1.457	1.505	3.3%
Motor Vehicle Sales Tax537	.531	-1.1%
Statewide Property Tax	1.217	1.291	6.1%
All Other Taxes	2.346	2.443	4.1%
Non-Tax Revenues	<u>1.478</u>	<u>1.491</u>	<u>0.9%</u>
Subtotal	27.247	29.683	8.9%
Transfers, Dedicated, Other Resources	<u>1.582</u>	<u>903</u>	<u>-42.9%</u>
Total Revenues	<u>\$28.829</u>	<u>\$30.586</u>	<u>6.1%</u>

Expenditures:

Authorized General Fund spending for the Current Biennium is estimated at \$30.574 billion. Compared to Previous Biennium expenditures, this represents a biennial expenditure growth of \$2.379 billion, or 8.4 percent.

Compared to the February 2005 forecast of General Fund spending, authorized spending is \$397 million more than forecast. Of this amount a \$565 million increase in K-12 education spending is in part offset by \$367 million of savings enacted in health and human service program spending. Total expenditures authorized by the 2005 Legislature are \$760 million higher than the March 2005 Governor's Budget Recommendation.

The following table compares estimates of Previous Biennium and Current Biennium spending and shows the rate of biennial expenditure growth for some of the largest portions of the State budget.

	<u>Previous Biennium</u>	<u>Current Biennium</u>	<u>Percent Change</u>
	(\$ in billions)		
Expenditures:			
K-12 Education	12.045	12.578	4.4%
Property Tax Aids & Credits	2.807	2.984	6.3%
Higher Education	2.542	2.761	8.6%
Health & Human Services	7.262	8.264	13.8%
Public Safety	1.450	1.685	16.2%
Debt Service	0.589	0.781	32.6%
All Other Spending	<u>1.500</u>	<u>1.521</u>	<u>1.4%</u>
Total Expenditures	<u>28.195</u>	<u>30.574</u>	<u>8.4%</u>

K-12 Education accounted for \$12.578 billion, or 44 percent of total General Fund spending. This represented a \$533 million or 4.4 percent increase over the Previous Biennium, a \$565 million increase over current law forecasts. The enacted budget increases general education funding from prior levels on a per pupil basis, adding 4 percent each year to the per pupil formula at a cost of \$471 million.

Health and human services spending of \$8.264 billion is authorized — 25 percent of the total budget. This is a \$598 million or 13.8 percent increase over the Previous Biennium. It is a \$367 million decrease from the February 2005 forecast, reducing the projected growth in health and human services spending from 17 to 15 percent. The budget reduced the growth in costs through changes in eligibility and utilization while increasing long term care provider payments 2.25 percent per year. Projected balances in the State's Health Care Access Fund are transferred yearly into the General Fund.

The State share for higher education is \$2.761 billion — 9 percent of the budget. This represents an 8.6 percent increase from the Previous Biennium and an \$8.2 million increase from the February 2005 forecast. The enacted budget conforms closely to that proposed by the Governor.

Property tax aids and credit programs total \$2.984 billion, nearly 10 percent of the budget. Funding for local aids represents a 6.3 percent increase from the Previous Biennium spending and a \$22 million increase from current law forecast estimates. A \$40 million increase is provided for city aids (formerly known as local government aids), while current law funding levels for county aid programs is maintained.

Public safety spending, representing nearly 6 percent of the budget, is increased significantly to \$1.685 billion, or 16.2 percent over the Previous Biennium. Judicial branch caseload and prison population increases added \$91 million in spending, while \$47 million is provided for additional enforcement, supervision, sentencing changes, and treatment for sex and methamphetamine offenders.

Debt service costs are approved at \$781 million, 2.6 percent of the budget. The increase of 32.6 percent over the Previous Biennium includes the cost of bonds authorized but not yet sold of \$945 million in general obligation bonds authorized in the 2005 legislative session.

All other spending areas accounts for \$1.521 billion, or 5 percent of the approved budget. This funding level represents a 1.4 percent increase from the Previous Biennium.

Reserves, Future Forecast Contingencies:

The Legislature also followed the Governor's recommendation in maintaining the Budget Reserve Account and Cash Flow Account at proposed levels and in maintaining current law provisions governing future forecast balances. The General Fund Budget Reserve Account is \$653 million. This total represents 2.1 percent of enacted spending for the Current Biennium. The Cash Flow Account remains at the \$350 million.

Previously enacted laws designating the allocation of future forecast positive balances remain unchanged. Any unrestricted General Fund balances resulting from future forecasts are to be used to further reduce school payment shifts enacted in 2003. The estimated remaining cost of completely reversing these payment shifts is \$792 million.

Next Biennium:

The planning estimates for the Next Biennium, based on the enacted budget, indicate that there would be a structural balance of \$640 million, meaning that projected total revenues, excluding any balances carried forward, would exceed total expenditures.

This structural balance is before giving effect to a proposed constitutional amendment that will be voted in the November 2006 election. This proposed constitutional amendment would phase in dedication of the remaining 46 percent portion of motor vehicle sales taxes currently deposited in the General Fund to state transportation funds. If adopted, this provision will reduce General Fund revenues for the Next Biennium by \$184 million.

CURRENT BIENNIUM ESTIMATES — REVENUES AND EXPENDITURES

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Current Biennium based on 2005 legislative regular and special session actions. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

**CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
JULY 2005 END OF LEGISLATIVE SESSIONS
(\$ in Thousands)**

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Current Biennium</u>
Forecast Resources			
Prior Year Ending Balance ⁽¹⁾	1,003,000	1,016,011	1,003,000
Net Non-dedicated Revenues	14,576,554	15,106,579	29,683,133
Dedicated Revenues	37,113	36,952	74,065
Transfers From Other Funds	374,226	384,673	758,899
Prior Year Adjustments	<u>45,000</u>	<u>25,000</u>	<u>70,000</u>
Subtotal Current Resources	15,032,893	15,553,204	30,586,097
Total Revenues Plus Prior Year Ending Balance	16,035,893	16,569,215	31,589,097
Authorized Expenditures & Transfers			
K-12 Education	6,155,668	6,422,522	12,578,190
Property Tax Aids & Credits	1,458,149	1,525,586	2,983,735
Higher Education	1,365,500	1,395,500	2,761,000
Health & Human Services	4,056,236	4,208,211	8,264,447
Environment, Agriculture & Economic Dev	348,395	331,858	680,253
Transportation	101,966	103,221	205,187
Public Safety	835,022	850,011	1,685,033
State Government	287,981	295,670	583,651
Debt Service	381,352	399,794	781,146
Cancellation Adjustment	<u>(7,500)</u>	<u>(15,000)</u>	<u>(22,500)</u>
Subtotal Expenditures & Transfers	14,982,769	15,517,373	30,500,142
Dedicated Revenue Expenditures	<u>37,113</u>	<u>36,952</u>	<u>74,065</u>
Total Expenditures and Transfers	15,019,882	15,554,325	30,574,207
Unreserved Balance	1,016,011	1,014,890	1,014,890
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	<u>653,000</u>	<u>653,000</u>	<u>653,000</u>
Unrestricted Balance	<u><u>13,011</u></u>	<u><u>11,890</u></u>	<u><u>11,890</u></u>

(1) Fiscal Year 2005 is forecast to end with an Unrestricted General Fund balance of zero and an Unreserved Accounting General Fund Balance of \$1.003 billion.

The following table sets forth by source the forecast amounts of nondedicated revenues allocable to the General Fund for the Current Biennium.

**CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
JULY 2005 END OF LEGISLATIVE SESSIONS
(\$ in Thousands)**

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Current Biennium</u>
Net Nondedicated Revenues:			
Income Tax — Individual	6,565,529	6,950,089	13,515,618
Income Tax — Corporate	767,515	737,680	1,505,195
Sales Tax	4,394,489	4,511,376	8,905,865
Motor Vehicle Sales Tax	259,786	271,164	530,950
Statewide Property Tax	634,683	656,519	1,291,202
Estate Tax	86,000	90,000	176,000
Liquor, Wine & Beer	67,255	68,187	135,442
Cigarette & Tobacco	193,583	194,286	387,869
Mining	2,375	2,275	4,650
Mortgage Registry Tax	120,300	116,600	236,900
Deed Transfer Tax	121,200	117,900	239,100
Gross Earnings Taxes	290,040	301,490	591,530
Lawful Gambling Taxes	59,760	59,760	119,520
Medical Assistance Surcharges	201,855	202,930	404,785
Income Tax Reciprocity	53,190	57,470	110,660
Tax Compliance	33,649	57,051	90,700
Tobacco Settlements	171,657	168,469	340,126
Investment Income	15,000	15,000	30,000
DHS RTC Collections	52,420	56,718	109,138
Lottery Revenue	50,002	51,155	101,157
Departmental Earnings	271,569	250,550	522,119
All Other Nondedicated Revenue	206,585	211,966	418,551
Tax and Non-Tax Refunds	(41,888)	(42,056)	(83,944)
Total Net Nondedicated Revenues	<u>14,576,554</u>	<u>15,106,579</u>	<u>29,683,133</u>

GENERAL FUND REVENUE SOURCES

Tax Sources

The State's principal sources of non-dedicated revenues are taxes of various types. A description of the major taxes imposed by the current State law is set forth below.

Income Tax: The income tax rate schedules for 2005 consist of three income brackets having tax rates of 5.35 percent, 7.05 percent and 7.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the National CPI. The base of the tax is federal taxable income, with selected additions and subtractions. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is \$303. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents.

SINGLE FILER

<u>Taxable Income</u>	<u>Tax</u>
on the first \$19,890	5.35 percent
on all over \$19,890, but not over \$65,330	7.05 percent
on all over \$65,330	7.85 percent

MARRIED FILING JOINTLY

<u>Taxable Income</u>	<u>Tax</u>
on the first \$29,070	5.35 percent
on all over \$29,070, but not over \$115,510	7.05 percent
on all over \$115,510	7.85 percent

Married individuals filing separate returns, estates and trusts must compute their income tax by applying married rates, except that the income brackets will be one-half of the above amounts.

HEAD OF HOUSEHOLD

<u>Taxable Income</u>	<u>Tax</u>
on the first \$24,490	5.35 percent
on all over \$24,490, but not over \$98,390	7.05 percent
on all over \$98,390	7.85 percent

Sales and Use Tax: The sales tax of 6.5 percent is applicable to most retail sales of goods with the exception of food, clothing, and prescription drugs. Purchases made by non-profit organizations and the federal government and school districts are exempt.

Statewide Property Tax: Beginning with property taxes payable in calendar year 2002, there is a State general property tax of \$592 million levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. The tax is levied at a uniform rate across the State. The levy amount is adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the U.S. Bureau of Economic Analysis. Beginning in fiscal year 2004, the increase in the amount of the State general property tax levy received over the previous fiscal year is dedicated to education aid or higher education funding.

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income

on the basis of a three factor formula that gives a 75% weight to sales, a 12.5% weight to payroll and a 12.5% weight to property. Laws enacted in 2005 call for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in will begin in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

Minnesota requires 80% of federal "bonus depreciation" be added to taxable income and then deducted in five equal parts over the next five years. The effect of this provision is to negate the revenue loss that would otherwise result from federal "bonus depreciation".

A fee is imposed as a part of the franchise tax liability. The fee is in addition to the regular and alternative minimum tax. The amount of the fee is based on the sum of Minnesota property, payroll and sales. The fee schedule is shown below:

<u>Fee Basis</u>	<u>Amount of Fee</u>
Less than \$500,000	\$ 0
\$500,000 to \$1 million	100
\$1 to \$5 million	300
\$5 to \$10 million	1,000
\$10 to \$20 million	2,000
\$20 million or more	5,000

Insurance Gross Earnings Tax: A tax is imposed on the gross premium revenue of insurance companies at the following rates:

- 2.0% Life insurance (rate will be reduced in steps to 1.5% in 2009).
- 2.0% Domestic and foreign company premiums.
- 1.0% Mutual property and casualty companies with assets of 5 million or less on 12/31/89.
- 1.26% Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89.
- 3.0% Surplus line agents.
- 0.5% Fire Marshal tax on fire premiums.
- 2.0% Surcharge on fire premiums for property located in cities of the first class.
- 1.0% Health Maintenance Organizations (beginning January 1, 2004).

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5% motor vehicle sales tax. The tax is collected at the time of title registration or transfer.

In Fiscal Year 2002, 30.86% of the collections are dedicated to transportation related funds, in Fiscal Year 2003 that will increase to 53.75% and in Fiscal Year 2004 it will increase to 55.75%.

Liquor, Wine and Fermented Malt Beverages: Liquor is taxed at \$5.03 per gallon. Wine is taxed at rates that vary from \$.30 per gallon to \$3.52 per gallon, depending on the alcohol content. Beer is taxed at \$2.40 per 31-gallon barrel for beer with alcoholic contents of 3.2% by volume or less, and \$4.60 per 31-gallon barrel for strong beer. Liquor, wine and beer sales are also subject to sales tax at a rate of 9.0%.

A tax of 2.5% is imposed on alcoholic beverages sold at retail; this is in addition to the 6.5% sales tax on alcoholic beverages.

Cigarette and Tobacco Products Taxes: The excise tax on cigarettes is 48 cents per pack. Tobacco products other than cigarettes are subject to an excise tax, imposed on distributors thereof, equal to 35% of the wholesale price of such tobacco products.

A 75 cents per pack health impact fee is imposed on cigarettes and a health impact fee of 35% is imposed on tobacco products. In lieu of a 6.5% sales tax on cigarettes, a wholesale tax is imposed at rates, adjusted annually, to yield revenues equivalent to a 6.5% retail sales tax. The initial rate in 2005 was set at 25.5 cents per pack.

Estate Tax: The tax base is the federal gross estate less various exemptions and deductions. The tax may not exceed the State death tax credit, under prior federal law.

Mortgage Tax: A tax of 23 cents is imposed on each \$100 dollars of debt secured by real property. Ninety-seven percent of the proceeds go to the State's General Fund and three percent to the county in which the property is located.

Deed Tax: A tax of \$1.65 per \$500 or .0033% for increments less than \$500 of consideration is imposed on the transfer of real estate by any deed, instrument, or writing. Ninety-seven percent of the proceeds go to the State's General Fund and three percent to the county in which the property is located.

Legalized Gambling Taxes:

Pari-Mutuel Tax: A 6% tax is imposed on the takeout of pari-mutuel horse races at licensed tracks. The takeout is 17% of straight pools and 23% for multiple pools.

Lawful Gambling Tax: A 8.5% tax is imposed on bingo, raffles and paddlewheels gross receipts less prizes of organizations licensed to operate such games of chance.

Pull-Tab and Tip Board Tax: A 1.7% tax is imposed on the "Ideal Gross" of each pull tab or tipboard deal sold by a distributor. A deal is defined as each separate package, or series of packages, consisting of one game of pull-tabs or tipboards. In addition, a "Combined Receipts Tax", with rates ranging from 1.7% to 5.1% is imposed on organizations with pull tab and tip board gross receipts in excess of \$500,000 per year.

Rental Motor Vehicle Tax: In addition to the general sales tax a 6.2 percent sales tax is imposed on the lease or rental, on a daily or weekly basis, of a passenger automobile, van or pickup truck.

Taconite and Iron Ore Occupation Taxes: The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. The rate of the tax is 9.8%.

Health Care Provider Surcharge: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a \$990 tax per licensed nursing home bed, a 1.56% tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6% tax on the total premium revenue of health maintenance organizations.

Other Sources

In addition to the major taxes described above, other sources of non-dedicated revenues include minor taxes, unrestricted grants, certain fees and charges of State agencies and departments, and investment income.

The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs.

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement requires the defendant tobacco companies to make annual payments to the State of between \$165 million and \$204 million. The payments are to be made at the beginning of the calendar year and are scheduled into perpetuity. These amounts are adjusted based on volume of tobacco products sold and the Consumer Price Index as indicated in the settlement documents. See litigation report case 10, page 15 of this Official Statement.

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of 11,914 miles of highways, 4,792 bridges, and 1,035 maintenance, enforcement, service, and administrative buildings at 387 sites. Minnesota has 914 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is 135,000 miles.

The State trunk highway system is constructed and maintained by the Minnesota Department of Transportation (Mn/DOT). Construction work is contracted to private construction contractors on a competitive basis, while maintenance is performed by Mn/DOT's own forces. Maintenance includes routine patching; short overlays; snow and ice control; and traffic services such as signing, paint striping, etc.

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the distribution formula may be made within six years of the last previous change. The current distribution formula was established in the 1997 legislative session.

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, drivers license fees, investment income, and miscellaneous fees and reimbursements. A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the State and includes gasoline, diesel fuel, and other special fuels. For gasoline and diesel fuel the current tax is twenty cents per gallon; this rate was enacted in 1988. For some special fuels the rate is different and is based on the equivalent energy content of the fuel compared to gasoline.

Preliminary revenues from motor fuels taxes were \$630 million to the Highway User Tax Distribution Fund in Fiscal Year 2005, after refunds, collection costs and other transfers (e.g., estimated revenues from taxes paid on non-highway fuel transferred to other state accounts). Of this amount, \$371 million was transferred to the Trunk Highway Fund. Revenues are estimated to increase at a rate from 1.5% to 2.0% annually due to increased vehicle miles traveled, offset slightly by increases in fuel efficiency of the entire fleet of vehicles. This would result in estimated collections of \$651 million in Fiscal Year 2006 to the Highway User Tax Distribution Fund, with a resulting transfer of \$384 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is \$10 plus 1.25% times the original value of the vehicle, with all but the \$10 portion of the tax being decreased in accordance with a statutory schedule. However, the maximum tax for the first renewal is \$189 and for subsequent renewals is \$99. The minimum tax is \$35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being \$1,760 for trucks registered at 80,000 pounds that are less than 9 years old. Trucks registered at a weight greater than 80,000 pounds pay an additional \$50 per ton of registered weight. Motor vehicle registration taxes generated \$482 million (unaudited) in Fiscal Year 2005, after refunds and collection costs, of which \$285 million was transferred to the Trunk Highway Fund. An expected 2.8% net growth in registrations would result in estimated collections of \$486 million in Fiscal Year 2006 to the Highway User Tax Distribution Fund, with a resulting transfer of \$286 million to the Trunk Highway Fund.

The State of Minnesota has a sales tax of 6.5% on motor vehicles. Except for Fiscal Years 1985, 1988, 1989, and 1990, all of the revenue from the motor vehicle sales tax has been deposited into the General Fund. Action by the 2000, 2001, and 2003 Legislatures changed this policy. In Fiscal Year

2002, \$189.4 million or 30.86% of the revenue from this tax was deposited into the Highway User Tax Distribution Fund. In Fiscal Year 2003 32% of the revenue from this tax was deposited into the Highway User Tax Distribution Fund. From Fiscal Year 2004 through 2007, 30% of this tax will be deposited into the Highway User Tax Distribution Fund. In Fiscal Year 2008 and thereafter, 32% of the revenue from this tax will be deposited into the Highway User Tax Distribution Fund. The revenue received by the Highway User Tax Distribution Fund from this source was \$164 million (unaudited) in Fiscal Year 2005, and is projected to be \$169 million in Fiscal Year 2006. The resulting transfer to the Trunk Highway Fund was \$97 million in Fiscal Year 2005 and would be \$99 million in Fiscal Year 2006.

The 2003 Legislature passed legislation that canceled General Fund appropriations enacted by the 2000 Legislature for trunk highway construction projects totaling \$110 million and authorized \$110.1 million of Trunk Highway Bonds to fund the same Trunk Highway construction projects.

The 2003 Legislature also provided a \$400 million bond authorization for trunk highway improvements. This funding is to be used for “(1) trunk highway improvements within the seven-county metropolitan area primarily for improving traffic flow” and for “(2) trunk highway improvements on at-risk interregional corridors located outside the seven-county metropolitan area.” Up to \$68 million of the bond proceeds may be used for program delivery purposes, including engineering work by both consultants and Mn/DOT staff needed to prepare plans and specifications used to solicit bids for construction contracts, construction contract supervision and inspection, and a variety of other project-specific support activities. The 2003 Legislature also authorized the Commissioner of Transportation to spend up to \$400 million of federal revenue designated as advance construction funds.

The 2005 Legislature also authorized a constitutional amendment to be presented to the voters in the 2006 general election. This amendment calls for dedication of motor vehicle sales tax revenue for transportation purposes. If passed, this amendment would generate an additional \$184 million per year for the Highway User Tax Distribution Fund in the Next Biennium.

Activity in the Trunk Highway Fund for the Current Biennium is detailed below:

**CURRENT BIENNIUM
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
(Thousands of Dollars)**

	<u>Fiscal Year Ended June 30, 2006</u>	<u>Fiscal Year Ended June 30, 2007</u>	<u>Biennium</u>
Estimated Resources			
Balance Forward from Prior Year	\$ 20,081	\$ 13,662	\$ 20,081
Revenues			
Federal Grants ⁽¹⁾	339,760	464,360	804,120
Departmental Earnings	11,769	12,359	24,128
Investment Income	2,600	2,700	5,300
Other Income	<u>28,687</u>	<u>28,687</u>	<u>57,374</u>
Total Receipts	\$ 382,816	\$ 508,106	\$ 890,922
Transfers from Other Funds			
General Fund Reimbursement	4,009	4,009	8,018
HUTD Reimbursement	610	610	1,220
Hwy Users Tax Distribution Fund	769,574	788,537	1,558,111
County State Aid Fund	10,390	7,380	17,770
Plant Management Fund	1,298	1,298	2,596
Special Revenue Fund	<u>1,183</u>	<u>1,673</u>	<u>3,056</u>
Total Transfers	<u>787,064</u>	<u>803,707</u>	<u>1,590,771</u>
Total Resources Available	\$1,189,961	\$1,325,475	\$2,501,774
Estimated Uses			
Expenditures			
Transportation			
Transportation, Department of	\$1,061,380	\$1,155,228	\$2,216,608
Public Safety, Department of	73,693	73,698	147,391
Contingent Account	<u>200</u>	<u>200</u>	<u>400</u>
Subtotal — Transportation	\$1,135,273	\$1,229,126	\$2,364,399
State Government			
Tort Claims	<u>600</u>	<u>600</u>	<u>1,200</u>
Subtotal — State Government	<u>600</u>	<u>600</u>	<u>1,200</u>
Total Expenditures	\$1,135,873	\$1,229,726	\$2,365,599
Transfers to Other Funds			
Debt Service Fund	<u>40,426</u>	<u>58,588</u>	<u>99,014</u>
Total Transfers	<u>40,426</u>	<u>58,588</u>	<u>99,014</u>
Total Uses	<u>\$1,176,299</u>	<u>\$1,288,314</u>	<u>\$2,364,613</u>
Unrestricted Balance	<u>\$ 13,662</u>	<u>\$ 37,161</u>	<u>\$ 37,161</u>

(1) This statement includes a preliminary estimate of the amount of federal aid made available under the recently passed federal SAFETEA-LU transportation funding act.

The estimated expenditures for state road construction for the Current Biennium include the use of State funds to advance the federal portion of certain projects under a method generally known as “advance construction.”

Federal advance construction is a financing method authorized and promoted by the Federal Highway Administration. It allows a state to encumber the necessary funds to begin construction of federal-aid projects before the authorized federal funds are available for those projects. Advance construction uses State trunk highway funds to “advance” federal project construction costs on projects for which federal funds have been authorized but not yet appropriated for the current fiscal year. The Trunk Highway Fund’s advances are later repaid during the year in which the funds are appropriated by Congress. The receivable for the advance is recognized in the year the project is encumbered. The appropriated amount of federal aid for a State fiscal year is then reduced by all advance construction conversions in that State fiscal year and increased by all new advance construction in that year.

Beginning in Fiscal Year 2005, transportation projects financed with bond proceeds were segregated into a capital projects fund. This fund accounts for bond proceeds and the construction expenditures paid with bond proceeds only. The State typically encumbers, and consequently reserves fund balance, for the full contract amount of transportation projects when awarded. However, bond revenues supporting these projects are not recorded until the bonds are sold. Because of the timing of bond revenues and related capital expenditures, there may be temporary deficits in unreserved fund balance. Bond funded capital projects are thus accounted for in a new capital projects fund.

Capital Needs of the Trunk Highway System

The trunk highway system includes 11,914 miles of roadways and bridges. The State manages the capital maintenance and upgrading of the trunk highway system, in partnership with the Federal Highway Administration. It uses a planning process that includes a statewide transportation plan, updated every six years, and an annual Statewide Transportation Improvement Program (STIP), which details all highway construction and maintenance projects that are capital in nature. Projects included in the STIP range from major construction, involving building new highways or rebuilding highways that add additional traffic capacity, to less substantive improvements such as resurfacing existing highways.

Recently, a planning process identified an ongoing need for upgrading interregional corridors (between important regional centers of the State) and undertaking projects to eliminate “bottlenecks” on metropolitan area freeways and expressways. Over a ten-year period more than \$1 billion of needs were identified in each of these two areas.

The table below depicts the spending for highway construction and related purposes associated with the appropriations made by the 2003 and 2004 Legislatures for the Current Biennium from the proceeds of trunk highway bonds and 2005 Legislature for Trunk Highway Fund cash. The last item in the table, "Program Delivery," is included to show the anticipated use of bond funds in the Current Biennium for that purpose. Program delivery expenditures will also be made from other portions of Mn/DOT's budget.

**CURRENT BIENNIUM
TRUNK HIGHWAY IMPROVEMENT PROGRAM
(\$ in Millions)**

<u>Improvement Category</u>	<u>Trunk Highway Funds and Federal Funds</u>	<u>Bond Funds</u>	<u>Total</u>
Major Construction	\$ 699.4	\$148.9	\$ 848.3
Reconstruction	80.0		80.0
Bridge Replacement	30.0		30.0
Bridge Repair	10.0		10.0
Reconditioning	80.0		80.0
Resurfacing	80.0		80.0
Road Repair	60.0		60.0
Safety	26.0		26.0
Traffic Management	62.0		62.0
Municipal Agreements	44.1		44.1
Right of Way	80.0	60.2	140.2
Miscellaneous Agreement	25.8		25.8
Program Delivery	0.0	42.6	42.6
Total	<u>1,277.3⁽¹⁾</u>	<u>251.7</u>	<u>1,529.0</u>

(1) The appropriated amount, excluding the amount provided by bond funds, was based on an estimated \$613.3 million of state highway user tax revenues and \$664.0 million of federal funds.

Activity in the Trunk Highway Bond Fund for the Current Biennium is detailed below:

**CURRENT BIENNIUM
ESTIMATED REVENUE AND EXPENDITURES
TRUNK HIGHWAY FUND BOND PROCEEDS
(\$ in Thousands)**

<u>Estimated Resources</u>	<u>Fiscal Year Ended June 30, 2006</u>	<u>Fiscal Year Ended June 30, 2007</u>	<u>Current Biennium</u>
Balance Forward from Prior Year	\$ 0	\$ 0	\$ 0
Revenues			
Bond Sales Proceeds	<u>149,725</u>	<u>102,000</u>	<u>251,725</u>
Total Receipts	149,725	102,000	251,725
Total Resources Available	149,725	102,000	251,725
<u>Estimated Uses</u>			
Expenditures			
Transportation	149,725	102,000	251,725
Undesignated Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2002 through June 30, 2004, and for the additional time periods shown. For the Fiscal Years ended June 30, 2002 through June 30, 2004 the revenues and expenditures shown include all revenues and expenditures for that Fiscal Year, including revenue received and expenditures made after June 30 of such Fiscal Year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2004 and June 30, 2005 and for the two-month periods ending August 31, 2004 and August 31, 2005, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2003, 2004 and 2005. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the table on page 48 are presented by object of expenditure.

**STATE OF MINNESOTA
TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF REVENUES
(Thousands of Dollars)**

	Fiscal Year Ended June 30 ⁽¹⁾			July 1, 2003 Through June 30, 2004 ⁽¹⁾	July 1, 2004 Through June 30, 2005 ⁽¹⁾	July 1, 2004 Through August 31, 2004	July 1, 2005 Through August 31, 2005
	2002	2003	2004				
Revenues:							
Taxes: ⁽²⁾							
Motor Fuel	\$ 375,048	\$ 393,938	\$ 391,162	\$ 397,090	\$ 390,110	\$ 72,267	\$ 75,454
Motor Vehicle	289,217	297,986	304,771	306,734	301,113	44,868	38,497
Less: Revenue Refunds	<u>(37,371)</u>	<u>(35,187)</u>	<u>(36,670)</u>	<u>(36,554)</u>	<u>(35,745)</u>	<u>(3,992)</u>	<u>(341)</u>
Net Taxes	\$ 608,894	\$ 656,737	\$ 659,263	\$ 667,270	\$ 655,478	\$113,143	\$113,610
General Fund Approp ⁽²⁾							
Motor Vehicle Sales Tax	111,578	113,129	104,929	94,682	96,706	8,701	8,653
Federal Grants	317,461	584,638	300,580	340,014	342,907	82,845	71,700
Drivers License	21,105	22,551	23,831	23,654	24,255	4,072	833
Penalties & Fines	4,059	5,694	6,156	5,832	5,741	777	737
Investment Income	11,756	6,899	2,531	2,280	4,184	300	690
Other Revenue	37,083	46,060	49,319	48,963	72,723	7,740	33,912
TH Revenue Refunds	<u>(2,117)</u>	<u>(2,080)</u>	<u>(1,957)</u>	<u>(1,957)</u>	<u>(1,959)</u>	<u>(13)</u>	<u>(15)</u>
Total Revenues	<u>\$1,109,819</u>	<u>\$1,433,628</u>	<u>\$1,144,652</u>	<u>\$1,180,738</u>	<u>\$1,200,035</u>	<u>\$217,565</u>	<u>\$230,120</u>

- (1) For Fiscal Years 2002, 2003 and 2004 the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the twelve-month periods ended June 30, 2004 and June 30, 2005 and the two-month periods ended August 31, 2004 and August 31, 2005, only current year receipts have been included.
- (2) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration and Motor Vehicle sales tax receipts to the Highway User Tax Distribution Fund.

**STATE OF MINNESOTA
TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF EXPENDITURES AND TRANSFERS TO OTHER FUNDS
(Thousands of Dollars)**

	Fiscal Year Ended June 30 ⁽¹⁾			July 1, 2003 Through June 30, 2004 ⁽¹⁾	July 1, 2004 Through June 30, 2005 ⁽¹⁾	July 1, 2004 Through August 31, 2004	July 1, 2005 Through August 31, 2005
	2002	2003	2004				
Expenditures:							
Personal Services	\$ 368,118	\$ 394,330	\$ 295,593	\$282,351	\$ 295,707	\$33,209	\$31,798
Purchased Services	96,779	98,710	87,099	67,700	95,540	5,123	\$ 3,457
Materials and Supplies	53,369	70,286	47,251	39,917	60,481	3,369	\$ 3,625
Capital Outlay:							
Equipment	26,179	37,833	13,124	8,269	25,656	1,541	\$ 1,074
Capital Outlay & Real							
Property ⁽²⁾	563,998	1,048,867	665,871	140,847	722,995	7,323	\$17,798
Encumbered ⁽²⁾				430,088	152,122		
Grants and Subsidies:							
Individuals	21	21	1	0	3	0	
Counties	1,199	110	219	109	300	0	
School Districts	5	0	0	0	0	0	
Private Organizations	11	19	0	0	0	0	
Other	933	778	908	759	1,095	165	100
All Other	0	0	12,896	13,330	15,074	1,548	222
Total Expenditures	\$1,110,611	\$1,650,954	\$1,110,066	\$983,370	\$1,368,973	\$52,278	\$58,074
Transfers:							
Debt Service	7,449	8,823	16,289	20,647	33,006		
Other Transfers	(6,235)	(6,193)	(7,081)	(7,081)	(7,078)	(2,123)	(5,399)
Net Transfers	\$ 1,214	\$ 2,630	\$ 13,566	\$ 13,566	\$ 25,928	\$ (2,123)	\$ (5,399)
Total Expenditures and Net Transfers Out	<u>\$1,111,825</u>	<u>\$1,653,584</u>	<u>\$1,119,274</u>	<u>\$996,936</u>	<u>\$1,394,901</u>	<u>\$50,155</u>	<u>\$52,675</u>

- (1) For Fiscal Years 2002, 2003 and 2004, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For the twelve-month periods ended June 30, 2004 and June 30, 2005 and the two-month periods ended August 31, 2004 and August 31, 2005, only current year expenditures have been included.
- (2) Because construction contracts typically span into future Fiscal Years, and are encumbered in their entirety in the appropriate Fiscal Year, materially large amounts of encumbrances exist at the end of a Fiscal Year. For Fiscal Year 2002, 2003 and 2004, encumbrances have therefore been included in Capital Outlay and Real Property totals for all time periods.

MINNESOTACARE® PROGRAM

The 1992 Legislature established the MinnesotaCare® program to provide subsidized health care insurance for long term uninsured Minnesotans.

The program is not part of the General Fund. A separate fund, called the Health Care Access Fund, was established as a special revenue fund to account for revenues and expenditures for the MinnesotaCare® program. Program revenues are derived primarily from a 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs. The 2005 Legislature made changes in the MinnesotaCare® program that shift many current recipients of General Assistance Medical Care, another health insurance program funded out of the General Fund, to MinnesotaCare® starting in Fiscal Year 2007. This will shift significant costs out of the General Fund and into the Health Care Access Fund. The amounts to be transferred from the Health Care Access Fund to the General Fund are set in law for the Current Biennium. The total amount to be transferred is \$112 million. These end of year balance transfers from the Health Care Access Fund to the General Fund are currently set to expire after Fiscal Year 2007.

Based on current tax levels, projected activity in the Health Care Access Fund for the Current Biennium is detailed below:

**MINNESOTACARE®
CURRENT BIENNIUM
HEALTH CARE ACCESS FUND
(\$ in Millions)**

Resources	
Unreserved Balance at June 30, 2005	\$ 51
Transfer in from General Fund	0
Revenues	<u>996</u>
Total Resources	1,047
Expenditures	<u>935</u>
Projected Unreserved Balance at June 30, 2007	\$ 112
Transfer to General Fund	<u>112</u>
Projected Unrestricted Balance at June 30, 2007	<u><u>\$ 0</u></u>

SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner of Finance, under certain circumstances and subject to the availability of funds, to issue a warrant and authorize the Commissioner of Education to pay debt service due on school district tax and state-aid anticipation certificates of indebtedness, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40 Subdivision 6, and school district general obligation bonds, in the event that the school district notifies the Commissioner of Education that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Commissioner of Education that it has not received from the school district timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Commissioner of Education the amounts needed to pay any warrants which are issued.

The amounts paid on behalf of any school district are required to be repaid by it with interest, either through a reduction of subsequent state-aid payments or by the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

Under State law school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of September 21, 2005, there were approximately \$412 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

School districts may issue certificates of indebtedness or capital notes to purchase certain equipment. The certificates or notes may be issued by resolution of the board, must be payable in not more than five years, and are payable from school district taxes levied within statutory limits.

Under Minnesota Statutes, Section 126C.40, Subdivision 6, certain school districts, with the approval of the Commissioner of Education, may issue certificates of participation in installment contracts for the purchase of real or personal property or in lease purchase agreements for the lease with option to purchase of real or personal property. Such certificates of participation, contracts and agreements are not general obligations of the school districts, but are payable from taxes levied annually in amounts necessary to pay the amounts due thereunder.

School districts are authorized to issue general obligation bonds only when authorized by school district electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due. As of September 21, 2005 the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2034, is approximately \$10.3 billion. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the amount of certificates of indebtedness and capital notes for equipment, certificates of participation and bonds now enrolled in the program, during the Current Biennium the total amount of principal and interest coming due as of September 21, 2005 is about \$1.6 billion, with the maximum amount of principal and interest payable in any one month being \$460 million.

The State has not had to make any debt service payments on behalf of school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts.

COUNTY CREDIT ENHANCEMENT PROGRAM

Minnesota Statutes, Section 373.45 establishes a County Credit Enhancement Program. The law authorizes and directs the Commissioner of Finance, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Public Facilities Authority to pay debt service coming due on certain county general obligation bonds and lease obligations, in the event that the county notifies the Public Facilities Authority that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Public Facilities Authority that it has not received from the county timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Public Facilities Authority the amounts needed to pay any warrants which are issued.

The amounts paid on behalf of any county are required to be repaid by it with interest, either through a reduction of subsequent state-aid payments or by the levy of an ad valorem tax which may be made with the approval of the Public Facilities Authority.

Counties are authorized to issue general obligation bonds and must levy a direct, irrevocable ad valorem tax on all taxable property in the county for the years and in amounts sufficient to produce sums not less than 5 percent in excess of the principal of and interest on the bonds when due.

Counties are authorized under Minnesota Statutes, Section 641.24 to enter into lease agreements with certain governmental units for the acquisition of jail or other law enforcement facilities. Counties provide for payment of rentals under such leases through the levy of a tax without limitation as to rate or amount.

The program enrolls county general obligation bonds issued for the following purposes: jails, correctional facilities, law enforcement facilities, social services and human services facilities, and solid waste facilities; and lease obligations for the purposes as specified above.

The County Credit Enhancement Program is administered by the Minnesota Public Facilities Authority.

As of September 21, 2005, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately \$159 million. More bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the bonds enrolled in the program, during the Current Biennium the total amount of principal and interest coming due as of September 21, 2005 is \$13.4 million with the maximum amount of principal and interest payable in any one month being \$5 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the counties.

APPENDIX A

State Financial Statements For the Fiscal Year Ended June 30, 2004

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APPENDIX A

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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2004, which collectively comprise the state's basic financial statements as listed in Appendix A in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on those financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 92 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers' Compensation Assigned Risk Plan, National Sports Center Foundation, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

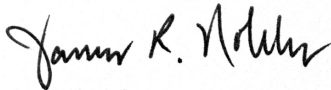
In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

Members of the Minnesota State Legislature
The Honorable Tim Pawlenty, Governor
Ms. Peggy Ingison, Commissioner of Finance
Page 2

component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* for the year ended June 30, 2004. This standard establishes additional guidance for determining whether certain organizations should be reported as component units in determining the state's reporting entity.

Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, are not a required part of the State of Minnesota's basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



James R. Nobles
Legislative Auditor



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 19, 2004

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2004, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

The focus of Minnesota's financial reporting is on the state as a whole, and on the individual funds that are considered to be major. This reporting focus presents a more comprehensive view of Minnesota's financial activities and financial position, and makes the comparison of Minnesota's government to other governments easier.

The financial section of this annual report has four parts:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements – Nonmajor Funds

The report also includes statistical and economic information, which generally provides a ten-year history of various indicators.

The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements that provide more detailed information to the users of the financial statements.

Government-wide Financial Statements

The government-wide financial statements provide an overall view of the state's operations in a manner similar to a private-sector business. Government-wide financial statements consist of the *statement of net assets* and the *statement of activities* that are prepared using the economic resources measurement focus and the accrual basis of accounting. All current year revenues and expenses are included in the statements regardless of whether the related cash has been received or paid. Revenues and expenses are reported in the statement of activities for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes, accounts receivable, and earned but unused vacation leave). This reporting method produces a view of financial activities and position similar to that presented by most private-sector companies. The statements provide both short-term and long-term information about the state's financial position, which assists readers in assessing the state's economic condition at the end of the fiscal year.

The government-wide financial statements are located immediately following this discussion and analysis.

The *statement of net assets* presents all of the state's financial resources along with capital assets and long-term obligations. The statement includes all assets and liabilities of the state. *Net assets* is the difference between assets and liabilities and is one method to measure the state's financial condition.

- An increase or decrease in the state's net assets from one year to the next indicates whether the financial position of the state is improving or deteriorating.
- Other indicators of the state's financial condition include the condition of its infrastructure, and economic events and trends that affect future revenues and expenses.

The *statement of activities* presents the changes in net assets and reports on the gross and net cost of various activities carried out by the state (governmental, business-type, and component units). These costs are paid by general taxes and other revenues generated by the state. This statement summarizes the cost of providing specific services by the government, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities segregate the activities of the state into three types:

Governmental Activities

The governmental activities of the state include most basic services such as environmental resources, general government, transportation, education, health and human services, and protection of persons and property. Most of the costs of these activities are financed by taxes, fees, and federal grants.

Business-type Activities

The business-type activities of the state normally are intended to recover all, or a significant portion of, their costs through user fees and charges to external users of goods and services. The operations of the Unemployment Insurance Fund, the State Colleges and Universities, and the Lottery are examples of business-type activities.

Discretely Presented Component Units

Component units are legally separate organizations for which the state is financially accountable, or the nature and significance of the unit's relationship with the state is such that exclusion of the unit would cause the state's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit governing body, and either a) the ability of the state to impose its will, or b) the potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government.

The state's eleven component units are reported in two categories: major and nonmajor. This categorization is based on the relative size of an individual component unit's assets, liabilities, revenues, and expenses in relation to the total of all component units and the primary government.

The state's three discretely presented major component units are:

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

The state's eight nonmajor component units are combined into a single column for reporting in the fund financial statements. These nonmajor component units are:

- Agricultural and Economic Development Board
- Higher Education Services Office
- Minnesota Partnership for Action Against Tobacco
- Minnesota Technology, Incorporated
- National Sports Center Foundation
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

A fund is a grouping of related self-balancing accounts used to maintain control over resources that have been segregated for specific activities or objectives. The state of Minnesota, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial statements present financial information in a format familiar to experienced users of governmental financial statements and reports. The fund financial statements focus on individual parts of the state, reporting the state's operations in more detail than in the government-wide statements. Fund financial statements focus on the most significant funds within the state.

The state's funds are divided into three categories:

Governmental Funds

Governmental funds record most of the basic services provided by the state and account for essentially the same functions as reported in the governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, the fund financial statements focus on how money flows in and out of the funds during a fiscal year, and spendable resources available at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures revenues when they are available and measurable. Expenditures are generally recognized in the accounting period when the fund liability is incurred, if measurable. This approach is known as the flow of current financial resources measurement focus. These statements provide a detailed short-term view of the state's finances that assists in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of the state. Governmental funds include the General, special revenue, capital project, Debt Service, and permanent funds.

The focus of governmental funds is narrower than that of the government-wide financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By comparing this financial information, readers may better understand the long-term impact of the state's short-term financing decisions.

The basic financial statements include a reconciliation of governmental funds to governmental activities. These reconciliations follow the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances.

The state maintains 29 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balances* for the General and Federal funds, which are reported as major funds. Information from the remaining 26 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

The state adopts a biennial budget with annual appropriations for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

When the state charges customers for the services it provides, whether to outside customers or to other agencies within the state, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting which is the same method used by private-sector businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Enterprise funds, a component of proprietary funds, are used to report activities that provide goods and services to outside (non-government) customers, including the general public. Internal service funds are an accounting device used to accumulate and allocate costs internally for goods and services provided by one program of the state to another. Because the activities reported by internal service funds predominantly benefit governmental functions rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the other 15 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

Fiduciary funds are used to report activities when the state acts as a trustee or fiduciary to hold resources for the benefit of parties outside the state. The accrual basis of accounting is used for fiduciary funds and is similar to the accounting used for proprietary funds. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and cannot be used by the state to finance its operations. The state must assure that the assets reported in fiduciary funds are used for their intended purposes.

The state maintains 17 individual nonmajor fiduciary funds. The state's fiduciary funds are the pension trust funds, the Investment Trust Fund (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pool), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units *statements of net assets* and the component units *statement of changes in net assets* provide detail for each major component unit and aggregate the detail for nonmajor component units. Individual nonmajor component unit detail can be found in the combining financial statements included in this report. A *statement of cash flows* is included for the two nonmajor component units that do not issue separately audited financial statements.

Notes to the Financial Statements

The notes provide additional narrative and financial information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the financial statements are located immediately following component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. This section includes maintenance data regarding certain portions of the state's infrastructure, actuarial measures of pension funding progress, and public employees insurance program development information.

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds and nonmajor discretely presented component units. These funds are added together by fund type and presented in single columns in the basic financial statements.

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2004, by \$8.1 billion (presented as *net assets*). Of this amount, a deficit of \$769 million was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors.
- The state's total net assets increased by \$207 million (2.6 percent) during fiscal year 2004. Net assets of governmental activities increased by \$173 million (2.6 percent), while net assets of the business-type activities showed an increase of \$34 million (3.0 percent).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of \$3.0 billion, a decrease of \$855 million compared to the prior year. This amount includes an unreserved fund balance of \$332 million.
- The General Fund includes a deficit of \$448 million in the undesignated unreserved fund balance. The remaining governmental funds reported \$200 million of undesignated unreserved fund balance, which is available for spending at the government's discretion and \$580 million in designated fund balance.

Long-Term Debt

- The state's total long-term debt obligations decreased by \$106 million (1.9 percent) during the current fiscal year. The decrease is primarily due to payment to the escrow agent in the current year of refunding bonds issued in the prior year.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled \$8.103 billion at the end of 2004, compared to \$7.897 billion at the end of the previous year. All of the governmental activities and the majority of the business-type activities net assets were either restricted by investment in capital assets or restricted for specific purposes. The remaining unrestricted net assets – resources available for future spending – reported a deficit balance of \$769 million.

	Net Assets June 30, 2004 (In Thousands)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 7,875,733	\$ 8,265,240	\$ 928,778	\$ 787,781	\$ 8,804,511	\$ 9,053,021
Noncurrent Assets:						
Capital Assets	7,826,826	7,197,543	1,072,726	977,480	8,899,552	8,175,023
Other Assets	894,598	782,448	59,424	74,084	954,022	856,532
Total Assets	<u>\$ 16,597,157</u>	<u>\$ 16,245,231</u>	<u>\$ 2,060,928</u>	<u>\$ 1,839,345</u>	<u>\$ 18,658,085</u>	<u>\$ 18,084,576</u>
Current Liabilities	\$ 5,135,904	\$ 4,698,850	\$ 541,660	\$ 369,059	\$ 5,677,564	\$ 5,067,909
Noncurrent Liabilities	4,535,676	4,793,304	341,376	326,685	4,877,052	5,119,989
Total Liabilities	<u>\$ 9,671,580</u>	<u>\$ 9,492,154</u>	<u>\$ 883,036</u>	<u>\$ 695,744</u>	<u>\$ 10,554,616</u>	<u>\$ 10,187,898</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 5,525,157	\$ 4,998,667	\$ 872,804	\$ 812,780	\$ 6,397,961	\$ 5,811,447
Restricted	2,387,732	2,280,661	86,291	151,812	2,474,023	2,432,473
Unrestricted	(987,312)	(526,251)	218,797	179,009	(768,515)	(347,242)
Total Net Assets	<u>\$ 6,925,577</u>	<u>\$ 6,753,077</u>	<u>\$ 1,177,892</u>	<u>\$ 1,143,601</u>	<u>\$ 8,103,469</u>	<u>\$ 7,896,678</u>

The largest portion, \$6.4 billion of \$8.1 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately \$2.5 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used.

The remaining net assets balance represents a deficit in unrestricted net assets of \$769 million. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the non-capital portion of net assets for most governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased \$207 million (2.6 percent) over the course of this fiscal year. This resulted from a \$173 million (2.6 percent) increase in net assets of governmental activities, and a \$34 million (3.0 percent) increase in net assets of business-type activities.

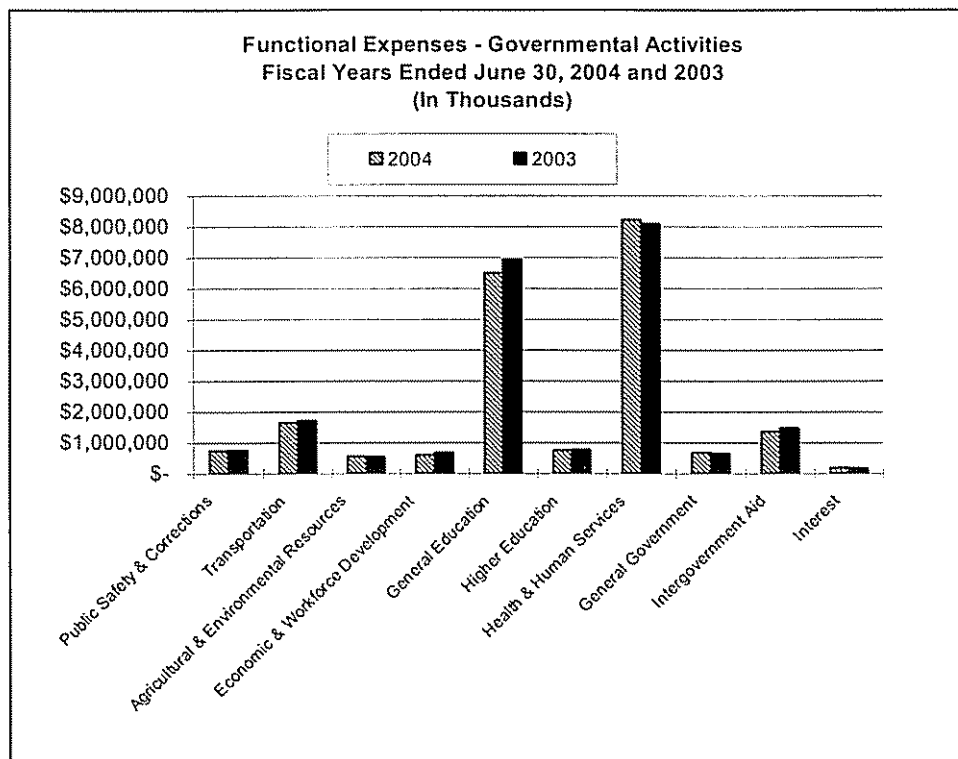
Changes in Net Assets						
Fiscal Year Ended June 30, 2004						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,265,184	\$ 1,211,341	\$ 2,001,721	\$ 1,697,647	\$ 3,266,905	\$ 2,908,988
Operating Grants and Contributions	5,428,859	5,219,388	312,200	369,481	5,741,059	5,588,869
Capital Grants	269,786	131,632	2,307	2,274	272,093	133,906
General Revenues:						
Individual Income Taxes	5,863,383	5,497,328	-	-	5,863,383	5,497,328
Corporate Income Taxes	643,442	636,214	-	-	643,442	636,214
Sales Taxes	3,911,496	3,924,424	-	-	3,911,496	3,924,424
Property Taxes	608,860	594,094	-	-	608,860	594,094
Motor Vehicle Taxes	587,223	606,137	-	-	587,223	606,137
Fuel Taxes	643,964	656,326	-	-	643,964	656,326
Other Taxes	2,190,491	1,981,468	-	-	2,190,491	1,981,468
Tobacco Settlement	173,173	261,525	-	-	173,173	261,525
Investment/Interest Income	32,712	24,049	16,213	15,697	48,925	39,746
Other Revenues	178,255	203,206	2,417	9,294	180,672	212,500
Total Revenues	\$ 21,796,828	\$ 20,947,132	\$ 2,334,858	\$ 2,094,393	\$ 24,131,686	\$ 23,041,525
Expenses:						
Public Safety and Corrections	\$ 731,438	\$ 750,143	\$ -	\$ -	\$ 731,438	\$ 750,143
Transportation	1,662,402	1,727,604	-	-	1,662,402	1,727,604
Agricultural and Environmental Resources	557,414	541,828	-	-	557,414	541,828
Economic and Workforce Development	591,513	671,469	-	-	591,513	671,469
General Education	6,512,834	6,929,870	-	-	6,512,834	6,929,870
Higher Education	744,112	785,524	-	-	744,112	785,524
Health and Human Services	8,228,552	8,102,781	-	-	8,228,552	8,102,781
General Government	671,908	652,005	-	-	671,908	652,005
Intergovernmental Aid	1,355,683	1,480,533	-	-	1,355,683	1,480,533
Interest	181,323	169,023	-	-	181,323	169,023
State Colleges and Universities	-	-	1,385,817	1,386,493	1,385,817	1,386,493
Unemployment Insurance	-	-	931,659	1,054,281	931,659	1,054,281
Lottery	-	-	287,550	273,884	287,550	273,884
Other	-	-	166,923	153,397	166,923	153,397
Total Expenses	\$ 21,237,179	\$ 21,810,780	\$ 2,771,949	\$ 2,868,055	\$ 24,009,128	\$ 24,678,835
Excess (Deficiency) Before Transfers and Special Item	\$ 559,649	\$ (863,648)	\$ (437,091)	\$ (773,662)	\$ 122,558	\$ (1,637,310)
Transfers	(471,382)	(548,291)	471,382	548,291	-	-
Special Item	-	30,000	-	-	-	30,000
Change in Net Assets	\$ 88,267	\$ (1,381,939)	\$ 34,291	\$ (225,371)	\$ 122,558	\$ (1,607,310)
Net Assets, Beginning	\$ 6,753,077	\$ 8,180,576	\$ 1,143,601	\$ 1,365,331	\$ 7,896,678	\$ 9,545,907
Prior Period Adjustments	84,233	(41,919)	-	-	84,233	(41,919)
Change in Fund Structure	-	(3,641)	-	3,641	-	-
Net Assets, Ending	\$ 6,925,577	\$ 6,753,077	\$ 1,177,892	\$ 1,143,601	\$ 8,103,469	\$ 7,896,678

Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 25 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 2 percent came from other general revenues.

The state's expenses cover a range of services. The largest expenses were for general and higher education, and health and human services.

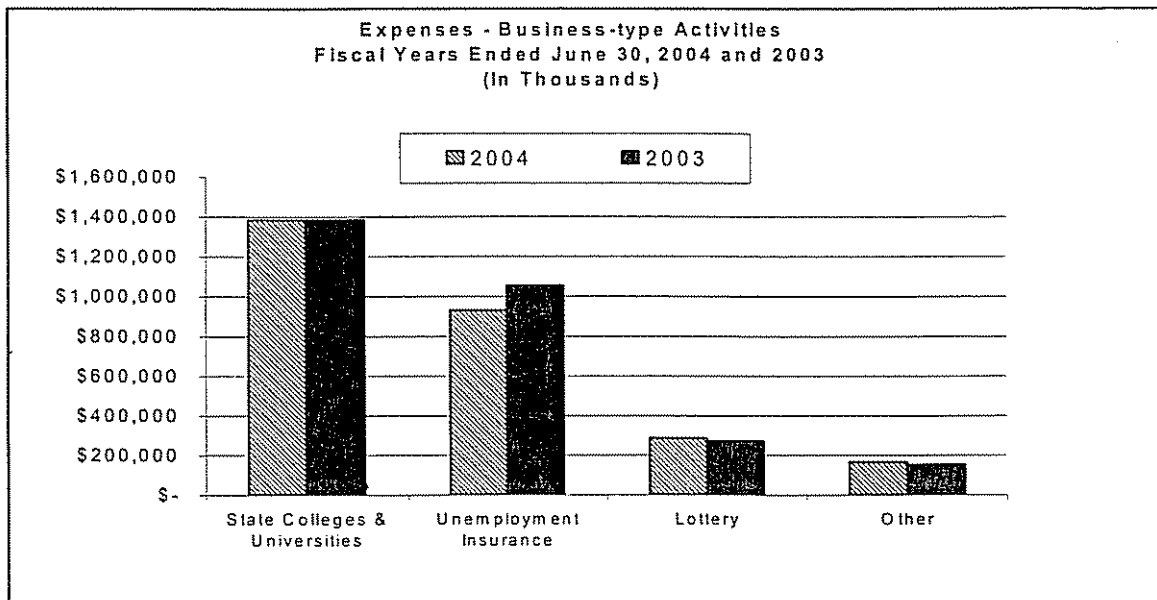
Governmental Activities

Governmental activities increased the state's net assets by \$173 million, which primarily resulted from increase in revenues as a result of the strengthening economy following an economic downturn and a reduction of governmental activities expenses. The decrease in expenses is primarily attributable to the decrease in General Education and Intergovernmental Aid expenses. The decrease in General Education expenses was attributable to change in the percentage of local property tax receipts calculated in determining state aid payments, while the decrease in Intergovernmental Aids was a result of the spending reductions made by the 2003 legislature for payments to municipalities and counties.



Business-type Activities

The business-type activities had an increase in net assets of \$34 million. This increase was due primarily to a \$62 million increase in net assets of the State Colleges and Universities Fund, which was offset by a \$37 million decrease in net assets of the Unemployment Insurance Fund. The increase in the State Colleges and Universities Fund net assets resulted from an increase in tuition revenue.



State Funds Financial Analysis

As noted earlier, the state uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the state's governmental funds is to provide information on near-term cash inflows and outflows during the fiscal year, and balances of spendable resources as of fiscal year end. Such information is useful in assessing the state's financing requirements. Unreserved fund balance may serve as a useful measure of the state's net resources available for future spending at the end of the fiscal year.

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of \$2.996 billion, a decrease of \$855 million in comparison with the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the General Fund was a deficit of \$448 million, an increase of \$558 million in comparison with the prior year. This improvement resulted for three primary reasons. First, a one-time transfer of \$1.029 billion was made to the General Fund to eliminate the Medical Education and Research and Tobacco Use Prevention funds. Second, revenue increased by \$734 million which was primarily a result of an increase in sales and income tax receipts due to a rebound of the national economy. Finally, expenditures decreased by \$706 million due to actions taken by the 2003 legislature to limit state spending growth as a response to forecasted budget deficits.

General Fund spending for the largest program areas declined from prior year levels primarily as a result of the spending reductions taken by the 2003 legislature. Spending decreased from the prior year for General Education by \$316 million (5 percent), Higher Education by \$90 million (12 percent), Health and Human Services by \$29 million (1 percent), and Intergovernmental Aid by \$125 million (8 percent). In addition, General Fund spending decreased due to a change in the percentage of local property tax receipts allocated to the calculation of aids for General Education.

Proprietary Funds

The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The state's proprietary funds net assets increased by \$34 million during the current year. This primarily resulted from a \$62 million increase in net assets in the State Colleges and Universities Fund due to an increase in tuition revenue, which was offset by a decrease in net assets in the Unemployment Insurance Fund. During fiscal year 2004, the loan payable from the Federal Unemployment Account to cover unemployment benefits in the Unemployment Insurance Fund increased \$141 million to \$271 million.

General Fund Budgetary Highlights

Based on the February 2004 forecast, the state's financial outlook has improved slightly since the November 2003 forecast and projected very small changes in revenues and expenditures. The February forecast projected a deficit of \$160 million for the fiscal year 2004/2005 biennium in absence of legislative or executive action. Both state statutes (M.S. 16A.152) and constitution (Article XI, Section 6) require a balanced budget for the biennium; thus, corresponding reductions in spending and other measures will be made to ensure that the fund balance remains positive as necessary.

There were no net over-expenditures or line-item over-expenditures by the General Fund departments during the current fiscal year.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2004, was \$10.7 billion, less accumulated depreciation of \$1.8 billion, resulting in a net book value of \$8.9 billion. This investment in capital assets includes land, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

	Capital Assets June 30, 2004 (In Thousands)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital Assets not Depreciated:						
Land	\$ 1,463,091	\$ 1,378,064	\$ 72,062	\$ 59,664	\$ 1,535,153	\$ 1,437,728
Buildings, Structures, Improvements	20,039	20,263	-	-	20,039	20,263
Construction in Progress	125,646	198,185	91,245	82,354	216,891	280,539
Infrastructure	5,113,949	4,620,135	-	-	5,113,949	4,620,135
Art and Historical Treasures	100	100	-	-	100	100
Total Capital Assets not Depreciated	<u>\$ 6,722,825</u>	<u>\$ 6,216,747</u>	<u>\$ 163,307</u>	<u>\$ 142,018</u>	<u>\$ 6,886,132</u>	<u>\$ 6,358,765</u>
Capital Assets Depreciated:						
Buildings, Structures, Improvements	\$ 1,544,866	\$ 1,393,620	\$ 1,579,402	\$ 1,454,703	\$ 3,124,268	\$ 2,848,323
Infrastructure	44,285	41,670	-	-	44,285	41,670
Library Collections	-	-	45,180	42,878	45,180	42,878
Equipment, Furniture, Fixtures	362,009	357,690	282,553	291,045	644,562	648,735
Total Capital Assets Depreciated	<u>\$ 1,951,160</u>	<u>\$ 1,792,980</u>	<u>\$ 1,907,135</u>	<u>\$ 1,788,626</u>	<u>\$ 3,858,295</u>	<u>\$ 3,581,606</u>
Less: Accumulated Depreciation	<u>847,159</u>	<u>812,184</u>	<u>997,716</u>	<u>953,164</u>	<u>1,844,875</u>	<u>1,765,348</u>
Capital Assets Net of Depreciation	<u>\$ 1,104,001</u>	<u>\$ 980,796</u>	<u>\$ 909,419</u>	<u>\$ 835,462</u>	<u>\$ 2,013,420</u>	<u>\$ 1,816,258</u>
Total	<u>\$ 7,826,826</u>	<u>\$ 7,197,543</u>	<u>\$ 1,072,726</u>	<u>\$ 977,480</u>	<u>\$ 8,899,552</u>	<u>\$ 8,175,023</u>

Under GASB Statement No. 34, the state has adopted an alternative process referred to as the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 2,700 bridges that are maintained by the Minnesota Department of Transportation.

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2003, indicated that the average PQI for principal arterial pavement was 3.40 and 3.24 for all other pavements. The state has maintained a stable condition of pavement over the past five years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2003, indicated that 96 percent of principal arterial system bridges and 97 percent of all other system bridges were in fair to good condition. The state has consistently improved the condition of bridges over the past several years.

Additional information on the state's capital assets and infrastructure under the modified approach is included in Note 6 – Capital Assets of the notes to the financial statements and in the required supplementary information, respectively.

Debt Administration

The authority of the state to incur debt is described in Article XI, Sections 5 and 7, of the state's constitution. General obligation bonds, issued by the state, are backed by the full faith, credit, and taxing powers of the state.

The state's general obligation bonds are rated as follows:

- Aa1 by Moody's Investors Service
- AAA by Standard & Poors
- AAA by Fitch Ratings

The state also issues revenue bonds, which are payable solely from rentals, revenues, and other income, charges and monies that were pledged for repayment.

Outstanding Bonded Debt June 30, 2004 (In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation	\$ 3,055,496	\$ 3,295,545	\$ 141,859	\$ 125,950	\$ 3,197,355	\$ 3,421,495
Revenue	-	-	51,410	52,925	51,410	52,925
Total	\$ 3,055,496	\$ 3,295,545	\$ 193,269	\$ 178,875	\$ 3,248,765	\$ 3,474,420

During fiscal year 2004, the state issued the following bonds:

- \$297 million in general obligation state various purpose bonds
- \$142 million in general obligation state trunk highway bonds
- \$3 million in general obligation taxable state various purpose bonds.

In addition to the general obligation bonds noted above, the state issued \$21 million of refunding bonds in August 2003.

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Obligations in the notes to the financial statements.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives.

Questions about this report or requests for additional financial information should be addressed to the Minnesota Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

STATE OF MINNESOTA

STATEMENT OF NET ASSETS
 JUNE 30, 2004
 (IN THOUSANDS)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 3,809,602	\$ 483,136	\$ 4,292,738	\$ 1,284,896
Investments.....	973,152	21,769	994,921	890,517
Accounts Receivable.....	1,616,673	362,953	1,979,626	300,599
Due from Component Units.....	18,915	-	18,915	-
Due from Primary Government.....	-	-	-	175,542
Accrued Investment/Interest Income.....	15,779	18	15,797	34,870
Federal Aid Receivable.....	698,096	14,170	712,266	903
Inventories.....	16,163	19,183	35,346	36,484
Loans and Notes Receivable.....	63,121	9,189	72,310	139,952
Internal Balances.....	13,506	(13,506)	-	-
Securities Lending Collateral.....	649,600	28,611	678,211	301,686
Other Assets.....	1,126	3,255	4,381	48,442
Total Current Assets.....	\$ 7,875,733	\$ 928,778	\$ 8,804,511	\$ 3,213,691
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted.....	\$ -	\$ 26,197	\$ 26,197	\$ 251,875
Investments-Restricted.....	-	5,979	5,979	197,652
Accounts Receivable-Restricted.....	-	-	-	35,143
Due from Primary Government-Restricted.....	-	-	-	6,343
Other Assets-Restricted.....	-	115	115	49,040
Due from Component Units.....	103,432	-	103,432	-
Investments.....	-	-	-	2,447,982
Accounts Receivable.....	470,578	-	470,578	404,370
Loans and Notes Receivable.....	265,116	27,133	292,249	3,057,192
Depreciable Capital Assets (Net).....	1,104,001	909,419	2,013,420	3,072,370
Nondepreciable Capital Assets.....	1,608,876	163,307	1,772,183	892,130
Infrastructure (Not depreciated).....	5,113,949	-	5,113,949	-
Other Assets.....	55,472	-	55,472	16,350
Total Noncurrent Assets.....	\$ 8,721,424	\$ 1,132,150	\$ 9,853,574	\$ 10,430,447
Total Assets.....	\$ 16,597,157	\$ 2,060,928	\$ 18,658,085	\$ 13,644,138
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	\$ 3,472,214	\$ 174,417	\$ 3,646,631	\$ 305,748
Due to Component Units.....	141,998	-	141,998	-
Due to Primary Government.....	-	-	-	28,623
Unearned Revenue.....	425,093	31,947	457,040	146,050
Accrued Bond Interest Payable.....	40,186	234	40,420	56,880
General Obligation Bonds Payable.....	249,433	9,492	258,925	321,237
Bond Premium Payable.....	8,364	-	8,364	-
Loans and Notes Payable.....	9,852	272,096	281,948	8,358
Revenue Bonds Payable.....	-	1,575	1,575	308,995
Claims Payable.....	106,739	-	106,739	95,404
Compensated Absences Payable.....	16,353	9,900	26,253	57,866
Workers' Compensation Liability.....	11,976	1,326	13,302	-
Capital Leases Payable.....	4,096	2,417	6,513	-
Securities Lending Collateral.....	649,600	28,611	678,211	301,686
Other Liabilities.....	-	9,645	9,645	9,309
Total Current Liabilities.....	\$ 5,135,904	\$ 541,660	\$ 5,677,564	\$ 1,640,156
Noncurrent Liabilities:				
Accounts Payable-Restricted.....	\$ -	\$ -	\$ -	\$ 110,107
Unearned Revenue-Restricted.....	-	-	-	93,366
Accrued Bond Interest Payable-Restricted.....	-	-	-	7,478
Due to Primary Government.....	-	-	-	103,432
Unearned Revenue.....	-	-	-	70,591
General Obligation Bonds Payable.....	2,806,053	132,367	2,938,430	1,154,161
Bond Premium Payable.....	109,255	3,242	112,497	-
Loans and Notes Payable.....	9,801	3,607	13,408	6,362
Revenue Bonds Payable.....	-	49,835	49,835	2,716,512
Claims Payable.....	1,283,665	-	1,283,665	423,269
Compensated Absences Payable.....	222,333	103,525	325,858	22,055
Workers' Compensation Liability.....	99,570	3,667	103,437	-
Capital Leases Payable.....	4,989	12,451	17,440	-
Funds Held in Trust.....	-	-	-	90,037
Federal Student Loan Financing.....	-	32,482	32,482	-
Other Liabilities.....	-	-	-	20,863
Total Noncurrent Liabilities.....	\$ 4,535,676	\$ 341,376	\$ 4,877,052	\$ 4,818,233
Total Liabilities.....	\$ 9,671,580	\$ 883,036	\$ 10,554,616	\$ 6,458,389

CONTINUED

STATE OF MINNESOTA

STATEMENT OF NET ASSETS (CONTINUED)
 JUNE 30, 2004
 (IN THOUSANDS)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt.....	\$ 5,525,157	\$ 872,804	\$ 6,397,961	\$ 2,531,260
Restricted for:				
Capital Projects.....	\$ 7,209	\$ -	\$ 7,209	\$ -
Debt Service.....	318,774	-	318,774	-
Transportation.....	831,135	-	831,135	-
Environmental Resources.....	511,319	-	511,319	-
Economic and Workforce Development.....	44,291	-	44,291	-
School Aid-Nonexpendable.....	580,341	-	580,341	-
School Aid-Expendable.....	94,663	-	94,663	-
Unemployment Benefits.....	-	14,979	14,979	-
State Colleges and Universities.....	-	71,312	71,312	-
Component Units.....	-	-	-	4,065,486
Total Restricted.....	\$ 2,387,732	\$ 86,291	\$ 2,474,023	\$ 4,065,486
Unrestricted.....	\$ (987,312)	\$ 218,797	\$ (768,515)	\$ 589,003
Total Net Assets.....	\$ 6,925,577	\$ 1,177,892	\$ 8,103,469	\$ 7,185,749

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004
 (IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections.....	\$ 731,438	\$ 138,359	\$ 123,956	\$ 9,009
Transportation.....	1,662,402	15,473	359,620	260,421
Agricultural and Environmental Resources.....	557,414	187,779	60,001	356
Economic and Workforce Development.....	591,513	158,788	330,359	-
General Education.....	6,512,834	33,284	625,380	-
Higher Education.....	744,112	-	-	-
Health and Human Services.....	8,228,552	516,539	3,874,378	-
General Government.....	671,908	214,962	55,165	-
Intergovernment Aid.....	1,355,683	-	-	-
Interest.....	181,323	-	-	-
Total Governmental Activities.....	<u>\$ 21,237,179</u>	<u>\$ 1,265,184</u>	<u>\$ 5,428,859</u>	<u>\$ 269,786</u>
Business-type Activities:				
State Colleges and Universities.....	\$ 1,385,817	\$ 636,138	\$ 179,697	\$ 2,051
Unemployment Insurance.....	931,659	806,185	132,503	-
Lottery.....	287,550	387,800	-	-
Other.....	166,923	171,598	-	256
Total Business-type Activities.....	<u>\$ 2,771,949</u>	<u>\$ 2,001,721</u>	<u>\$ 312,200</u>	<u>\$ 2,307</u>
Total Primary Government.....	<u>\$ 24,009,128</u>	<u>\$ 3,266,905</u>	<u>\$ 5,741,059</u>	<u>\$ 272,093</u>
Component Units:				
University of Minnesota.....	\$ 2,077,781	\$ 958,932	\$ 679,618	\$ 132,296
Metropolitan Council.....	642,289	287,595	160,293	183,303
Housing Finance.....	344,155	134,464	154,844	-
Others.....	404,056	154,003	19,123	-
Total Component Units.....	<u>\$ 3,468,281</u>	<u>\$ 1,534,994</u>	<u>\$ 1,013,878</u>	<u>\$ 315,599</u>

General Revenues:

Taxes:
Individual Income Taxes.....
Corporate Income Taxes.....
Sales Taxes.....
Property Taxes.....
Motor Vehicle Taxes.....
Fuel Taxes.....
Other Taxes.....
Tobacco Settlement.....
Unallocated Investment/Interest Income.....
Other Revenues.....
State Grants Not Restricted.....
Transfers.....
Total General Revenues and Transfers.....
Change in Net Assets.....
Net Assets, Beginning, as Reported.....
Prior Period Adjustments.....
Net Assets, Beginning, as Restated.....
Net Assets, Ending.....

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
\$ (460,114)		\$ (460,114)	
(1,026,888)		(1,026,888)	
(309,278)		(309,278)	
(102,366)		(102,366)	
(5,854,170)		(5,854,170)	
(744,112)		(744,112)	
(3,837,635)		(3,837,635)	
(401,781)		(401,781)	
(1,355,683)		(1,355,683)	
(181,323)		(181,323)	
<u>\$ (14,273,350)</u>		<u>\$ (14,273,350)</u>	
	\$ (567,931)	\$ (567,931)	
	7,029	7,029	
	100,250	100,250	
	4,931	4,931	
	<u>\$ (455,721)</u>	<u>\$ (455,721)</u>	
<u>\$ (14,273,350)</u>	<u>\$ (455,721)</u>	<u>\$ (14,729,071)</u>	
			\$ (306,935)
			(11,098)
			(54,847)
			<u>(230,930)</u>
			<u>\$ (603,810)</u>
\$ 5,863,383	\$ -	\$ 5,863,383	\$ -
643,442	-	643,442	-
3,911,496	-	3,911,496	-
608,860	-	608,860	-
587,223	-	587,223	-
643,964	-	643,964	-
2,190,491	-	2,190,491	190,590
173,173	-	173,173	-
32,712	16,213	48,925	88,063
178,255	2,417	180,672	83,059
-	-	-	760,435
(471,382)	471,382	-	-
<u>\$ 14,361,617</u>	<u>\$ 490,012</u>	<u>\$ 14,851,629</u>	<u>\$ 1,122,147</u>
<u>\$ 88,267</u>	<u>\$ 34,291</u>	<u>\$ 122,558</u>	<u>\$ 518,337</u>
<u>\$ 6,753,077</u>	<u>\$ 1,143,601</u>	<u>\$ 7,896,678</u>	<u>\$ 6,667,412</u>
84,233	-	84,233	-
<u>\$ 6,837,310</u>	<u>\$ 1,143,601</u>	<u>\$ 7,980,911</u>	<u>\$ 6,667,412</u>
<u>\$ 6,925,577</u>	<u>\$ 1,177,892</u>	<u>\$ 8,103,469</u>	<u>\$ 7,185,749</u>

STATE OF MINNESOTA

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents.....	\$ 1,465,328	\$ 168	\$ 2,199,443	\$ 3,664,939
Investments.....	46,830	-	905,503	952,333
Accounts Receivable.....	1,521,821	227,143	330,378	2,079,342
Interfund Receivables.....	193,655	4,516	137,725	335,896
Due from Component Units.....	-	-	122,347	122,347
Accrued Investment/Interest Income.....	6,742	-	8,713	15,455
Federal Aid Receivable.....	-	610,566	87,530	698,096
Inventories.....	-	49	15,202	15,251
Loans and Notes Receivable.....	51,997	117	276,123	328,237
Advances to Other Funds.....	4,700	-	-	4,700
Securities Lending Collateral.....	333,364	-	292,916	626,280
Investment in Land.....	-	-	15,441	15,441
Total Assets	\$ 3,624,437	\$ 842,559	\$ 4,391,321	\$ 8,858,317
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable.....	\$ 2,334,115	\$ 657,643	\$ 428,241	\$ 3,419,999
Interfund Payables.....	36,204	142,523	143,106	321,833
Due to Component Units.....	101,083	2,591	38,324	141,998
Deferred Revenue.....	1,147,630	32,709	172,213	1,352,552
Securities Lending Collateral.....	333,364	-	292,916	626,280
Total Liabilities.....	\$ 3,952,396	\$ 835,466	\$ 1,074,800	\$ 5,862,662
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances.....	\$ 65,242	\$ -	\$ 259,365	\$ 324,607
Reserved for Local Governments.....	-	-	441,027	441,027
Reserved for Trust Principal.....	-	-	918,428	918,428
Other Reserved Fund Balances.....	55,264	7,093	917,293	979,650
Total Reserved Fund Balances.....	\$ 120,506	\$ 7,093	\$ 2,536,113	\$ 2,663,712
Unreserved Fund Balances:				
Designated for:				
Special Revenue Funds	\$ -	\$ -	\$ 580,118	\$ 580,118
Undesignated, reported in:				
General Fund.....	(448,465)	-	-	(448,465)
Capital Project Funds.....	-	-	(62,340)	(62,340)
Special Revenue Funds.....	-	-	262,630	262,630
Total Unreserved Fund Balance.....	\$ (448,465)	\$ -	\$ 780,408	\$ 331,943
Total Fund Balances.....	\$ (327,959)	\$ 7,093	\$ 3,316,521	\$ 2,995,655
Total Liabilities and Fund Balances.....	\$ 3,624,437	\$ 842,559	\$ 4,391,321	\$ 8,858,317

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2004
(IN THOUSANDS)

Total Fund Balance for Governmental Funds..... s 2,995,655

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Infrastructure.....	s 5,113,949	
Depreciable Capital Assets.....	1,858,889	
Nondepreciable Capital Assets.....	1,593,435	
Accumulated Depreciation.....	<u>(779,967)</u>	
Total Capital Assets.....		7,786,306

Net effect of state revenues that will be collected after year-end but not available to pay for current period expenditures and refunds of revenues that will be paid after year-end..... 932,376

The pension assets resulting from contributions in excess of the annual required contributions are not financial resources and therefore are not reported in the funds..... 54,775

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets..... 115,443

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Obligation Bonds Payable.....	s (3,055,496)	
Bond Premium Payable.....	(117,619)	
Accrued Interest Payable on Bonds.....	(40,186)	
Claims Payable.....	(1,390,404)	
Workers' Compensation Liability.....	(111,546)	
Capital Leases Payable.....	(9,085)	
Compensated Absences Payable.....	<u>(234,642)</u>	
Total Liabilities.....		(4,958,978)

Net Assets of Governmental Activities..... s 6,925,577

STATE OF MINNESOTA

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)**

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes.....	\$ 5,836,790	\$ -	\$ -	\$ 5,836,790
Corporate Income Taxes.....	648,837	-	-	648,837
Sales Taxes.....	3,957,995	-	1,241	3,959,236
Property Taxes.....	599,622	-	-	599,622
Motor Vehicle Taxes.....	407,275	-	689,615	1,096,890
Fuel Taxes.....	-	-	651,261	651,261
Other Taxes.....	1,177,688	-	461,664	1,639,352
Tobacco Settlement.....	174,266	-	-	174,266
Federal Revenues.....	83,720	5,084,011	382,875	5,550,606
Licenses and Fees.....	240,052	-	242,094	482,146
Departmental Services.....	35,189	18,835	170,673	224,697
Investment/Interest Income.....	17,022	211	138,107	155,340
Securities Lending Income.....	2,079	-	2,009	4,088
Other Revenues.....	294,606	229,153	192,523	716,282
Net Revenues.....	\$ 13,475,141	\$ 5,332,210	\$ 2,932,062	\$ 21,739,413
Expenditures:				
Current:				
Public Safety and Corrections.....	\$ 436,347	\$ 104,700	\$ 170,841	\$ 711,888
Transportation.....	207,233	214,179	1,226,035	1,647,447
Agricultural and Environmental Resources.....	181,107	36,231	358,025	575,363
Economic and Workforce Development.....	126,334	323,035	199,721	649,090
General Education.....	5,990,207	531,660	(9,234)	6,512,633
Higher Education.....	674,502	-	70,904	745,406
Health and Human Services.....	3,580,762	4,052,416	596,375	8,229,553
General Government.....	512,633	12,144	92,275	617,052
Intergovernment Aid.....	1,355,474	-	209	1,355,683
Securities Lending Rebates and Fees.....	1,998	-	1,856	3,854
Total Current Expenditures.....	\$ 13,066,597	\$ 5,274,365	\$ 2,707,007	\$ 21,047,969
Capital Outlay.....	6,758	16,942	677,672	701,372
Debt Service.....	19,637	3	418,320	437,960
Total Expenditures.....	\$ 13,092,992	\$ 5,291,310	\$ 3,802,999	\$ 22,187,301
Excess of Revenues Over (Under) Expenditures.....	\$ 382,149	\$ 40,900	\$ (870,937)	\$ (447,888)
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds.....	\$ -	\$ -	\$ 417,937	\$ 417,937
Proceeds from Refunding Bonds.....	-	-	20,855	20,855
Payment of Refunding Bonds.....	-	-	(425,715)	(425,715)
Bond Issue Premium.....	-	-	33,455	33,455
Transfers-In.....	1,237,824	230	1,992,358	3,230,412
Transfers-Out.....	(1,016,216)	(41,280)	(2,629,887)	(3,687,383)
Capital Leases.....	384	-	1,390	1,774
Net Other Financing Sources (Uses).....	\$ 221,992	\$ (41,050)	\$ (589,607)	\$ (408,665)
Net Change in Fund Balances.....	\$ 604,141	\$ (150)	\$ (1,460,544)	\$ (856,553)
Fund Balances, Beginning, as Reported.....	\$ (932,100)	\$ 7,243	\$ 4,775,633	\$ 3,850,776
Change in Inventory.....	\$ -	\$ -	\$ 1,432	\$ 1,432
Fund Balances, Ending.....	\$ (327,959)	\$ 7,093	\$ 3,316,521	\$ 2,995,655

The notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

Net change in fund balances for governmental funds.....	s (856,553)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation in the current period.....	649,604
Governmental funds report the proceeds from the sale of capital assets as increases in financial resources. However, in the Statement of Activities, only the gain or loss on the sale and the fair market value of donated capital assets are reported.....	(16,389)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities reported with governmental activities.....	10,321
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used.....	1,432
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.....	33,807
Bond proceeds provide current financial resources to governmental funds; however issuing debt is reported as an increase of long-term liabilities in the Statement of Net Assets.....	(472,247)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase.....	(1,774)
Repayment of bonds is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.....	678,841
Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.....	61,225
Change in net assets of governmental activities.....	s <u>88,267</u>

STATE OF MINNESOTA

MAJOR GOVERNMENTAL FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2004
 (IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes.....	\$ 5,797,788	\$ 5,526,900	\$ 5,709,585
Corporate Income Taxes.....	625,200	645,600	628,048
Sales Taxes.....	4,074,989	4,082,747	4,065,366
Property Taxes.....	603,103	603,579	599,622
Motor Vehicle Taxes.....	428,455	421,684	410,647
Other Taxes.....	1,114,066	1,252,813	1,266,789
Investment/Interest Income.....	17,300	17,300	15,453
Tobacco Settlement.....	189,041	168,467	168,467
Other Revenues.....	551,148	615,082	715,391
Net Revenues.....	\$ 13,401,090	\$ 13,334,172	\$ 13,579,368
Expenditures:			
Public Safety and Corrections.....	\$ 448,979	\$ 438,691	\$ 437,424
Transportation.....	203,724	207,890	206,969
Agricultural and Environmental Resources.....	197,783	190,062	190,053
Economic and Workforce Development.....	48,557	99,064	98,269
General Education.....	5,897,324	5,832,615	5,832,615
Higher Education.....	709,141	675,972	675,972
Health and Human Services.....	3,611,127	3,500,285	3,495,194
General Government.....	544,030	532,873	526,556
Intergovernment Aid.....	1,394,579	1,375,048	1,375,020
Total Expenditures.....	\$ 13,055,244	\$ 12,852,500	\$ 12,838,072
Excess of Revenues Over (Under) Expenditures.....	\$ 345,846	\$ 481,672	\$ 741,296
Other Financing Sources (Uses):			
Transfers-In.....	\$ 1,128,230	\$ 1,118,695	\$ 1,147,376
Transfers-Out.....	(1,025,338)	(1,025,338)	(1,025,338)
Net Other Financing Sources (Uses).....	\$ 102,892	\$ 93,357	\$ 122,038
Net Change in Fund Balances.....	\$ 448,738	\$ 575,029	\$ 863,334
Fund Balances, Beginning, as Reported	\$ 384,933	\$ 384,933	\$ 384,933
Prior Period Adjustments.....	-	-	40,856
Fund Balances, Beginning, as Restated.....	\$ 384,933	\$ 384,933	\$ 425,789
Budgetary Fund Balances, Ending.....	\$ 833,671	\$ 959,962	\$ 1,289,123
Less: Appropriation Carryover.....	-	-	193,922
Less: Budgetary Reserve.....	300,000	409,677	403,677
Undesignated Fund Balances, Ending.....	\$ 533,671	\$ 550,285	\$ 691,524

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents.....	\$ 400,491	\$ 9,553	\$ 73,092	\$ 483,136	\$ 144,663
Investments.....	21,769	-	-	21,769	20,819
Accounts Receivable.....	31,485	306,512	24,956	362,953	20,683
Interfund Receivables.....	14,156	-	467	14,623	27
Accrued Investment/Interest Income.....	-	-	18	18	324
Federal Aid Receivable.....	10,958	3,212	-	14,170	-
Inventories.....	9,609	-	9,574	19,183	912
Deferred Costs.....	295	-	516	811	1,126
Loans and Notes Receivable.....	9,189	-	-	9,189	-
Securities Lending Collateral.....	28,611	-	-	28,611	23,320
Other Assets.....	-	-	2,444	2,444	-
Total Current Assets.....	\$ 526,563	\$ 319,277	\$ 111,067	\$ 956,907	\$ 211,874
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted.....	\$ 23,531	\$ -	\$ 2,666	\$ 26,197	\$ -
Investments-Restricted.....	5,979	-	-	5,979	-
Other Assets-Restricted.....	115	-	-	115	-
Deferred Costs.....	-	-	-	-	697
Loans and Notes Receivable.....	27,133	-	-	27,133	-
Depreciable Capital Assets (Net).....	875,463	-	33,956	909,419	25,079
Nondepreciable Capital Assets.....	161,591	-	1,716	163,307	-
Total Noncurrent Assets.....	\$ 1,093,812	\$ -	\$ 38,338	\$ 1,132,150	\$ 25,776
Total Assets.....	\$ 1,620,375	\$ 319,277	\$ 149,405	\$ 2,089,057	\$ 237,650
LIABILITIES					
Current Liabilities:					
Accounts Payable.....	\$ 133,050	\$ 15,196	\$ 26,171	\$ 174,417	\$ 64,989
Interfund Payables.....	-	14,089	14,040	28,129	584
Unearned Revenue.....	27,030	3,972	945	31,947	4,917
Accrued Bond Interest Payable.....	-	-	234	234	-
General Obligation Bonds Payable.....	9,271	-	221	9,492	-
Loans and Notes Payable.....	1,055	271,041	-	272,096	9,852
Revenue Bonds Payable.....	1,265	-	310	1,575	-
Workers' Compensation Liability.....	1,326	-	-	1,326	-
Capital Leases.....	2,015	-	402	2,417	-
Compensated Absences Payable.....	8,499	-	1,401	9,900	290
Securities Lending Collateral.....	28,611	-	-	28,611	23,320
Other Liabilities.....	8,518	-	1,127	9,645	-
Total Current Liabilities.....	\$ 220,640	\$ 304,298	\$ 44,851	\$ 569,789	\$ 103,952
Noncurrent Liabilities:					
General Obligation Bonds Payable.....	\$ 128,746	\$ -	\$ 3,621	\$ 132,367	\$ -
Loans and Notes Payable.....	3,607	-	-	3,607	9,801
Revenue Bonds Payable.....	34,965	-	14,870	49,835	-
Workers' Compensation Liability.....	3,867	-	-	3,867	-
Capital Leases.....	11,750	-	701	12,451	-
Compensated Absences Payable.....	94,760	-	8,765	103,525	3,754
Advances from Other Funds.....	-	-	-	-	4,700
Federal Student Loan Financing.....	32,482	-	-	32,482	-
Other Liabilities.....	3,242	-	-	3,242	-
Total Noncurrent Liabilities.....	\$ 313,419	\$ -	\$ 27,957	\$ 341,376	\$ 18,255
Total Liabilities.....	\$ 534,059	\$ 304,298	\$ 72,808	\$ 911,165	\$ 122,207
NET ASSETS					
Invested in Capital Assets, Net of Related Debt.....	\$ 854,354	\$ -	\$ 18,450	\$ 872,804	\$ 5,581
Restricted for:					
Unemployment Benefits.....	\$ -	\$ 14,979	\$ -	\$ 14,979	\$ -
Donations.....	7,614	-	-	7,614	-
Perkins Loans.....	4,078	-	-	4,078	-
Bond Covenants.....	26,869	-	-	26,869	-
Debt Service.....	14,156	-	-	14,156	-
Capital Projects.....	12,439	-	-	12,439	-
Faculty Contracts.....	4,301	-	-	4,301	-
Legislatively Mandated Purposes.....	1,855	-	-	1,855	-
Total Restricted.....	\$ 71,312	\$ 14,979	\$ -	\$ 86,291	\$ -
Unrestricted.....	\$ 160,650	\$ -	\$ 58,147	\$ 218,797	\$ 109,862
Total Net Assets.....	\$ 1,086,316	\$ 14,979	\$ 76,597	\$ 1,177,892	\$ 115,443

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees.....	\$ 556,328	\$ -	\$ -	\$ 556,328	\$ -
Net Sales.....	-	-	423,196	423,196	8,943
Rental and Service Fees.....	-	-	109,832	109,832	128,228
Insurance Premiums.....	-	760,275	22,561	782,836	473,659
Federal Revenues.....	165,993	132,503	-	298,496	-
State Grants.....	58,016	-	-	58,016	-
Other Income.....	21,794	45,910	3,809	71,513	6,214
Total Operating Revenues.....	\$ 802,131	\$ 938,688	\$ 559,398	\$ 2,300,217	\$ 617,044
Less: Cost of Goods Sold.....	-	-	290,325	290,325	5,571
Gross Margin.....	\$ 802,131	\$ 938,688	\$ 269,073	\$ 2,009,892	\$ 611,473
Operating Expenses:					
Purchased Services.....	\$ 147,363	\$ -	\$ 20,068	\$ 167,431	\$ 117,081
Salaries and Fringe Benefits.....	922,014	-	96,030	1,018,044	41,297
Student Financial Aid.....	76,014	-	-	76,014	-
Unemployment Benefits.....	-	918,839	-	918,839	-
Claims.....	-	-	17,103	17,103	392,169
Depreciation.....	67,753	-	3,118	70,871	10,111
Amortization.....	-	-	71	71	85
Supplies and Materials.....	73,116	-	5,165	78,281	7,084
Repairs and Maintenance.....	34,466	-	-	34,466	-
Indirect Costs.....	-	-	9,413	9,413	2,540
Other Expenses.....	46,436	-	8,757	55,193	13,223
Total Operating Expenses.....	\$ 1,367,162	\$ 918,839	\$ 159,725	\$ 2,445,726	\$ 583,590
Operating Income (Loss).....	\$ (565,031)	\$ 19,849	\$ 109,348	\$ (435,834)	\$ 27,883
Nonoperating Revenues (Expenses):					
Investment Income.....	\$ 3,975	\$ 11,144	\$ 1,087	\$ 16,206	\$ 1,699
Private Grants.....	13,704	-	-	13,704	-
Grants and Subsidies.....	2,051	-	-	2,051	-
Securities Lending Income.....	177	-	-	177	132
Other Nonoperating Revenues.....	-	-	735	735	57
Interest and Financing Costs.....	(9,383)	(12,820)	(1,608)	(23,811)	(867)
Grants, Aids and Subsidies.....	(9,272)	-	-	(9,272)	-
Securities Lending Rebates and Fees.....	(170)	-	-	(170)	(127)
Other Nonoperating Expenses.....	-	-	(2,807)	(2,807)	(3,668)
Gain (Loss) on Disposal of Capital Assets.....	1,704	-	(30)	1,674	(377)
Total Nonoperating Revenues (Expenses).....	\$ 2,786	\$ (1,676)	\$ (2,623)	\$ (1,513)	\$ (3,151)
Income (Loss) Before Transfers & Contributions.....	\$ (562,245)	\$ 18,173	\$ 106,725	\$ (437,347)	\$ 24,732
Capital Contributions.....	64,792	-	256	65,048	-
Transfers-In.....	559,631	-	5,295	564,926	-
Transfers-Out.....	-	(55,625)	(102,711)	(158,336)	(14,411)
Change in Net Assets.....	\$ 62,178	\$ (37,452)	\$ 9,565	\$ 34,291	\$ 10,321
Net Assets, Beginning, as Reported.....	\$ 1,024,138	\$ 52,431	\$ 67,032	\$ 1,143,601	\$ 105,122
Net Assets, Ending.....	\$ 1,086,316	\$ 14,979	\$ 76,597	\$ 1,177,892	\$ 115,443

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers.....	\$ 583,345	\$ 718,743	\$ 550,625	\$ 1,852,713	\$ 611,998
Receipts from Grants.....	222,493	137,162	-	359,655	-
Receipts from Other Revenue.....	-	-	1,995	1,995	6,377
Receipts from Repayment of Program Loans.....	6,968	-	-	6,968	-
Financial Aid Disbursements.....	(75,273)	-	-	(75,273)	-
Payments to Claimants.....	-	(938,988)	(16,950)	(955,938)	(385,502)
Payments to Suppliers.....	(307,417)	-	(97,796)	(405,213)	(154,683)
Payments to Employees.....	(902,845)	-	(101,831)	(1,004,676)	(40,582)
Payments to Others.....	-	-	(229,288)	(229,288)	(1,606)
Payments of Program Loans.....	(8,113)	-	-	(8,113)	-
Net Cash Flows from Operating Activities.....	\$ (480,842)	\$ (83,083)	\$ 106,755	\$ (457,170)	\$ 36,002
Cash Flows from Noncapital Financing Activities:					
Grant Receipts.....	\$ 13,704	\$ -	\$ -	\$ 13,704	\$ -
Transfers-In.....	559,631	-	5,295	564,926	-
Transfers-Out.....	(452)	(46,511)	(104,608)	(151,571)	(14,411)
Advances to Other Funds.....	-	-	(10)	(10)	-
Advances from Other Funds.....	-	801,522	-	801,522	5,300
Repayments of Advances from Other Funds.....	-	(670,659)	-	(670,659)	(6,284)
Interest Paid.....	-	(3,532)	-	(3,532)	-
Other Nonoperating Expense.....	(9,272)	-	(3,371)	(12,643)	(4,670)
Net Cash Flows from Noncapital Financing Activities.....	\$ 563,611	\$ 80,820	\$ (102,694)	\$ 541,737	\$ (20,065)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions.....	\$ 64,793	\$ -	\$ -	\$ 64,793	\$ 23
Investment in Capital Assets.....	(148,150)	-	(3,261)	(151,411)	(8,677)
Proceeds from Disposal of Capital Assets.....	183	-	195	378	2,339
Proceeds from Capital Debt.....	24,207	-	-	24,207	-
Proceeds from Insurance Settlement.....	3,314	-	-	3,314	-
Proceeds from Loans.....	1,848	-	-	1,848	7,223
Capital Lease Payments.....	(2,891)	-	(273)	(3,164)	(59)
Repayment of Loan Principal.....	(1,574)	-	-	(1,574)	(11,863)
Repayment of Bond Principal.....	(10,476)	-	(522)	(10,998)	-
Interest Paid.....	(9,755)	-	(1,547)	(11,302)	(828)
Net Cash Flows from Capital and Related Financing Activities.....	\$ (78,501)	\$ -	\$ (5,408)	\$ (83,909)	\$ (11,842)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments.....	\$ 4,876	\$ -	\$ 3,467	\$ 8,343	\$ 4,996
Purchase of Investments.....	(6,216)	-	-	(6,216)	(5,229)
Investment Earnings.....	3,985	11,768	1,107	16,860	2,943
Net Cash Flows from Investing Activities.....	\$ 2,645	\$ 11,768	\$ 4,574	\$ 18,987	\$ 2,710
Net Increase (Decrease) in Cash and Cash Equivalents.....	\$ 6,913	\$ 9,505	\$ 3,227	\$ 19,645	\$ 6,805
Cash and Cash Equivalents, Beginning, as Reported.....	\$ 417,109	\$ 48	\$ 72,531	\$ 489,688	\$ 137,858
Cash and Cash Equivalents, Ending.....	\$ 424,022	\$ 9,553	\$ 75,758	\$ 509,333	\$ 144,663

STATE OF MINNESOTA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss).....	\$ (565,031)	\$ 19,849	\$ 109,348	\$ (435,834)	\$ 27,883
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation.....	\$ 67,753	\$ -	\$ 3,493	\$ 71,246	\$ 10,111
Amortization.....	-	-	71	71	85
Loan Principal Repayments.....	6,968	-	-	6,968	-
Loans Issued.....	(8,113)	-	-	(8,113)	-
Bad Debt Expense.....	859	-	-	859	-
Change in Valuation of Assets.....	(10,866)	-	349	(10,517)	-
Change in Assets and Liabilities:					
Accounts Receivable.....	(3,419)	(93,861)	(3,715)	(100,995)	6,745
Inventories.....	(1,468)	-	(200)	(1,668)	183
Other Assets.....	-	-	1,233	1,233	(353)
Accounts Payable.....	10,889	(10,996)	(4,698)	(4,805)	(8,663)
Compensated Absences Payable.....	11,082	-	711	11,793	(64)
Unearned Revenues.....	8,150	1,925	(660)	9,415	78
Other Liabilities.....	2,354	-	823	3,177	(3)
Net Reconciling Items to be Added to (Deducted from) Operating Income.....	\$ 84,189	\$ (102,932)	\$ (2,593)	\$ (21,336)	\$ 8,119
Net Cash Flows from Operating Activities.....	\$ (480,842)	\$ (83,083)	\$ 106,755	\$ (457,170)	\$ 36,002
Noncash Investing, Capital and Financing Activities:					
Donated Assets.....	\$ 1,134	\$ -	\$ -	\$ 1,134	\$ -
Change in Fair Value of Investments.....	177	-	-	177	-
Capital Assets Acquired Through Leases.....	5,670	-	-	5,670	-
Capital Assets Purchased on Account.....	13,523	-	-	13,523	-
Disposal of Capital Assets.....	2,216	-	-	2,216	1,975
Accrual of Computer Equipment as an Investment in Capital Assets.....	-	-	-	-	457
Trade-in Allowance for Investment in Capital Assets.....	-	-	-	-	116
Change in Capital Asset Threshold.....	-	-	-	-	(2,258)

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	INVESTMENT TRUST		
	PENSION TRUST	SUPPLEMENTAL RETIREMENT	AGENCY
ASSETS			
Cash and Cash Equivalents.....	\$ 78,630	\$ -	\$ 45,614
Investment Pools, at fair value:			
Cash Equivalent Investments.....	\$ 2,818,920	\$ 29,762	\$ -
Investments:			
Commercial Paper.....	\$ 49,204	\$ 381	\$ -
US Treasury Obligations.....	1,756,162	15,288	-
Mortgage Backed.....	4,271,989	46,787	-
Corporate Obligations.....	2,647,156	53,427	-
Foreign and Other Obligations.....	127,484	1,029	-
Corporate Stocks.....	24,705,697	298,657	-
Other Equity.....	3,123,285	-	-
Total Investments.....	\$ 36,680,977	\$ 415,569	\$ -
Accrued Interest and Dividends.....	\$ 106,520	\$ 1,543	\$ -
Securities Trades Receivables (Payables).....	(1,276,348)	(9,804)	-
Total Investment Pool Participation.....	\$ 38,330,069	\$ 437,070	\$ -
Receivables:			
Employer Contributions.....	\$ 10,985	\$ -	\$ -
Member Contributions.....	6,208	-	-
Accounts Receivable.....	-	-	8,995
Interfund Receivables.....	6,559	-	-
Other Receivables.....	44,582	-	-
Accrued Interest and Dividends.....	447	-	-
Total Receivables.....	\$ 68,781	\$ -	\$ 8,995
Securities Lending Collateral.....	\$ 4,198,860	\$ 38,412	\$ -
Depreciable Capital Assets (Net).....	29,882	-	-
Nondepreciable Capital Assets.....	429	-	-
Total Assets.....	\$ 42,706,651	\$ 475,482	\$ 54,609
LIABILITIES			
Accounts Payable.....	\$ 12,928	\$ 73	\$ 28,797
Interfund Payables.....	6,559	-	-
Unearned Revenue.....	10	-	-
Accrued Expense.....	41	-	-
Revenue Bonds Payable.....	27,650	-	-
Bond Interest.....	79	-	-
Compensated Absences Payable.....	1,703	-	-
Securities Lending Collateral.....	4,198,860	38,412	-
Funds Held in Trust.....	-	-	25,812
Total Liabilities.....	\$ 4,247,830	\$ 38,485	\$ 54,609
Net Assets Held in Trust for Pension Benefits and Pool Participants.....	\$ 38,458,821	\$ 436,997	\$ -

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)**

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT
Additions:		
Contributions:		
Employer.....	\$ 575,418	\$ -
Member.....	745,165	-
Contributions From Other Sources.....	10,289	-
Participating Plans.....	-	40,324
Total Contributions.....	<u>\$ 1,330,872</u>	<u>\$ 40,324</u>
Net Investment Income:		
Investment Income.....	\$ 5,581,745	\$ 53,189
Less: Investment Expense.....	(49,632)	(237)
Net Investment Income.....	<u>\$ 5,532,113</u>	<u>\$ 52,952</u>
Securities Lending Revenues (Expenses):		
Securities Lending Income.....	\$ 44,516	\$ 293
Borrower Rebates.....	(28,438)	(207)
Management Fees.....	(3,739)	-
Net Securities Lending Revenue.....	<u>\$ 12,339</u>	<u>\$ 86</u>
Total Investment Income.....	<u>\$ 5,544,452</u>	<u>\$ 53,038</u>
Transfers From Other Funds.....	\$ 8,001	\$ -
Other Additions.....	21,396	-
Total Additions.....	<u>\$ 6,904,721</u>	<u>\$ 93,362</u>
Deductions:		
Benefits.....	\$ 2,343,326	\$ -
Refunds/Withdrawals.....	793,077	46,031
Administrative Expenses.....	38,863	-
Transfers to Other Funds.....	8,001	-
Total Deductions.....	<u>\$ 3,183,267</u>	<u>\$ 46,031</u>
Net Increase (Decrease).....	<u>\$ 3,721,454</u>	<u>\$ 47,331</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning.....	<u>\$ 34,737,367</u>	<u>\$ 389,666</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending.....	<u>\$ 38,458,821</u>	<u>\$ 436,997</u>

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2003 and JUNE 30, 2004
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents.....	\$ 806,447	\$ 19,709	\$ 153,625	\$ 305,115	\$ 1,284,896
Investments.....	225,274	181,336	69,990	413,917	890,517
Accounts Receivable.....	3,122	22,334	210,886	64,257	300,599
Due from Other Governmental Units.....	-	6,110	-	-	6,110
Due from Primary Government.....	-	47,888	127,407	247	175,542
Accrued Investment/Interest Income.....	11,334	762	4,028	18,546	34,670
Federal Aid Receivable.....	-	-	-	903	903
Inventories.....	2,356	15,124	18,968	36	36,484
Deferred Costs.....	-	-	18,001	4,098	22,099
Loans and Notes Receivable.....	-	115	13,506	126,331	139,952
Securities Lending Collateral.....	-	60,339	214,233	27,114	301,686
Other Assets.....	-	930	18,165	1,138	20,233
Total Current Assets.....	\$ 1,048,533	\$ 354,647	\$ 848,809	\$ 961,702	\$ 3,213,691
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted.....	\$ 143,982	\$ 74,294	\$ 802	\$ 32,797	\$ 251,875
Investments-Restricted.....	159,809	19,533	-	18,310	197,652
Accounts Receivable-Restricted.....	-	33,115	-	2,028	35,143
Due from Primary Government-Restricted.....	-	6,343	-	-	6,343
Other Assets-Restricted.....	-	49,040	-	-	49,040
Investments.....	-	-	2,262,113	185,869	2,447,982
Accounts Receivable.....	-	-	136,725	267,645	404,370
Loans and Notes Receivable.....	1,413,897	27,565	56,657	1,559,073	3,057,192
Depreciable Capital Assets (Net).....	1,774	1,336,185	1,733,805	606	3,072,370
Nondepreciable Capital Assets.....	-	707,149	182,238	2,743	892,130
Other Assets.....	-	-	12,671	3,679	16,350
Total Noncurrent Assets.....	\$ 1,719,462	\$ 2,253,224	\$ 4,385,011	\$ 2,072,750	\$ 10,430,447
Total Assets.....	\$ 2,767,995	\$ 2,607,871	\$ 5,233,820	\$ 3,034,452	\$ 13,644,138
LIABILITIES					
Current Liabilities:					
Accounts Payable.....	\$ 16,527	\$ 72,449	\$ 195,769	\$ 17,300	\$ 302,045
Payable to Other Governmental Units.....	-	705	-	-	705
Due to Primary Government.....	-	-	4,915	23,708	28,623
Unearned Revenue.....	-	7,629	88,114	50,307	146,050
Accrued Bond Interest Payable.....	36,283	3,697	2,312	14,588	56,880
General Obligation Bonds Payable.....	-	76,882	244,355	-	321,237
Loans and Notes Payable.....	-	-	8,331	27	8,358
Revenue Bonds Payable.....	262,500	770	855	44,870	308,995
Grants Payable.....	-	-	-	2,998	2,998
Claims Payable.....	-	8,782	23,923	62,699	95,404
Compensated Absences Payable.....	129	2,345	55,357	35	57,866
Securities Lending Collateral.....	-	60,339	214,233	27,114	301,686
Other Liabilities.....	-	7,685	1,585	39	9,309
Total Current Liabilities.....	\$ 315,439	\$ 241,283	\$ 839,749	\$ 243,685	\$ 1,640,156
Noncurrent Liabilities:					
Accounts Payable-Restricted.....	\$ -	\$ 31,493	\$ 78,614	\$ -	\$ 110,107
Unearned Revenue-Restricted.....	-	93,366	-	-	93,366
Accrued Bond Interest Payable-Restricted.....	-	7,478	-	-	7,478
Due to Primary Government.....	-	-	57,009	46,423	103,432
Unearned Revenue.....	-	-	70,591	-	70,591
General Obligation Bonds Payable.....	-	809,972	344,189	-	1,154,161
Loans and Notes Payable.....	-	-	3,775	2,587	6,362
Revenue Bonds Payable.....	1,582,089	11,430	8,405	1,114,588	2,716,512
Claims Payable.....	-	13,013	12,955	397,301	423,269
Compensated Absences Payable.....	1,216	5,775	14,461	603	22,055
Funds Held in Trust.....	88,163	-	1,874	-	90,037
Other Liabilities.....	-	552	17,483	2,828	20,863
Total Noncurrent Liabilities.....	\$ 1,671,468	\$ 973,079	\$ 609,356	\$ 1,564,330	\$ 4,818,233
Total Liabilities.....	\$ 1,986,907	\$ 1,214,362	\$ 1,449,105	\$ 1,808,015	\$ 6,458,389
NET ASSETS					
Invested in Capital Assets,					
Net of Related Debt.....	\$ 1,774	\$ 1,324,245	\$ 1,204,372	\$ 869	\$ 2,531,260
Restricted-Expendable.....	779,314	119,298	1,440,502	1,014,219	3,353,333
Restricted-Nonexpendable.....	-	-	712,153	-	712,153
Unrestricted.....	-	(50,034)	427,688	211,349	589,003
Total Net Assets.....	\$ 781,088	\$ 1,393,509	\$ 3,784,715	\$ 1,226,437	\$ 7,185,749

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

COMPONENT UNIT FUNDS
 STATEMENT OF ACTIVITIES
 YEARS ENDED DECEMBER 31, 2003 AND JUNE 30, 2004
 (IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses.....	\$ 344,155	\$ 642,289	\$ 2,077,781	\$ 404,056	\$ 3,468,281
Program Revenues:					
Charges for Services.....	\$ 134,464	\$ 287,595	\$ 958,932	\$ 154,003	\$ 1,534,994
Operating Grants and Contributions.....	154,844	160,293	679,618	19,123	1,013,878
Capital Grants and Contributions.....	-	183,303	132,296	-	315,599
Net (Expense) Revenue.....	\$ (54,847)	\$ (11,098)	\$ (306,935)	\$ (230,930)	\$ (603,810)
General Revenues:					
Taxes.....	\$ -	\$ 190,590	\$ -	\$ -	\$ 190,590
Investment Income.....	-	6,337	42,245	39,481	88,063
Other Revenues.....	686	-	72,195	10,178	83,059
Total General Revenues.....	\$ 686	\$ 196,927	\$ 114,440	\$ 49,659	\$ 361,712
State Grants Not Restricted.....	\$ 35,069	\$ -	\$ 577,648	\$ 147,718	\$ 760,435
Total General Revenues, Grants.....	\$ 35,755	\$ 196,927	\$ 692,088	\$ 197,377	\$ 1,122,147
Change in Net Assets.....	\$ (19,092)	\$ 185,829	\$ 385,153	\$ (33,553)	\$ 518,337
Net Assets, Beginning, as Reported	\$ 800,180	\$ 1,207,680	\$ 3,399,562	\$ 1,259,990	\$ 6,667,412
Net Assets, Ending.....	\$ 781,088	\$ 1,393,509	\$ 3,784,715	\$ 1,226,437	\$ 7,185,749

The notes are an integral part of the financial statements.

These notes provide disclosures relevant to the basic financial statements on the preceding pages.

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements of the state of Minnesota (the state) have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" was issued in May 2002. The statement provides additional guidance on determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, the statement requires reporting, as a component unit, an affiliated organization that raises and holds significant economic resources almost entirely for the direct benefit of a governmental unit, its component units, or its constituents. The state implemented this statement during the fiscal year ended June 30, 2004. For 2004, the state as primary government did not have any organization that met the criteria of GASB Statement No. 39. The University of Minnesota (U of M) (major component unit) includes several foundations that meet these criteria.

Financial Reporting Entity of the State of Minnesota

This report includes the various state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota legislature or its constitutional officers. The state, a primary government, has also considered for inclusion all potential component units for which it may be financially accountable and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. GASB has established criteria for determining financial accountability. These criteria include the state's ability to appoint a voting majority of an organization's governing body, and either the state's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state. As required by GAAP, these financial statements include the state (the primary government) and its component units.

Discretely presented component units – These are entities that are legally separate from the state, but for which the state is financially accountable, or their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These component units are reported separately and identified separately in the note disclosures because of their separate legal status. The state does not have any blended component units.

Component units are classified as major or nonmajor depending on the component unit's significance relative to other component units and the nature and significance of the unit's relationship to the primary government. The Housing Finance Agency, Metropolitan Council, and the University of Minnesota are considered major component units for this report.

Component Units – The fund types of the individual discretely presented component units are available from the financial statements issued separately by the component units. All component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. HFA issues bonds in its own name.
- Metropolitan Council (MC) – MC is responsible for coordinating the planning and development of the seven-county metropolitan area. MC operates the public transit system and the regional sewage collection and treatment system. The governor appoints the council members. The regional administrator, appointed by the council, is responsible for the administration of council activities. MC includes the Metropolitan Sports Facilities Commission and the Metropolitan Radio Board as component units. The fiscal year for MC ends December 31.
- University of Minnesota (U of M) – The U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of the U of M's operating budget. The legislature elects the twelve-member board of regents, which governs the U of M, but the state does not have direct authority over the management of the university. The U of M includes several foundations as component units as required by GASB Statement No 39. The state has issued debt for U of M capital projects.
- Agricultural and Economic Development Board (AEDB) – AEDB provides services to state government by administering state programs for agricultural and economic development. AEDB has seven members, four of whom are commissioners of state departments. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.
- Higher Education Services Office (HESO) – HESO makes and guarantees loans to qualified post-secondary students. HESO provides the state grant and loan program services for which the state provides administrative funding. Revenue bonds are issued in HESO's name with limitations set by the legislature. The governor appoints all voting members of the board and the director of HESO.
- Minnesota Partnership for Action Against Tobacco (MPAAT) – MPAAT issues grants to health, community, and academic organizations throughout Minnesota in support of research and cessation activities that will encourage and help tobacco users quit. MPAAT is funded by tobacco lawsuit settlement proceeds. Although the state does not appoint a voting majority of MPAAT's governing board and is neither able to impose its will on MPAAT nor is there a potential financial benefit/burden to the state, the state feels that excluding MPAAT from the reporting entity would fail to provide a complete overview of tobacco settlement funds.
- Minnesota Technology, Incorporated (MTI) – MTI fosters long-term economic growth and job creation by stimulating innovation and the development of new products, services, and production processes through technology transfer, applied research, and technical assistance. The state's General Fund provides a significant portion of the funding for MTI.
- National Sports Center Foundation (NSCF) – NSCF is under contract with the Minnesota Amateur Sports Commission to operate the National Sports Center facility primarily for holding youth-oriented athletic and other non-athletic functions and events. NSCF is responsible for certain improvements to the facility and the operating costs of the facility. The commission appoints foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. The facility belongs to the state. The foundation's fiscal year ends December 31.
- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. A state agency provides administrative services to PFA. The state provides funding for PFA. The authority is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

- Rural Finance Authority (RFA) – RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program, and agricultural improvement program. The board of the authority consists of state department heads and members appointed by the governor. RFA is under the administrative control of the commissioner of agriculture who is a member of the board. The state has issued general obligation bond debt for RFA programs.
- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by a six-member board appointed by the state commissioner of the Department of Commerce. The commissioner enters into administrative contracts, sets premium rates, and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. WCARP's fiscal year ends December 31.

Because AEDB and RFA do not issue separately audited financial statements, the Basic Financial Statements for these nonmajor component units include a Statement of Revenues, Expenses, and Changes in Net Assets and a Statement of Cash Flows.

Complete financial statements of the discretely presented component units may be obtained from their respective administrative offices as follows:

Housing Finance Agency 400 Sibley Street Suite 300 St. Paul, Minnesota 55101	Minnesota Partnership for Action Against Tobacco Two Appletree Square, Suite 400 8011 34 th Avenue South Minneapolis, Minnesota 55425
Metropolitan Council Mears Park Centre 230 East 5 th Street St. Paul, Minnesota 55101	Minnesota Technology, Incorporated 111 3 rd Avenue South Minneapolis, Minnesota 55401
University of Minnesota 657A West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454	National Sports Center Foundation National Sports Center 1700 105 th Avenue Northeast Blaine, Minnesota 55449
Higher Education Services Office 1450 Energy Park Drive Suite 350 St. Paul, Minnesota 55108	Public Facilities Authority Department of Employment & Economic Development First National Bank Building 332 Minnesota Street, Suite E200 St. Paul, Minnesota 55101-1351
Workers' Compensation Assigned Risk Plan Park Glen Management Company 4500 Park Glen Road, Suite 410 Minneapolis, Minnesota 55416	

Related Entities – These are entities for which the state is accountable because the state appoints a voting majority of the board, but for which the state does not have financial accountability. The following are related entities not included in the reporting entity:

- Higher Education Facilities Authority – The governor appoints a majority of the board. The Authority can issue revenue bonds and notes in its name. The state has no statutory authority to affect the operations of the Authority.
- Joint Underwriting Association – The governor appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.
- Medical Malpractice Joint Underwriting Association – The governor appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.
- Metropolitan Airports Commission – The governor appoints a majority of the voting commissioners. The state has no statutory authority to directly affect the commission’s activities and operations. Holders of the commission’s debt instruments have no recourse against the state.
- State Fund Mutual Insurance Company – The governor appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments.
- Workers' Compensation Reinsurance Association – The governor appoints a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

The following organizations, which are part of the primary government, also prepare and publish their own financial reports, which may contain differences in presentation resulting from differing reporting emphasis. Copies of these financial reports may be obtained directly from each organization.

State Lottery 2645 Long Lake Road Roseville, Minnesota 55113	Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, Minnesota 55103
Public Employees Retirement Association 60 Empire Drive, Suite 200 St. Paul, Minnesota 55103	Teachers Retirement Association 60 Empire Drive, Suite 400 St. Paul, Minnesota 55103
State Board of Investment 60 Empire Drive Suite 355 St. Paul, Minnesota 55103	Minnesota State Colleges and Universities Financial Reporting Unit 500 Wells Fargo Place, 30 East 7 th Street St. Paul, Minnesota 55101

The financial statements available from the State Board of Investment report on the external investment pool (Supplemental Investment Fund).

Financial Reporting Structure of the State of Minnesota

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements focus and report on the state as a whole while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize primary activities as governmental or business-type.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the state as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state and its discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once in the function for which the expenses were made. General government expenses that benefit state agencies have not been allocated as indirect expenses to the various functions of the state, but are reported under the General Government function.

The focus of the government-wide statements is on financial information of the state as an entity and the change in the overall financial position of the state as a result of the activities of the fiscal year. Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis by column. The statement includes long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports on the degree to which the cost of each functional category (public safety and corrections, transportation, etc.) is supported by general government revenues (sales tax, income taxes, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues, and by operating and capital grants and contributions.

Program revenues must be directly associated with, or derived directly from, the function, or a business-type activity. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. Program revenues are applied against program expenses in the Statement of Activities to report the net cost of each program.

General revenues normally cover the net costs (program expenses less program revenues) of all activities. Taxes represent the majority of general revenues. Internally dedicated resources are reported as general revenues rather than program revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures as in the fund financial statements. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reduction of the related liabilities, rather than as expenditures.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, and agency). These assets are held for the benefit of others and cannot be used for activities or obligations of the government; therefore, the funds are excluded from the government-wide statements.

Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The emphasis in fund statements is on the major funds in the governmental or business-type categories. Nonmajor funds are summarized into single columns.

Governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual experience conforms to the budget. Because the governmental fund statements are presented using a different measurement focus and basis of accounting than used in the governmental column in the government-wide statements, a reconciliation is presented which explains the adjustments required to restate the fund-based financial statements for the government-wide governmental column.

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually, and nonmajor funds in the aggregate for governmental and enterprise funds.

Classification of Funds

The financial position and results of state operations are organized using individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The state uses fund accounting which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

Governmental Fund Types – These funds account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Most state operations are accounted for in this fund category. Included in this classification are:

- General Fund which accounts for all financial resources except those required to be accounted for in another fund.
- Special revenue funds which account for revenue sources that are restricted to expenditure for specific purposes (not including major capital projects).
- Capital project funds which account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or special revenue funds.
- Debt Service Fund which accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.
- Permanent Fund which accounts for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state has two major governmental funds. The General Fund is the principal operating fund used to account for most of the general activities of the state. The Federal Fund receives and disburses federal government grants and reimbursements.

Proprietary Fund Types – These funds focus on determining net income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are used in accounting for these funds. The fund types included in this category are the enterprise and internal service funds.

- Enterprise funds account for activities that charge a fee to external users for goods or services. Enterprise funds activities are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.
- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include employee insurance, travel management, risk management, central stores, plant management, central services such as administrative hearings and intertechnologies, which directs and supports the various automated systems of the state.

The state has two major enterprise funds. The State Colleges and Universities Fund accounts for the activities of Minnesota State Colleges and Universities (MnSCU). MnSCU, the largest higher education system in the state, is a system of public colleges and universities. The Unemployment Insurance Fund receives unemployment taxes collected from employers and pays unemployment benefits to eligible individuals.

Fiduciary Funds Types – These funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Pension, investment trust, and agency fund types are included in this fund category.

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- The Investment Trust Fund provides an investment vehicle for the assets of various public retirement plans and funds.
- The Agency Fund accounts for resources held in a custodial capacity for various other governmental units, private organizations, or individuals.

Basis of Accounting, Measurement Focus, and Fund Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by the measurement focus of each fund. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August to be available, and recognizes these receivables as revenues of the current year for fund financial statements prepared on the modified accrual basis. Federal revenues that are earned by incurring obligations are recognized in the same period as the recognition of the obligation with one exception. Trunk Highway Fund expenditures incurred by June 30, 2004, but not converted to Federal funding are reported as state funded expenditures. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

Proprietary, pension, and investment trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. The accrual basis of accounting is also used for contributions, benefits, and refunds paid for defined benefit and defined contribution pension plans.

Agency funds use the accrual basis of accounting, but do not have a measurement focus because agency funds do not recognize revenues and expenditures.

All enterprise funds, except the Workers' Compensation Assigned Risk Plan (WCARP) (component unit), follow applicable GASB guidance or Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with, or contradict, GASB pronouncements. WCARP has elected to follow all applicable FASB statements issued after November 30, 1989, that do not contradict GASB pronouncements.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expense, and depreciation of capital assets. All other revenues and expenses are reported as nonoperating items.

The following provides further detail on specific items regarding the modified accrual basis of accounting.

Revenues – Taxes on property, individual income, and sales, and federal grants are the major revenue sources susceptible to accrual. Tax revenues, excluding property taxes, are recognized in the period they become both measurable and available to finance expenditures of the current period. Measurable means that taxpayer liability is supported by sufficient documentation and can be reasonably estimated. The state's liability for anticipated refunds of such taxes are estimated and recorded as reductions in revenue in the period when the related tax is received. Revenues collected on an advance basis, including certain federal grant revenues to which the state does not yet have legal entitlement, are reported as deferred revenue until the related commitment arises, at which time revenue is recognized.

Laws of Minnesota Special Session 2001 established a state general tax (property tax) against commercial-industrial and seasonal recreational property. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. Levies are determined based on the formula contained in the laws. The state preliminarily certifies the state general levy rate to each county no later than November 1 of each year for taxes payable in the following calendar year. The state certifies the final state general tax levy on January 1 of each year to each county.

Property taxes are due to counties in two installments for each year – May 15 and October 15. The counties pay the state general tax to the state on three dates – June 30, December 1, and January 25 for any adjustments or changes. Local units of government, as agents for the state, assess the state general tax. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

Expenditures and Related Liabilities – Expenditures and related liabilities are recognized when fund obligations are incurred as a result of the receipt of the goods and services, except debt service, compensated absences, and claims and judgments, which are recorded when due. Grant expenditures are discussed separately.

Cash Equivalents and Investments

Cash Equivalents – Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash equivalents also include management pools and money market funds that are used essentially as demand deposit accounts.

Investments – Investments are reported at fair value. The basis for determining the fair value of investments that is not based on market quotations includes analysis of future cash flows, audited financial statements, and independent appraisals. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the Minnesota State Board of Investment. See Note 2 – Cash and Investments for additional information regarding cash and investments.

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. For the Trunk Highway Fund (special revenue fund), inventories are valued using the weighted-average cost. Inventories maintained by the various funds are determined by annual and periodic physical counts. Inventories of proprietary funds are valued using the first-in, first-out, average cost, and specific cost methods.

Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds as restricted net assets. The excess of restricted assets over liabilities payable from restricted assets will first be used for bonds payable.

Securities Lending

Securities on loan for cash collateral and the liabilities resulting from the security lending transactions are reported on the balance sheet. Securities lending income and rebate and management fees are reported separately on the Statement of Revenues, Expenditures and Changes in Fund Balances; the Statement of Revenues, Expenses and Changes in Net Assets; or the Statement of Changes in Net Assets, as appropriate for the particular fund type.

Income Tax Credits

The Minnesota Department of Revenue processes several types of tax credits as part of the individual income tax system. For financial reporting purposes, income tax credits that are limited by the amount of the individual's tax liability before considering such credits are reported as revenue reductions.

Credits that may be received even if they exceed the individual's tax liability are reported as expenditures because the essence of the transaction is payment of a grant using the income tax system as a filing and payment mechanism. The amount of the credit is not part of determining tax liability. These credits are Education, Working Family, and Child and Dependent Care.

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis. Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Reimbursement type grants may be awarded for specific services provided to eligible recipients, or may be made for eligible types of reimbursements. Grants paid on the reimbursement basis are recognized as expenditures and liabilities in the year in which the grantee incurs the costs of providing specific services to eligible recipients or makes eligible types of expenditures.

Compensated Absences

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. Leave balances are liquidated in cash only upon termination from state employment. For governmental funds, the current and noncurrent liabilities for compensated absences are reported only in the government-wide Statement of Net Assets. All other fund types report the liability for compensated absences as a liability of the specific fund.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than \$30,000 for equipment and \$300,000 for buildings, and an estimated useful life longer than one year.

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions. In accordance with GASB Statement No. 34, depreciation is reported on all assets other than works of art and historical treasures. The state capitol is considered a historical treasure.

Capital assets are depreciated using the straight-line method based on the following useful lives: 40-50 years for buildings, 20-50 years for large improvements, 3-10 years for small improvements, and 3-12 years for equipment.

For proprietary funds, depreciation expense reported on the Statement of Cash Flows exceeds depreciation expense reported on the Statement of Revenues, Expenses and Changes in Net Assets because a portion of depreciation expense is included in the cost of goods sold amount.

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets which reflects a reasonable value of the assets and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in notes to the Required Supplementary Information.

See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

For proprietary funds, assets are classified as current or noncurrent at fund level, but assets are not classified at the fund level for governmental funds. At the government-wide level, assets are classified as current or noncurrent for all funds. Current assets in the governmental funds are those, including cash, various receivables, and short-term investments, considered available for appropriation and expenditure. Current assets in proprietary funds are those that are available or can readily be made available to meet the cost of operating or to pay current liabilities. All other assets are considered noncurrent.

Noncurrent Liabilities

Long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, postretirement benefits, and arbitrage rebate requirements.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

See Note 12 – Long-Term Liabilities for further information.

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The plan is available to all public employees in the state and is administered by the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts or in qualifying contracts, as required by federal law.

As of February 29, 2004, the State Board of Investment (SBI) ceased managing investments included in the plan. As of June 30, 2004, various outside mutual funds manage the plan's investments. The activity reported in the statement of changes in net assets for the State Deferred Compensation Fund (fiduciary fund) covers the assets of the plan for investments provided by SBI through February 2004. The net assets held in trust as of June 30, 2004, as reported in the statement of net assets for the State Deferred Compensation Fund represent investments transferred to outside management after this date. Investments are reported at fair value. The assets of the plan managed by outside mutual funds are excluded from the state's financial statements because the funds are not under the state's control. The state is not liable for any investment losses under the plan.

Restricted Net Assets

GASB Statement No. 34 requires net assets to be reported as restricted when net asset use is constrained either externally by parties such as creditors or grantors, or legally through constitution provisions or enabling legislation. Restricted net assets were determined at the fund level. For a fund with more than one revenue stream, restricted net assets were determined by the materiality of any restricted revenues coming into the fund. When both restricted and unrestricted net assets are available for use, the state policy is to use restricted resources first.

Net Assets/Fund Balances

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balances" on governmental fund statements.

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are included in restricted for capital projects.

Budgeting and Budgetary Control

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations may be carried forward to the following year of the biennium. The governor's budget for the biennium is developed by the Department of Finance and presented to the legislature for approval. Specific appropriations are required for all expenditures from the General Fund and all special revenue funds except the Federal, Petroleum Tank Cleanup, Maximum Effort School Loan, Iron Range Resources and Rehabilitation, and Miscellaneous Special Revenue funds. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

Budgetary control is essentially maintained at the departmental level except for certain programs where control is at the program level. In most departments, upon notifying the governor and legislative leadership, department heads are permitted to revise budgets by transferring amounts between programs within their departments.

Standard practice is that unencumbered appropriation balances cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. There are no instances where expenditures exceed the authorized limits at the legal level of budgetary control. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from the Department of Finance.

See Note 20 – Budgetary Basis vs GAAP for additional information.

Interfund Activity and Balances

Generally, internal service fund activity has been eliminated from the government-wide statements. Internal service fund activity from external customers is reported under governmental activities in the government-wide statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for residual amounts between governmental and business-type activities.

See Note 5 – Interfund Transactions for additional information.

Change in Fund Structure

Primary Government

Laws of Minnesota 2003 revised the fund structure of environmental programs and created a new fund to regroup existing programs for correcting known pollution problems. The Remediation Fund was created to account for remediation programs previously reported in the Environmental and Solid Waste funds. The Environmental Fund was restructured to collect revenues related to items such as air and water quality, to fund programs for air and water quality and waste management, and to transfer funds to the Remediation Fund based on operating need. The Solid Waste Fund was eliminated with fund balance transferred to the new Remediation Fund and the restructured Environmental Fund.

Fund Name Change

Within the special revenue fund type, the Northeast Minnesota Economic Protection Fund was renamed the Douglas J. Johnson Economic Protection Trust Fund.

Valuation of School District Loans

Significant changes in the economy have affected school districts' ability to levy debt. These economic changes include increased property values and more favorable interest rates on debt. As a result, the collectibility of school district loans issued by the Maximum Effort School Loan Fund (special revenue fund) was reexamined. During the year ended June 30, 2004, loans previously written off as uncollectible were reinstated as collectible, resulting in negative expenditures of \$51,023,000 for the fund.

Deficit Net Assets

The State Printer Fund (internal service fund) reported deficit net assets of \$196,000. The operation of state print shops has been discontinued. The state disposed of print shop capital assets prior to June 30, 2004, and is continuing to close out financial activity of the fund.

Note 2 – Cash and Investments

Cash and Cash Equivalents

The majority of the primary government's cash is held in the state treasury and commingled in state bank accounts, while the majority of component unit cash is held in separate bank accounts. While cash in individual funds may be invested separately where permitted by statute, cash in most funds is invested as part of an investment pool. A fund's investment with the primary government's cash pools is reported as a cash equivalent. Investment earnings of the primary government's pools are allocated to the individual funds where provided by statute. Earnings for all other participants are credited to the General Fund.

The following table summarizes the state's cash and cash equivalents, including amounts reported as restricted assets at December 31, 2003, or June 30, 2004, whichever is applicable. Warrants outstanding is the amount of negotiable warrants issued by the state, but not presented for collection as of June 30, 2004.

Cash and Cash Equivalents As of June 30, 2004 (In Thousands)		
<u>Carrying Amount</u>	<u>Primary Government</u>	<u>Component Units</u>
Cash in Bank	\$ 95,540	\$ 63,006
Warrants Outstanding	(147,237)	-
Checks Outstanding	-	(23,788)
Cash on Hand and Imprest Cash	3,166	-
Cash with Fiscal Agent	2,666	10,620
Cash Equivalents:		
Cash Management Investment Pools	7,173,885	133,352
Other	<u>163,841</u>	<u>1,353,581</u>
Total Cash and Cash Equivalents ⁽¹⁾	<u>\$ 7,291,861</u>	<u>\$ 1,536,771</u>
⁽¹⁾ Includes fiduciary funds of \$2,972,926.		

Deposits

At June 30, 2004, the primary government's bank balance was \$91,392,000. For component units at December 31, 2003, or June 30, 2004, whichever is applicable, the bank balances were \$71,817,000. These bank balances were adjusted by items in transit to arrive at the state's cash in bank balance. Minnesota Statutes, Section 9.031, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Investments

The Minnesota State Board of Investment (SBI) manages the majority of the state's investing. Minnesota Statutes, Section 11A.24, broadly restricts investments of the primary government to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds. In accordance with Minnesota Statutes, SBI has the authority to enter into, and has entered into, derivative transactions including investment in derivatives of asset-backed and mortgage-backed securities, put and call options, and futures contracts traded on a market or exchange regulated by a governmental agency or by a financial institution regulated by a governmental agency. Investments in asset-backed and mortgage-backed derivatives are made to improve yield. They receive investment cash flows from interest and principal payments on underlying mortgages, and therefore the prices of mortgage derivatives are sensitive to mortgage prepayments caused by changing market conditions. Put options and index futures were used during the year to reduce risk. Any agreements for put and call options or futures contracts may only be entered into with a fully offsetting amount of cash or securities.

The following tables show the primary government's and component units' investments, including cash equivalents, at their carrying and fair values.

Primary Government – Investments	
As of June 30, 2004	
(In Thousands)	
<u>Investment Type</u>	<u>Fair Value</u>
Repurchase Agreements	\$ 767,067
Commercial Paper	2,987,125
Short-Term Corporate Notes	537,487
U.S. Treasury Obligations	1,902,732
Mortgage Backed	4,541,805
Corporate Obligations	2,921,380
Foreign and Other Obligations	196,433
Corporate Stocks	25,573,911
Other Equity	<u>3,118,965</u>
Total Investments in Risk Category 1	<u>\$ 42,546,905</u>
Trustee Managed Pools (Not Categorized)	<u>\$ 2,888,267</u>
Total Investments ⁽¹⁾	<u>\$ 45,435,172</u>
⁽¹⁾ Includes \$37,096,546 for fiduciary funds and \$7,337,726 of cash equivalents.	

Component Units
Investments at December 31, 2003 or June 30, 2004, As Applicable
(In Thousands)

<u>Investment Type</u>	<u>Risk 1</u>	<u>Risk 2</u>	<u>Fair Value</u>
Repurchase Agreements	\$ 125,907	\$ 19,533	\$ 145,440
Commercial Paper	266,953	-	266,953
Short Term Corporate Notes	37,338	-	37,338
U.S. Treasury Obligations	1,208,485	-	1,208,485
Mortgage Backed	305,665	-	305,665
Corporate Obligations	982,744	-	982,744
Municipal and Other Obligations	66,305	-	66,305
Corporate Stocks	710,399	-	710,399
Other Equity	564,931	-	564,931
Total Investments	<u>\$ 4,268,727</u>	<u>\$ 19,533</u>	<u>\$ 4,288,260</u>
Trustee Managed Pools/Mutual Funds	-	-	734,824
Total Investments ⁽¹⁾	<u>\$ 4,268,727</u>	<u>\$ 19,533</u>	<u>\$ 5,023,084</u>

⁽¹⁾Includes \$1,486,933 of cash equivalents.

Risk category 1 includes securities which are insured or registered or are held by the government or its agent in the government's name. Risk category 2 investments include uninsured and unregistered securities held by the counter party's trust department or agent in the government's name. Investments in risk category 3 include uninsured and unregistered securities held by the counter party or by its trust department or agent, but not in the government's name.

Minnesota statutes do not prohibit the state from participating in securities lending transactions. The state has, by way of Custodial Trust Agreements, authorized State Street Bank and Trust Company (State Street) and Wells Fargo Bank, Minnesota, N.A., (Wells Fargo) to act as agents in lending state securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, State Street and Wells Fargo lent on behalf of the state, certain securities held by State Street or Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than one hundred percent (100%) of the fair value of the loaned securities.

The state did not impose any restrictions during the fiscal year on the amount of the loans that either State Street or Wells Fargo made on the state's behalf. State Street and Wells Fargo indemnified the state by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year. In addition, there were no losses during the fiscal year resulting from default of the borrowers.

During the fiscal year, the state and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of SBI.

Primary Government Securities Lending Analysis As of June 30, 2004 (In Thousands)		
	<u>Wells Fargo</u>	<u>State Street</u>
Fair Value of Securities on Loan	\$ 636,644	\$ 4,552,158
Collateral Held	\$ 663,622	\$ 4,668,704
Average Duration	24 days	52 days
Average Weighted Maturity	24 days	344 days

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

Funds not invested by SBI are primarily Minnesota State Colleges and Universities' funds. Investments for these funds must also conform to the above statutes and may be further restricted by bond indentures.

The University of Minnesota and the Metropolitan Council (major component units) were engaged in separate securities lending programs during the fiscal year and calendar year, respectively. Their separately issued financial statements disclose the facts regarding those programs. Neither had a credit risk at year-end.

Note 3 – Disaggregation of Receivables

The following are the components of net accounts receivable as reported in the government-wide Statement of Net Assets as of June 30, 2004:

Components of Net Receivables				
As of June 30, 2004				
(In Thousands)				
	<u>Governmental Activities</u>			<u>Total</u>
	<u>General Fund</u>	<u>Federal Fund</u>	<u>Nonmajor Governmental Funds⁽¹⁾</u>	
Taxes:				
Corporate and Individual	\$ 395,918	\$ -	\$ -	\$ 395,918
Sales and Use	322,552	-	-	322,552
Property	283,025	-	-	283,025
Health Care Provider	152,145	-	59,716	211,861
Highway Users	-	-	78,371	78,371
Other	8,216	-	-	8,216
Child Support	180,576	181,258	-	361,834
Workers' Compensation	-	-	110,264	110,264
Other	179,389	45,885	89,936	315,210
Net Receivables	\$ 1,521,821	\$ 227,143	\$ 338,287	\$ 2,087,251
Business-type Activities				
	<u>State Colleges and Universities</u>	<u>Unemployment Insurance</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
Unemployment Insurance	\$ -	\$ 306,512	\$ -	\$ 306,512
Tuition and Fees	31,485	-	-	31,485
Other	-	-	24,956	24,956
Net Receivables	\$ 31,485	\$ 306,512	\$ 24,956	\$ 362,953
Total Government-wide Net Receivables				\$ 2,450,204
⁽¹⁾ Includes \$7,909 Internal Service Funds.				

Accounts receivable are reported net of allowances for uncollectible amounts. Significant uncollectible amounts are:

- Corporate and Individual Taxes \$186,290,000
- Sales and Use Taxes \$50,742,000
- Child Support \$284,394,000
- Other Receivables \$86,095,000

Significant receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes \$85,423,000
- Sales and Use Taxes \$11,370,000
- Child Support \$296,342,000
- Health Care Provider \$53,097,000
- Other Receivables \$24,346,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2004, consisted of the following:

Primary Government Loans and Notes Receivable As of June 30, 2004 (In Thousands)				
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>
Student Loan Program	\$ -	\$ -	\$ -	\$ 36,322
Economic Development	51,116	42,188	38,680	-
School Districts	-	106,810	-	-
Energy	-	-	2,815	-
Agricultural	384	44,542	-	-
Transportation	-	26,044	-	-
Resources	497	2,010	-	-
Other	-	13,121	30	-
Total	<u>\$ 51,997</u>	<u>\$ 234,715</u>	<u>\$ 41,525</u>	<u>\$ 36,322</u>

Component Units Loans and Notes Receivable As of June 30, 2004 (In Thousands)	
Housing Finance Authority	\$ 1,413,897
Metropolitan Council	27,680
University of Minnesota	70,163
Agricultural and Economic Development Board	24,845
Higher Education Services Office	490,176
Public Facilities Authority	1,125,070
Rural Finance Authority	45,313
Total	<u>\$ 3,197,144</u>

Note 5 – Interfund Transactions

Primary Government

During normal operations, the state processes routine transactions between funds, including loans, expenditures, and transfers of resources for administrative and program services, debt service, and compliance with legal mandates.

In the fund statements, these transactions are generally recorded as transfers in/transfers out and due to/due from other funds. Transfers generally represent legally authorized transfers between funds authorized to receive revenue and funds authorized to make expenditures, and do not represent reimbursement of expenditures.

Interfund Receivables and Payables As of June 30, 2004 (In Thousands)	
Due to the General Fund From:	
Federal Fund	\$ 130,156
Nonmajor Governmental Funds	54,307
Nonmajor Enterprise Funds	9,192
Total Due to General Fund From Other Funds	<u>\$ 193,655</u>
Due to the Federal Fund From:	
Nonmajor Governmental Funds	\$ 4,516
Total Due to Federal Fund From Other Funds	<u>\$ 4,516</u>
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	\$ 14,156
Total Due to State Colleges and Universities From Other Funds	<u>\$ 14,156</u>
Due to Nonmajor Enterprise Funds From:	
Internal Service Funds	\$ 467
Total Due to Nonmajor Enterprise Funds Other Funds	<u>\$ 467</u>
Due to Internal Service Funds From:	
Internal Service Funds	\$ 27
Total Due to Internal Service Funds From Other Funds	<u>\$ 27</u>
Due to the Fiduciary Funds From:	
Fiduciary Funds	\$ 6,559
Total Due to Fiduciary Funds From Other Fiduciary Funds	<u>\$ 6,559</u>
Due to the Nonmajor Governmental Funds From:	
General Fund	\$ 36,204
Federal Fund	12,367
Unemployment Insurance	14,089
Nonmajor Governmental Funds	70,127
Nonmajor Enterprise Funds	4,848
Internal Services Funds	90
Total Due to Nonmajor Governmental Funds From Other Funds	<u>\$ 137,725</u>

The Central Motor Pool Fund had an outstanding advance of \$4,700,000 from the General Fund as of June 30, 2004. This advance is not expected to be repaid within one year.

**Interfund Transfers
Year Ended June 30, 2004
(In Thousands)**

Transfers to the General Fund From:	
Federal Fund	\$ 21,268
Nonmajor Governmental Funds	1,154,372
Nonmajor Enterprise Funds	55,473
Internal Service Funds	6,711
Total Transfers to General Fund From Other Funds	<u>\$ 1,237,824</u>
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	\$ 73
Nonmajor Governmental Funds	157
Total Transfers to Federal Fund From Other Funds	<u>\$ 230</u>
Transfers to the State Colleges and Universities Fund From:	
General Fund	\$ 559,631
Nonmajor Governmental Funds – Capital Contributions	64,792
Total Transfers to State Colleges and Universities From Other Funds	<u>\$ 642,423</u>
Transfers to the Fiduciary Funds From:	
Other Fiduciary Funds	\$ 8,001
Total Transfers to Fiduciary Funds From Other Funds	<u>\$ 8,001</u>
Transfers to the Nonmajor Governmental Funds From:	
General Fund	\$ 456,585
Federal Fund	20,012
Unemployment Insurance Fund	55,552
Nonmajor Governmental Funds	1,405,271
Nonmajor Enterprise Funds	47,238
Internal Service Funds	7,700
Total Transfers to Nonmajor Governmental Funds From Other Funds	<u>\$ 1,992,358</u>
Transfers to the Nonmajor Enterprise Funds From:	
Nonmajor Governmental Funds	\$ 5,295
Total Transfers to Nonmajor Enterprise Funds From Other Funds	<u>\$ 5,295</u>

The following one-time transfers to the General Fund are included in the previous table. These transfers were processed as part of the solution to balance the state's budget.

- \$573,087,000 from the Medical Education and Research Fund
- \$456,344,000 from the Tobacco Use Prevention Fund

Component Units

Receivables and payables at June 30, 2004, between the primary government and component units, are summarized as follows:

Primary Government and Component Units Receivables and Payables As of June 30, 2004 (In Thousands)		
	<u>Due From Primary Government</u>	<u>Due To Primary Government</u>
Component Units		
Major Component Units		
Metropolitan Council	\$ 54,231	\$ -
University of Minnesota	<u>127,407</u>	<u>61,924</u>
Total Major Component Units	\$ 181,638	\$ 61,924
Nonmajor Component Units	<u>\$ 247</u>	<u>\$ 70,131</u>
Total Component Units	<u>\$ 181,885</u>	<u>\$ 132,055</u>
	<u>Due From Component Units</u>	<u>Due To Component Units</u>
Primary Government		
Major Governmental Funds:		
General Fund	\$ -	\$ 101,083
Federal Fund	<u>-</u>	<u>2,591</u>
Total Major Governmental Funds	\$ -	\$ 103,674
Nonmajor Governmental Funds	<u>\$ 122,347</u>	<u>\$ 38,324</u>
Total Primary Government	<u>\$ 122,347</u>	<u>\$ 141,998</u>

Due to primary government exceeds due from component units by \$9,708,000 for amounts owed to the primary government by Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation because the fiscal year end used by the component units differs from the primary government. The rationale is the same for due from primary government exceeding due to component units by \$39,887,000.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity				
Year Ended June 30, 2004 (In Thousands)				
	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities:				
Capital Assets not Depreciated:				
Land	\$ 1,378,064	\$ 86,283	\$ (1,256)	\$ 1,463,091
Buildings, Structures, Improvements	20,263	-	(224)	20,039
Construction in Progress	198,185	83,551	(156,090)	125,646
Infrastructure	4,620,135	504,287	(10,473)	5,113,949
Art and Historical Treasures	100	-	-	100
Total Capital Assets not Depreciated	<u>\$ 6,216,747</u>	<u>\$ 674,121</u>	<u>\$ (168,043)</u>	<u>\$ 6,722,825</u>
Capital Assets Depreciated:				
Buildings, Structures, Improvements	\$ 1,393,620	\$ 153,325	\$ (2,079)	\$ 1,544,866
Infrastructure	41,670	2,615	-	44,285
Equipment, Furniture, Fixtures	357,690	35,924	(31,605)	362,009
Total Capital Assets Depreciated	<u>\$ 1,792,980</u>	<u>\$ 191,864</u>	<u>\$ (33,684)</u>	<u>\$ 1,951,160</u>
Accumulated Depreciation for:				
Buildings, Structures, Improvements	\$ (584,518)	\$ (31,201)	\$ 1,958	\$ (613,761)
Infrastructure	(3,458)	(5)	-	(3,463)
Equipment, Furniture, Fixtures	(224,208)	(30,758)	25,031	(229,935)
Total Accumulated Depreciation	<u>\$ (812,184)</u>	<u>\$ (61,964)</u>	<u>\$ 26,989</u>	<u>\$ (847,159)</u>
Total Capital Assets Depreciated, Net	<u>\$ 980,796</u>	<u>\$ 129,900</u>	<u>\$ (6,695)</u>	<u>\$ 1,104,001</u>
Governmental Act. Capital Assets, Net	<u>\$ 7,197,543</u>	<u>\$ 804,021</u>	<u>\$ (174,738)</u>	<u>\$ 7,826,826</u>
Business-type Activities:				
Capital Assets not Depreciated:				
Land	\$ 59,664	\$ 12,398	\$ -	\$ 72,062
Construction in Progress	82,354	119,081	(110,190)	91,245
Total Capital Assets not Depreciated	<u>\$ 142,018</u>	<u>\$ 131,479</u>	<u>\$ (110,190)</u>	<u>\$ 163,307</u>
Capital Assets Depreciated:				
Buildings	\$ 1,437,924	\$ 124,963	\$ -	\$ 1,562,887
Library Collections	42,878	6,945	(4,643)	45,180
Improvements, Other than Buildings	16,779	186	(450)	16,515
Equipment, Furniture, Fixtures	291,045	15,983	(24,475)	282,553
Total Capital Assets Depreciated	<u>\$ 1,788,626</u>	<u>\$ 148,077</u>	<u>\$ (29,568)</u>	<u>\$ 1,907,135</u>
Accumulated Depreciation for:				
Buildings	\$ (739,239)	\$ (41,491)	\$ 361	\$ (780,369)
Library Collections	(22,875)	(7,025)	5,218	(24,682)
Improvements, Other than Buildings	(2,082)	(424)	369	(2,137)
Equipment, Furniture, Fixtures	(188,968)	(21,931)	20,371	(190,528)
Total Accumulated Depreciation	<u>\$ (953,164)</u>	<u>\$ (70,871)</u>	<u>\$ 26,319</u>	<u>\$ (997,716)</u>
Total Capital Assets Depreciated, Net	<u>\$ 835,462</u>	<u>\$ 77,206</u>	<u>\$ (3,249)</u>	<u>\$ 909,419</u>
Business-type Act. Capital Assets, Net	<u>\$ 977,480</u>	<u>\$ 208,685</u>	<u>\$ (113,439)</u>	<u>\$ 1,072,726</u>
Fiduciary Funds:				
Capital Assets not Depreciated:				
Land	\$ 429	\$ -	\$ -	\$ 429
Total Capital Assets not Depreciated	<u>\$ 429</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429</u>
Capital Assets Depreciated:				
Buildings	\$ 29,745	\$ 74	\$ (272)	\$ 29,547
Equipment, Furniture, Fixtures	5,959	840	(56)	6,743
Total Capital Assets Depreciated	<u>\$ 35,704</u>	<u>\$ 914</u>	<u>\$ (328)</u>	<u>\$ 36,290</u>
Accumulated Depreciation for:				
Buildings	\$ (1,537)	\$ (676)	\$ -	\$ (2,213)
Equipment, Furniture, Fixtures	(3,569)	(681)	55	(4,195)
Total Accumulated Depreciation	<u>\$ (5,106)</u>	<u>\$ (1,357)</u>	<u>\$ 55</u>	<u>\$ (6,408)</u>
Total Capital Assets Depreciated, Net	<u>\$ 30,598</u>	<u>\$ (443)</u>	<u>\$ (273)</u>	<u>\$ 29,882</u>
Fiduciary Funds, Capital Assets, Net	<u>\$ 31,027</u>	<u>\$ (443)</u>	<u>\$ (273)</u>	<u>\$ 30,311</u>

Art and historical treasures are reported as capital assets that are not depreciated.

Depreciation expense was charged to functions/programs of the primary government as follows:

Primary Government Depreciation Expense Year Ended June 30, 2004 (In Thousands)	
Governmental Activities:	
Public Safety and Corrections	\$ 13,594
Transportation	14,558
Agricultural and Environmental Resources	3,183
Economic and Workforce Development	902
General Education	2,924
Higher Education	-
Health and Human Services	10,626
General Government	5,981
Internal Service Funds	<u>10,196</u>
Total Governmental Activities	<u>\$ 61,964</u>
Business-type Activities:	
State Colleges and Universities	\$ 67,753
Unemployment Insurance	-
Lottery	538
Other	<u>2,580</u>
Total Business-type Activities	<u>\$ 70,871</u>

Capital outlay expenditures in the governmental funds totaled \$701,372,000 for fiscal year 2004. Donations of general capital assets received during fiscal year 2004 were valued at \$633,000. Transfers from construction in progress to completed construction were \$155,044,000. Increases in internal service funds were \$8,918,000 and the Permanent School Fund increased by \$18,000.

General capital assets purchased with resources provided by outstanding capital lease agreements at June 30, 2004, consisted of equipment with a cost of \$62,356,820.

Authorizations and commitments as of June 30, 2004, for the largest construction in progress projects consisted of the following (in thousands):

	<u>Administration Projects</u>	<u>Amateur Sports</u>	<u>Correctional Facilities</u>	<u>Human Services</u>	<u>Transportation</u>
Authorization	\$ 76,485	\$ 5,000	\$ 10,450	\$ 3,619	\$ 7,000
Expended through June 30, 2004	26,869	-	5,918	70	4,341
Unexpended Commitment	<u>43,705</u>	<u>946</u>	<u>744</u>	<u>182</u>	<u>-</u>
Available Authorization	<u>\$ 5,911</u>	<u>\$ 4,054</u>	<u>\$ 3,788</u>	<u>\$ 3,367</u>	<u>\$ 2,659</u>

Land in the Permanent School Fund totaling 2,515,231 acres was donated by the federal government and valued at the estimated fair value at the time of donation.

Component Units

Component unit capital assets consisted of the following as of December 31, 2003, or June 30, 2004, as applicable:

Capital Assets As of December 31, 2003 or June 30, 2004 (In Thousands)					
	<u>Major Component Units</u>			<u>Nonmajor Component Units</u>	<u>Totals</u>
	<u>Housing Finance Agency</u>	<u>Metropolitan Council</u>	<u>University of Minnesota</u>		
Land	\$ -	\$ 56,355	\$ 182,238	\$ 2,743	\$ 241,336
Buildings and Improvements	-	2,446,922	2,213,935	566	4,661,423
Equipment	2,836	424,824	641,218	1,696	1,070,574
Infrastructure	<u>-</u>	<u>-</u>	<u>291,852</u>	<u>-</u>	<u>291,852</u>
Total	<u>\$ 2,836</u>	<u>\$ 2,928,101</u>	<u>\$ 3,329,243</u>	<u>\$ 5,005</u>	<u>\$ 6,265,185</u>
Less: Accumulated Depreciation	<u>1,062</u>	<u>884,767</u>	<u>1,466,497</u>	<u>1,656</u>	<u>2,353,982</u>
Net Total	<u>\$ 1,774</u>	<u>\$ 2,043,334</u>	<u>\$ 1,862,746</u> ⁽¹⁾	<u>\$ 3,349</u>	<u>\$ 3,911,203</u>

⁽¹⁾ In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of \$53,297,000 as of June 30, 2004.

Note 7 – Disaggregation of Payables

The following are the components of accounts payable as reported in the government-wide Statement of Net Assets as of June 30, 2004:

Components of Accounts Payable As of June 30, 2004 (In Thousands)				
	Governmental Activities			Total
	General Fund	Federal Fund	Nonmajor Governmental Funds ⁽¹⁾	
School Aid Programs	\$ 1,231,856	\$ 127,272	\$ 11	\$ 1,359,139
Tax Refunds	561,497	-	216	561,713
Medical Assistance	284,060	354,007	-	638,067
Grants	177,044	119,755	231,289	528,088
Salaries and Benefits	46,914	8,466	34,991	90,371
Vendors/Service Providers	32,462	42,029	189,369	263,860
Other	282	6,114	24,580	30,976
Net Payables	<u>\$ 2,334,115</u>	<u>\$ 657,643</u>	<u>\$ 480,456</u>	<u>\$ 3,472,214</u>
	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	\$ 82,063	\$ -	\$ 2,564	\$ 84,627
Vendors/Service Providers	35,685	-	3,486	39,171
Other	15,302	15,196	20,121	50,619
Net Payables	<u>\$ 133,050</u>	<u>\$ 15,196</u>	<u>\$ 26,171</u>	<u>\$ 174,417</u>
Total Government-wide Net Payables				<u>\$ 3,646,631</u>

⁽¹⁾Includes \$52,215 Internal Service Funds.

Note 8 – Pension and Investment Trust Funds

The state performs a fiduciary role for several pension trust funds. For some of these funds, the state contributes as an employer, and for other funds performs only a fiduciary role. These trust funds are categorized as either defined benefit or defined contribution (pension trust funds) or investment trust funds.

Three plan administrators, who prepare and publish their own stand-alone comprehensive annual financial reports, including financial statements and required supplementary information, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below. See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses.

<u>Plan Administrator</u>	<u>Plans Covered</u>
Minnesota State Retirement System (MSRS)	State Employees Retirement Fund Correctional Employees Retirement Fund Elective State Officers Fund Judicial Retirement Fund Legislative Retirement Fund State Patrol Retirement Fund Unclassified Employees Retirement Fund Postretirement Health Care Benefits Fund
Teachers Retirement Association (TRA)	Teachers Retirement Fund
Public Employees Retirement Association (PERA)	Public Employees Retirement Fund Police and Fire Fund Public Employees Correctional Fund Defined Contribution Retirement Fund

Wells Fargo is the plan administrator for the State Colleges and Universities Retirement Fund. Wells Fargo prepares, but does not publish, its financial report. Copies of this report may be obtained from Minnesota State Colleges and Universities.

Basis of Accounting and Valuation of Investments

The three plan administrators prepare financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which they are earned and become measurable. Expenses are recorded when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Except as described below, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported trade price. Investments that do not have an established market are reported at estimated fair value.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

The State Employees Retirement Fund (SERF) covers those employees of the state, University of Minnesota, and certain other entities not covered by other pension funds. Twenty-nine employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the highest salary paid in five successive years of service. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Five hundred thirty seven (537) employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. Currently, TRF does not have an unfunded actuarial accrued liability.

The Public Employees Retirement Fund (PERF) covers employees of various governmental subdivisions; including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: basic and coordinated as defined above. Normal retirement age is 65. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental subdivisions. Approximately 500 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have direct contact with inmates. Approximately 80 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

- Single employer (state of Minnesota) plans:

The Correctional Employees Retirement Fund (CERF) covers state employees who have direct responsibility for inmates at Minnesota correctional facilities. Normal retirement age is 55. The annuity is 2.4 percent of average salary for each year of service.

The Elective State Officers Fund (ESOF) covers the state's constitutional officers. Vesting occurs after eight years. Normal retirement age is 62. The annuity is 2.5 percent of average salary for each year of service. The ESOF is excluded from the Single Employers Plan disclosures since the remaining active employees have retired, terminated or elected coverage under another plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C.

The Judicial Retirement Fund (JRF) covers judges of the supreme court, district courts, county courts, probate courts, and various court referees. Normal retirement age is 65. The annuity is 2.7 percent of average salary for each year of service (3.2 percent for each year after June 30, 1980).

The Legislative Retirement Fund (LRF) covers members of the state's house of representatives and senate. Vesting occurs after six years. Normal retirement age is 62. The annuity ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on length of service.

The State Patrol Retirement Fund (SPRF) covers state patrol officers, crime bureau officers, and various conservation officers who perform enforcement duties. Normal retirement age is 55. The annuity is 3.0 percent of average salary for each year of service.

	Funding Policy Information						
	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352	352C	490	3A	352B	352	354
Required Contribution Rate of Active Members (%)	5.69	N/A	8.15	9.00	8.40	4.00	5.00
Required Contribution Rate of Employer (%)	7.98	N/A	20.50	N/A	12.60	4.00	5.00

Multiple Employer Plan Required Contributions (In Thousands)			
		SERF	TRF
Required Contributions:			
Employee	2004	\$ 82,103	\$ 159,140
	2003	\$ 83,850	\$ 155,577
	2002	\$ 79,487	\$ 152,331
Employer ⁽¹⁾	2004	\$ 78,622	\$ 151,029
	2003	\$ 80,399	\$ 149,481
	2002	\$ 76,614	\$ 142,222

⁽¹⁾Contributions were at least 100 percent of required contributions.

**Single Employer Plan Disclosures for Current Year
(In Thousands)**

	<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Annual Required Contributions (ARC) ⁽¹⁾	\$ 20,170	\$ 8,619	\$ 2,069	\$ 8,940
Interest on Net Pension Obligation (NPO) ⁽¹⁾	(664)	(685)	(878)	(2,314)
Amort Adj to ARC ⁽¹⁾	<u>429</u>	<u>636</u>	<u>751</u>	<u>1,465</u>
Annual Pension Cost	\$ 19,935	\$ 8,570	\$ 1,942	\$ 8,091
Contributions	<u>(18,375)</u>	<u>(9,753)</u>	<u>(768)</u>	<u>(10,997)</u>
Increase (Decrease) in NPO	\$ 1,560	\$ (1,183)	\$ 1,174	\$ (2,906)
NPO, Beginning (Asset)	<u>(7,809)</u>	<u>(8,064)</u>	<u>(10,329)</u>	<u>(27,218)</u>
NPO, Ending (Asset)	<u>\$ (6,249)</u>	<u>\$ (9,247)</u>	<u>\$ (9,155)</u>	<u>\$ (30,124)</u>

⁽¹⁾Components of annual pension cost.

**Single Employer Plan Disclosures
(In Thousands)**

		<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Annual Pension Cost (APC)	2004	\$ 19,935	\$ 8,570	\$ 1,942	\$ 8,091
	2003	\$ 19,071	\$ 8,986	\$ 2,197	\$ 7,055
	2002	\$ 16,909	\$ 8,241	\$ 2,998	\$ 6,314
Percentage of APC Contributed	2004	92%	114%	40%	136%
	2003	95%	106%	265%	161%
	2002	101%	130%	153%	165%
NPO (End of Year)	2004	\$ (6,249)	\$ (9,247)	\$ (9,155)	\$ (30,124)
	2003	\$ (7,809)	\$ (8,064)	\$ (10,329)	\$ (27,218)
	2002	\$ (8,790)	\$ (7,553)	\$ (6,696)	\$ (22,892)

Actuarial Assumptions for Single Employers

- The actuarial cost method used by all plans is the Entry Age Normal method. The date of actuarial valuation is July 1, 2003, except for the LRF. The most recent date of actuarial valuation for the LRF is July 1, 2002.
- The calculation of the actuarial valuation of assets is a market value based formula based on the Unrecognized Asset Return (UAR is actual net return on market value minus net return based on actuarial assumption). The actuarial value of assets is the Market Value of Assets at June 30, 2003, less: 80 percent UAR for fiscal year 2003; 60 percent UAR for fiscal year 2002; 40 percent UAR for fiscal year 2001; and 20 percent UAR for fiscal year 2000.

- Minnesota Statutes or valuation standards do not require an inflation rate assumption to cost the plans.
- Expected investment returns for pre-retirement and postretirement are 8.5 percent for all plans.
- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF and JRF, projected salary increases are a level 5.0 percent.
- The payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent postretirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement discount rate is used to account for the one-time adjustment applicable at retirement.
- The level percentage of projected payroll is the amortization method used, except for the ESOF plan, which uses the level dollar amortization method.
- The amortization period is through July 1, 2020.
- The amortization period is closed.

Defined Contribution Funds

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds under which the benefits to be received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial valuation of accrued benefit liability nor any actuarially required contribution.

Plan Descriptions and Contribution Information

The Unclassified Employee Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state and specified employees of the Metropolitan Council. Statutory contribution rates are 4.0 percent for employee and 6.0 percent for employer. Vesting occurs immediately, and normal retirement age is 55. Annuity is based on age and value of the participant's account.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. For the faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the managerial employees, the employer rate is 6.0 percent and the employee rate is 4.0 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between \$6,000 and \$15,000. Statutes allow additional employer and employee contributions under specific circumstances. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is approximately 13,600.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. DCF covers approximately 1,000 units of government. At June 30, 2004, there were approximately 6,300 members in the plan.

The Postretirement Health Care Benefits Fund (PHCBF), authorized by Minnesota Statutes, Section 352.98, creates a postretirement health care savings plan or plans, by which public employers and employees may save to cover postretirement health care costs. Contributions to the plan by or on behalf of an employee are held in trust for reimbursement of employee and dependent health-related expenses following retirement from public service. The current plan is based on state employee contributions without any matching provision by the state. A plan participant may request reimbursement until funds accumulated in the participant's account are exhausted.

Defined Contribution Plans Contributions Made for Fiscal Year 2004 (In Thousands)				
	<u>UERF</u>	<u>CURF</u>	<u>DCF</u>	<u>PHCBF</u>
Employee Contributions	\$ 4,258	\$ 23,033	\$ 1,115	\$ 37,273
Employer Contributions	\$ 5,877	\$ 25,869	\$ 1,238	N/A

Investment Trust Fund

The Supplemental Retirement Fund (investment trust fund) is administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). This fund is an investment pool for external participants, which are locally administered retirement funds, and a deferred compensation plan.

Component Units

The following component units are participants in the State Employees Retirement Fund (SERF), Police and Fire Fund (P&FF) and the Unclassified Employees Retirement funds:

- Agricultural and Economic Development Board
- Higher Education Services Office
- Housing Finance Agency
- Metropolitan Council
- Minnesota Technology, Incorporated
- Public Facilities Authority
- Rural Finance Authority
- University of Minnesota

Note 9 – Postretirement Benefits

For certain employees, postretirement benefits are available upon retirement at age 55 under terms of their employment contract. Through fiscal year 2004, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers, and State Colleges and Universities faculty entitled to early retirement incentives. If these employees elect retirement at age 55, the state pays the employer's share of health insurance benefits until the employees reach age 65.

The cost of these benefits, which is recognized when paid, was \$9,923,000 during fiscal year 2004. Approximately 1,500 former employees currently receive this benefit.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction, and other contracts. These commitments will be partially funded by current reserves for long-term commitments with the remaining resources provided by future bond proceeds, gas tax and motor vehicle registration revenues, and federal grants. Long-term commitments as of June 30, 2004, were as follows:

Primary Government Long-Term Commitments As of June 30, 2004 (In Thousands)	
Special Revenue Fund:	
Trunk Highway Fund	\$ 822,666
Capital Projects Funds:	
General Projects Fund	10,252
Transportation Fund	7,209
Building Fund	339,645
Enterprise Funds:	
State Colleges and Universities	<u>42,286</u>
Total Primary Government	<u>\$ 1,222,058</u>

On November 1, 2002, the Port Authority of Saint Paul and the state entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the designing, constructing, equipping, and furnishing of two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the state. The buildings are approximately 400,000 square feet and 342,000 square feet in size. On October 29, 2003, the second tranche of bonds was sold to finance these projects. The amount of bonds sold to finance both of the facilities is \$193,105,000.

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse petroleum storage tank owners for most of their costs to investigate or clean up contamination from petroleum tank releases. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). A significant number of unreported tank contamination sites and cleanup costs presently exist which will require Petrofund expenditures. As of October 2004, the Petrofund has reimbursed eligible applicants approximately \$350 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2007, are between \$380-\$400 million for investigative and cleanup costs.

Remediation Fund

The Landfill Investments and investment earnings (part of the Remediation Fund) (special revenue fund) are committed for landfill abatement projects and are not available until 2020.

Component Units

The University of Minnesota (U of M) has construction projects in progress with an estimated cost of \$228,832,000 to complete. These costs will be funded from plant fund assets and state appropriations.

The U of M owns certain steam production facilities that produce steam for heating and cooling for the Twin Cities campuses. By agreement, these facilities are managed, operated, and maintained by an unaffiliated company. The term of the agreement is 5 years and commenced on May 17, 2004. Under the agreement, the U of M must make minimum fixed payments for certain operating and maintenance costs as well as contingent payments based on monthly usage.

The minimum fixed amounts of the steam plant required payments at June 30, 2004, were as follows:

University of Minnesota Required Steam Plant Payments (In Thousands)	
Fiscal Year Ending June 30	Total
2005	\$ 879
2006	879
2007	867
2008	779
2009	683
Total Commitments	<u>\$ 4,087</u>

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2003, unpaid commitments for transit services were approximately \$83.5 million. Future commitments for Metropolitan Transit Light Rail were approximately \$78.3 million. Future commitments for regional transit services were approximately \$20.4 million. Finally, future commitments for Environmental Services were approximately \$111.7 million.

Note 11 – Operating Lease Agreements

Operating Leases

The state and its component units are committed under various leases primarily for building and office space. For accounting purposes, these leases are considered to be operating leases.

Lease expenditures for the year ended June 30, 2004, totaled approximately \$70,400,000 and \$16,679,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2003, totaled approximately \$2,986,000 for component units.

Future Minimum Lease Payments (In Thousands)					
<u>Primary Government</u>		<u>Component Units</u>			
<u>Year Ending June 30</u>	<u>Amount</u>	<u>Year Ending June 30</u>	<u>Amount</u>	<u>Year Ending December 31</u>	<u>Amount</u>
2005	\$ 66,150	2005	\$ 9,763	2004	\$ 2,264
2006	55,935	2006	9,537	2005	1,890
2007	48,446	2007	7,478	2006	1,347
2008	37,538	2008	6,473	2007	658
2009	22,877	2009	6,033	2008	656
2010-2014	50,116	2010-2014	18,784	2009-2013	972
2015-2019	5,083	2015-2019	-	2014-2018	109
2020-2024	<u>2,269</u>	2020-2024	<u>-</u>	2019-2023	68
Total	<u>\$ 288,414</u>	Total	<u>\$ 58,068</u>	2024	<u>13</u>
				Total	<u>\$ 7,977</u>

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2004, and the changes during fiscal year 2004:

Long-Term Liabilities Year Ended June 30, 2004 (In Thousands)					
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Liabilities For:					
General Obligation Bonds	\$ 3,295,545	\$ 438,792	\$ 678,841	\$ 3,055,496	\$ 249,433
Bond Premium	92,387	33,455	8,223	117,619	8,364
Loans	24,198	3,536	8,081	19,653	9,852
Claims	1,453,838	11,675	75,109	1,390,404	106,739
Compensated Absences	231,599	197,551	190,464	238,686	16,353
Workers' Compensation	112,108	12,597	13,159	111,546	11,976
Capital Leases	<u>8,846</u>	<u>1,774</u>	<u>1,535</u>	<u>9,085</u>	<u>4,096</u>
Total	<u>\$ 5,218,521</u>	<u>\$ 699,380</u>	<u>\$ 975,412</u>	<u>\$ 4,942,489</u>	<u>\$ 406,813</u>
Business-type Activities					
Liabilities For:					
General Obligation Bonds	\$ 125,950	\$ 24,207	\$ 8,298	\$ 141,859	\$ 9,492
Bond Premium	1,694	1,848	300	3,242	-
Loans	135,486	271,728	131,511	275,703	272,096
Revenue Bonds	52,925	-	1,515	51,410	1,575
Compensated Absences	102,566	47,770	36,911	113,425	9,900
Workers' Compensation	4,741	2,057	1,605	5,193	1,326
Capital Leases	<u>12,483</u>	<u>5,670</u>	<u>3,285</u>	<u>14,868</u>	<u>2,417</u>
Total	<u>\$ 435,845</u>	<u>\$ 353,280</u>	<u>\$ 183,425</u>	<u>\$ 605,700</u>	<u>\$ 296,806</u>

The resources to repay the various long-term liabilities of the primary government have been, or will be, provided from the fund types as follows:

Primary Government Resources for Repayment of Long-Term Liabilities (In Thousands)				
	<u>Governmental Activities</u>			<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Business- type Activities</u>	
Liabilities For:				
General Obligation Bonds	\$ 2,601,016	\$ 454,480	\$ 141,859	\$ 3,197,355
Bond Premium	117,619	-	3,242	120,861
Loans	-	19,653	275,703	295,356
Revenue Bonds	-	-	51,410	51,410
Claims	104,022	1,286,382	-	1,390,404
Compensated Absences	88,942	149,744	113,425	352,111
Workers' Compensation	86,027	25,519	5,193	116,739
Capital Leases	3,527	5,558	14,868	23,953
Total	<u>\$ 3,001,153</u>	<u>\$ 1,941,336</u>	<u>\$ 605,700</u>	<u>\$ 5,548,189</u>

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, and capital leases. There are no payment schedules for claims, compensated absences, or workers' compensation.

Primary Government General Obligation Bonds Principal and Interest Payments (In Thousands)						
<u>Fiscal Year(s)</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 249,433	\$ 147,097	\$ 9,492	\$ 7,483	\$ 258,925	\$ 154,580
2006	251,336	136,786	9,599	6,486	260,935	143,272
2007	261,434	124,863	9,731	6,036	271,165	130,899
2008	235,485	112,407	9,455	5,552	244,940	117,959
2009	227,481	100,308	9,484	5,075	236,965	105,383
2010-2014	936,363	346,534	43,932	18,407	980,295	364,941
2015-2019	632,252	140,054	33,273	8,362	665,525	148,416
2020-2024	261,712	24,869	16,893	1,664	278,605	26,533
Total	<u>\$ 3,055,496</u>	<u>\$ 1,132,918</u>	<u>\$ 141,859</u>	<u>\$ 59,065</u>	<u>\$ 3,197,355</u>	<u>\$ 1,191,983</u>

**Primary Government
Revenue Bonds
Principal and Interest Payments
(In Thousands)**

<u>Fiscal Year(s)</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,575	\$ 2,992
2006	1,945	2,895
2007	2,190	2,783
2008	2,060	2,653
2009	2,125	2,514
2010-2014	11,430	10,779
2015-2019	13,150	7,286
2020-2024	14,620	2,945
2025-2029	<u>2,315</u>	<u>177</u>
Total	<u>\$ 51,410</u>	<u>\$ 35,024</u>

**Primary Government
Loans
Principal and Interest Payments
(In Thousands)**

<u>Fiscal Year(s)</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,852	\$ 400	\$ 272,096	\$ 13,055	\$ 281,948	\$ 13,455
2006	5,448	178	773	203	6,221	381
2007	2,719	58	633	168	3,352	226
2008	1,634	8	499	129	2,133	137
2009	-	-	356	100	356	100
2010-2014	<u>-</u>	<u>-</u>	<u>1,346</u>	<u>170</u>	<u>1,346</u>	<u>170</u>
Total	<u>\$ 19,653</u>	<u>\$ 644</u>	<u>\$ 275,703</u>	<u>\$ 13,825</u>	<u>\$ 295,356</u>	<u>\$ 14,469</u>

The state has entered into several capital lease agreements to purchase equipment. The leases meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase the equipment at any time during the lease period.

**Primary Government
Capital Leases
Principal and Interest Payments (In Thousands)**

Fiscal Year(s)	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 4,096	\$ 376	\$ 2,417	\$ 897	\$ 6,513	\$ 1,273
2006	3,546	162	1,614	763	5,160	925
2007	1,112	40	1,320	666	2,432	706
2008	239	7	1,226	607	1,465	614
2009	92	2	787	516	879	518
2010-2014	-	-	2,639	1,879	2,639	1,879
2015-2019	-	-	2,119	1,339	2,119	1,339
2020-2024	-	-	1,121	733	1,121	733
2025-2029	-	-	1,025	301	1,025	301
2030-2034	-	-	600	40	600	40
Total	\$ 9,085	\$ 587	\$ 14,868	\$ 7,741	\$ 23,953	\$ 8,328

Debt Service Fund

Minnesota Statutes, Section 16A.641, provides for an annual appropriation for transfer to the Debt Service Fund. The amount of the appropriation is to be such that, when combined with the balance on hand in the Debt Service Fund on December 1 of each year for state bonds, it will be sufficient to pay all general obligation bond principal and interest due and to become due through July 1 in the second ensuing year. If the amount appropriated is insufficient when combined with the balance on hand in the Debt Service Fund, the state constitution requires the state auditor to levy a statewide property tax to cover the deficiency. No such property tax has been levied since 1969 when the law requiring the appropriation was enacted.

During fiscal year 2004, the Department of Finance made the necessary transfers to the Debt Service Fund as follows:

Primary Government Transfers to Debt Service Fund Year Ended June 30, 2004 (In Thousands)	
General Fund	\$ 265,701
Special Revenue Funds:	
Federal Fund	200
Trunk Highway Fund	16,289
Natural Resources Funds	24
Maximum Effort School Loan Fund	13,876
Miscellaneous Special Revenue Fund	4,625
Total Special Revenue Funds	<u>\$ 35,014</u>
Capital Projects Funds:	
Building Fund	<u>\$ 5,036</u>
Total Capital Projects Funds	<u>\$ 5,036</u>
Total Operating Transfers to Debt Service Fund	<u>\$ 305,751</u>

General Obligation Bond Issues

On August 1, 2003, \$296,645,000 in general obligation state various purpose bonds, \$142,500,000 in general obligation state trunk highway bonds, and \$20,855,000 in general obligation state refunding bonds were issued at a true interest rate of 4.00 percent. In addition, \$3,000,000 of general obligation taxable state various purpose bonds were sold at a true interest rate of 3.42 percent. During fiscal year 2004, \$687,139,000 in general obligation bond principal was repaid.

In August 2003, the state refunded \$401,865,000 of general obligation bonds with proceeds from a June 2003 current refunding bond sale of \$391,680,000 and \$10,303,198 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of \$11,751,487 and an economic gain of \$11,356,612.

In October 2003, the state refunded \$23,850,000 of general obligation bonds with proceeds from an August 2003 current refunding bond sale of \$20,855,000 and \$3,020,304 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of \$1,050,655 and an economic gain of \$896,114.

The state has also issued general obligation advance refunding bonds to refund obligations of certain bond issues. The proceeds of the bond issues were placed in special escrow accounts and invested in government securities. These investments have been certified to be sufficient to pay all principal and interest on the bonds when due.

The balance outstanding for all extinguished debt at June 30, 2004, was \$66,225,000, which is shown below. The state remains contingently liable to pay the advance refunded general obligation bonds.

General Obligation Bonds Outstanding Defeased Debt (In Thousands)				
<u>Refunding Date</u>	<u>Refunding Amount</u>	<u>Refunded Amount</u>	<u>Outstanding Amount</u>	<u>Refunded Bond Call Date</u>
November 1, 1998	\$ 99,700	\$ 96,100	\$ 66,225	October 1, 2004

In addition, \$2,040,000 of state-guaranteed bonds are being held in escrow because the bond proceeds exceeded the cost of the project. The refunded bond call date is August 1, 2005.

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding at June 30, 2004. This schedule includes general obligation bonds that were sold for the State Operated Community Services and State Colleges and Universities Funds (enterprise funds).

**General Obligation Bonds Authorized, but Unissued and Bonds Outstanding
At June 30, 2004
(In Thousands)**

<u>Purpose</u>	<u>Authorized But Unissued</u>	<u>Amount Outstanding</u>	<u>Interest Rates Range - %</u>
State Building	\$ 28,435	\$ 1,180,072	3.00 – 6.00
State Operated Community Services	-	3,842	3.75 – 7.56
State Transportation	3,431	121,218	3.00 – 6.38
Waste Management	375	4,925	4.00 – 6.00
Water Pollution Control	1,246	88,200	3.00 – 6.00
Maximum Effort School Loan	-	100,100	4.00 – 6.00
Reinvest in Minnesota	629	5,055	4.00 – 6.00
Rural Finance Administration	-	70,100	4.63 – 7.05
Refunding Bonds	-	477,954	1.50 – 5.40
Municipal Energy Building	128	3,440	3.00 – 6.00
Game and Fish Building	-	42	1.50 – 5.00
Trunk Highway	380,225	233,120	1.50 – 5.50
Airport Facilities	-	38,680	5.30 – 7.95
Landfill	-	24,495	4.25 – 6.00
Various Purpose	<u>959,518</u>	<u>846,112</u>	3.00 – 5.62
Total	<u>\$ 1,373,987</u>	<u>\$ 3,197,355</u>	

Loans Payable

Business-type loans are primarily loans for the Department of Administration to purchase equipment.

Revenue Bonds Payable

The State Colleges and Universities is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, student union, and food service purposes at six of the state universities.

On November 1, 2000, \$16,000,000 in state revenue bonds were issued for financing the Giants Ridge recreational area at a true interest rate of 7.48 percent. In addition, \$3,710,000 of these bonds were refunded. The entire refunding bonds proceeds of \$3,674,000 from the Iron Range Resources and Rehabilitation Fund (special revenue fund) have been placed in a special escrow account. This amount has been certified as sufficient to pay all principal and interest on the bonds when due. Accordingly, the original refunded bonds have been eliminated, and the new advance refunding bonds have been added to the Giants Ridge Fund. As of fiscal year 2002, Giants Ridge financial activity, including revenue bonds, has been reported in a separate enterprise fund.

Giants Ridge Outstanding Defeased Debt (In Thousands)				
<u>Refunding Date</u>	<u>Refunding Amount</u>	<u>Refunded Amount</u>	<u>Outstanding Amount</u>	<u>Refunded Bond Call Date</u>
November 1, 2000	\$ 3,710	\$ 3,710	\$ 3,130	October 1, 2012

Claims

Municipal solid waste landfills liability of \$175,069,000 for closure and postclosure care is reported for the landfill cleanup program payable from the Remediation Fund (special revenue fund) and the General Fund.

Claims of \$58,215,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of \$65,320,000 are for certain employees who qualify for postretirement benefits upon retirement at age 55 under terms of their employment contract. See Note 9 – Postretirement Benefits for the amount paid in fiscal year 2004.

The remaining claim amount of \$1,091,800,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated undiscounted cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of \$238,686,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental funds liability for workers' compensation of \$111,546,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2004, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2004, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

The following defined benefit funds have the authority to issue, and have issued, revenue bonds, which are not general obligations of the state, but are solely secured by certain pledged assets of the funds. On June 1, 2000, \$29,000,000 of revenue bonds were issued. The pledged assets include certain payments made by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF). Minnesota Statutes, Section 356.89, authorized the issuance of these revenue bonds to finance the construction of an administrative office building. The debt service payments on the revenue bonds will be allocated to each fund based on the percentage interest each fund has in the facility. The repayment schedule for the combined three funds follows:

Long-Term Debt Repayment Schedule Fiduciary Funds (In Thousands)		
Revenue Bonds – SERF, TRF, and PERF		
<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 500	\$ 1,594
2006	525	1,567
2007	550	1,539
2008	575	1,509
2009	600	1,478
2010-2014	3,525	6,870
2015-2019	4,650	5,774
2020-2024	6,250	4,258
2025-2029	8,450	2,178
2030-2034	2,025	121
Total	<u>\$ 27,650</u>	<u>\$ 26,888</u>

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed \$3,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of bonds outstanding on June 30, 2004, was \$1,844,589,000.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed \$1,250,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2004, was \$827,438,000.

The Higher Education Services Office (HESO) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2004, the outstanding principal of revenue bonds was \$300,000,000.

The University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2004, the principal amount of revenue bonds outstanding was \$9,260,000 and the principal amount of general obligation bonds outstanding was \$588,544,000.

The Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers and transportation, backed by the full faith and credit and taxing powers of MC. MC had \$886,854,000 in general obligation bonds outstanding, net of unamortized premium, and \$12,200,000 of revenue bonds outstanding on December 31, 2003.

The Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2004, the principal amount of revenue bonds outstanding was \$32,020,000.

Fiscal Years	Component Units General Obligation Bonds Major Component Units (In Thousands)			
	U of M		MC ⁽¹⁾	
	Principal	Interest	Principal	Interest
2005	\$ 244,355	\$ 20,530	\$ 76,882	\$ 33,078
2006	38,470	12,103	96,435	31,118
2007	38,520	9,725	69,170	27,169
2008	38,270	7,345	58,738	24,256
2009	22,160	4,987	55,217	21,806
2010-2014	40,500	20,075	240,118	76,161
2015-2019	67,050	15,566	185,049	35,224
2020-2024	68,000	9,819	98,276	6,931
2025-2029	17,700	5,224	-	-
2030-2034	12,850	1,146	-	-
	<u>\$ 587,875</u>	<u>\$ 106,520</u>	<u>\$ 879,885</u>	<u>\$ 255,743</u>
Unamortized Discounts/Premiums and Issuance Costs	669	-	6,969	-
Total	<u>\$ 588,544</u>	<u>\$ 106,520</u>	<u>\$ 886,854</u>	<u>\$ 255,743</u>

⁽¹⁾MC fiscal year ends December 31.

**Component Units
Long-Term Debt Repayment Schedule
Revenue Bonds
Major Component Units
(In Thousands)**

<u>Fiscal Years</u>	<u>U of M</u>		<u>HFA</u>		<u>MC⁽²⁾</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal⁽¹⁾</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 855	\$ 554	\$ 262,500	\$ 73,643	\$ 770	\$ 609
2006	905	502	138,110	71,183	810	573
2007	955	448	210,955	68,598	845	535
2008	1,015	389	39,695	63,068	890	494
2009	1,080	327	36,395	61,349	935	449
2010-2014	4,450	712	238,665	274,197	5,465	1,468
2015-2019	-	-	240,580	209,289	2,625	146
2020-2024	-	-	237,265	144,657	-	-
2025-2029	-	-	262,055	80,436	-	-
2030-2034	-	-	166,735	23,216	-	-
2035-2039	-	-	20,790	1,999	-	-
2040-2044	-	-	2,890	573	-	-
2045-2049	-	-	670	25	-	-
	<u>\$ 9,260</u>	<u>\$ 2,932</u>	<u>\$ 1,857,305</u>	<u>\$ 1,072,233</u>	<u>\$ 12,340</u>	<u>\$ 4,274</u>
Unamortized Discounts/Premiums and Issuance Costs	-	-	(12,716)	-	(140)	-
Total	<u>\$ 9,260</u>	<u>\$ 2,932</u>	<u>\$ 1,844,589</u>	<u>\$ 1,072,233</u>	<u>\$ 12,200</u>	<u>\$ 4,274</u>

⁽¹⁾See Note 23 – Subsequent Events for bond redemption information.

⁽²⁾MC fiscal year ends December 31.

**Component Units
Long-Term Debt Repayment Schedule
Revenue Bonds
Nonmajor Component Units
(In Thousands)**

Fiscal Years	HESO		PFA		AEDB	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ -	\$ 3,531	\$ 40,595	\$ 40,981	\$ 4,275	\$ 1,815
2006	-	3,531	47,815	38,824	2,405	1,620
2007	714	3,531	47,935	36,494	2,490	1,485
2008	3,429	3,523	48,970	34,163	2,435	1,348
2009	3,429	3,487	52,030	31,805	2,485	1,208
2010-2014	22,693	16,793	269,505	120,680	9,050	4,223
2015-2019	23,310	15,576	258,110	52,504	6,935	1,689
2020-2024	52,416	13,902	62,555	6,224	1,945	136
2025-2029	77,783	9,942	-	-	-	-
2030-2034	77,166	5,250	-	-	-	-
2035-2039	39,060	1,103	-	-	-	-
	<u>\$ 300,000</u>	<u>\$ 80,169</u>	<u>\$ 827,515</u>	<u>\$ 361,675</u>	<u>\$ 32,020</u>	<u>\$ 13,524</u>
Unamortized Discounts/Premiums and Issuance Costs	-	-	(77)	-	-	-
Total	<u>\$ 300,000</u>	<u>\$ 80,169</u>	<u>\$ 827,438</u>	<u>\$ 361,675</u>	<u>\$ 32,020</u>	<u>\$ 13,524</u>

Variable Rate Debt

Higher Education Services Office

Interest rates on the tax-exempt 1992, 1993 and 1994B series of bonds vary weekly based on the determination by the remarketing agent of the lowest rate that would permit the sale of bonds at par plus accrued interest on the date of determination. The variable rate cannot exceed 15 percent per annum. The interest rate for the Series 1992, 1993, and 1994B bonds as of June 30, 2004, and 2003, was 1.10 percent and 1.05 percent, respectively.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds, taxable Series 2003A bonds, and tax-exempt Series 2003B, reset every 28 – 35 days, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rates as of June 30, 2004, and 2003, for the Series 1999A bonds were 1.52 percent and 1.13 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2002A and 2002B bonds were 1.38 percent and 1.28 percent and 1.25 percent and 1.08 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2003A and 2003B bonds were 1.38 percent and 1.30 percent, and 1.20 percent and 1.10 percent, respectively.

University of Minnesota

In connection with the issuance of the 2003A, 2001A, 2001B, 2001C, and 1999A variable-rate bonds, the U of M entered into floating-to-fixed interest-rate swap agreements for notional amounts tied to the outstanding balance of the bonds. The U of M makes monthly payments at fixed rates between 3.08 percent and 4.40 percent and receives the weighted average rate that was paid to the bondholders during the previous month. The final maturity dates of the swaps are tied to the final maturity dates of the underlying bonds. With the exception of the Series 2001B taxable bonds, the U of M treats these swaps as qualified hedges with respect to such bonds.

In connection with the issuance of the Series 1996A bonds, the U of M has entered into a fixed-to-floating interest-rate swap agreement on a notional amount of \$190,000,000. The U of M makes floating-rate interest payments monthly based upon the weekly Bond Market Association Municipal Swap Index. The interest obligation for future years is calculated on the basis of the interest rate in effect at June 30, 2004, of 1.08 percent. The actual rates to be paid to bondholders over the life of the bonds will be at rates determined on the basis of prevailing market conditions. The U of M receives fixed-rate interest payments ranging from 4.45 to 5.43 percent semiannually. The final maturity date of the swap is in 2021, although there are specified notional reductions annually that began in 2001. The U of M treats this swap as a qualified hedge with respect to such bonds.

At June 30, 2004, the U of M had \$588,544,000 in outstanding variable rate bonds.

Bond Defeasances

Public Facilities Authority had \$51,995,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2004.

In prior years, the U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds was \$112,635,000 with \$29,600,000 outstanding at June 30, 2004. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

During the fiscal year ended December 31, 2003, Metropolitan Council issued \$132,085,000 in general obligation bonds which refunded the remaining 2004-2017 maturities of the Series 1990PFA, 1991-1PFA, 1991-2PFA, 1992-2PFA, 1994PFA, 1994A, 1996D, and 1994D general obligation bonds. The transactions resulted in an economic gain of \$10,778,062 and a reduction of \$11,002,331 in future debt service payments.

Note 14 – Landfill Closure and Postclosure

Minnesota Statutes, Section 115B.39, established the closed landfill program to provide environmental response to qualified, state-permitted, closed landfills. There are currently 108 closed sites in the program. Up to four additional sites could enter the program in the near future. The state becomes responsible for the long-term care of these closed municipal solid waste facilities only after certain eligibility requirements are met. The state is responsible, in perpetuity, for performing cleanup and final closure work as well as all maintenance and monitoring functions at these qualifying sites. Funding for the state's perpetual obligation at these landfills comes from the Remediation Fund (special revenue fund) which includes revenues from the Solid Waste Management Tax authorized by Minnesota Statutes, Chapter 297H, insurance recovery proceeds, and financial assurance from previous owners and operators. Additional funding from the sale of state general obligation bonds is used for design and construction work at the publicly-owned landfills in the program. As of June 30, 2004, cumulative expenditures of about \$204 million have been disbursed by the Remediation Fund and the bond fund. Estimates show that the total of all payments for the program may reach \$537 million. These estimates include costs for planned response actions, costs representing future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and reimbursements.

Actual costs could become higher because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

Note 15 – Segment Information

Segment Information Financial Data Year Ended June 30, 2004 (In Thousands)				
	Giants Ridge	Revenue Fund	MnSCU	
			Mesabi Range Halls	Vermilion Modular Housing
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 7,521	\$ 46,374	\$ 61	\$ 118
Restricted Assets	2,666	31,819	450	138
Capital Assets	22,978	94,358	1,440	835
Total Assets	\$ 33,165	\$ 172,551	\$ 1,951	\$ 1,091
Liabilities:				
Current Liabilities	\$ 2,896	\$ 17,574	\$ 136	\$ 182
Noncurrent Liabilities	15,018	43,204	345	525
Total Liabilities	\$ 17,914	\$ 60,778	\$ 481	\$ 707
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 12,773	\$ 72,465	\$ 1,095	\$ 309
Restricted	-	6,095	330	71
Unrestricted	2,478	33,213	45	4
Total Net Assets	\$ 15,251	\$ 111,773	\$ 1,470	\$ 384
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	\$ 4,881	\$ 65,421	\$ 394	\$ 198
Depreciation Expense	(1,141)	(5,967)	(64)	(28)
Other Operating Expenses	(4,354)	(54,221)	(256)	(101)
Operating Income (Loss)	\$ (614)	\$ 5,233	\$ 74	\$ 69
Nonoperating Revenues (Expenses):				
Interest Income	\$ 113	\$ 800	\$ 2	\$ 1
Interest Expense	(1,170)	(1,695)	(44)	(36)
Other	587	2,504	-	-
Capital Contributions	256	-	-	-
Transfers-In	5,295	-	16	-
Transfers-Out	(2,000)	-	-	-
Change in Net Assets	\$ 2,467	\$ 6,842	\$ 48	\$ 34
Beginning Net Assets	12,784	104,931	1,422	350
Ending Net Assets	\$ 15,251	\$ 111,773	\$ 1,470	\$ 384
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	\$ 309	\$ 12,833	\$ 148	\$ 132
Noncapital Financing Activities	5,295	-	-	-
Capital and Related Financing Activities	(2,339)	(19,834)	(157)	(142)
Investing Activities	114	853	2	1
Net Increase (Decrease)	\$ 3,379	\$ (6,148)	\$ (7)	\$ (9)
Beginning Cash and Cash Equivalents	\$ 4,629	\$ 59,095	\$ 465	\$ 147
Ending Cash and Cash Equivalents	\$ 8,008	\$ 52,947	\$ 458	\$ 138

The types of goods or services provided by each segment are as follows:

- Giants Ridge is a four-season recreation facility with golfing, as well as downhill and nordic skiing.
- The MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.
- The MnSCU Mesabi Range/Vermilion segments account for the construction and operation of student housing at Vermilion Community College.

Each segment has a revenue stream pledged to secure revenue bonds and provisions in the bond documents which require the separate reporting of each segment's financial operations and position.

Note 16 – Contingent Liabilities

Primary Government

Pension Trust Funds

In addition to the pension trust funds included in the reporting entity (see Note 8 – Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The pension trust funds involved, the year-end for which the most current data is available, and the unfunded liabilities are described below (in thousands):

<u>Fund</u>	<u>Liability As Of</u>	<u>Unfunded Liability</u>
Minneapolis Employee Retirement Fund	June 30, 2004	\$ 129,751
Minneapolis Teachers Retirement Fund	June 30, 2003	\$ 715,069
St. Paul Teachers Retirement Fund	June 30, 2003	\$ 290,601
Local Police and Fire Fund ⁽¹⁾	December 31, 2003	\$ 224,010
⁽¹⁾ The Local Police and Fire Fund consists of four local plans.		

All of the unfunded liabilities shown above were computed using the entry age normal actuarial cost (level normal cost) method. Assumptions for interest rates and annual salary growth rates using the single rate future salary increase assumption are as follows: Minneapolis Employee Retirement Fund – preretirement interest, 6 percent – postretirement interest, 5 percent – salary growth, initial increase of 1.0198 percent and 4 percent annually thereafter; Minneapolis Teachers, and St. Paul Teachers – interest, 8.5 percent – salary growth, 5 percent; Minneapolis Police Relief and Minneapolis Fire Department Relief Associations – interest, 6 percent – salary growth, 4 percent; Virginia Fire Department and Fairmont Police Relief Associations – interest, 5 percent – salary growth, 3.5 percent. Additional annual contributions are provided by the state to reduce the unfunded liabilities.

Component Units

Since January 18, 2000, the Metropolitan Council (MC) has been contingently liable for Carver County Housing and Redevelopment Authority Revenue Bonds. The bond issue was for \$2,695,691, payable primarily from the revenues of the Housing Authority, but is also secured by the pledge of the full faith and credit of the City of Chaska, and MC. The city must reimburse MC for any money paid by MC for debt service on the bonds. These bonds have a final maturity on January 1, 2030.

The Workers' Compensation Assigned Risk Plan (WCARP) contracts with five servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon a standard written premium. Contingent liabilities exist with respect to performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general service agreement.

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2003, was approximately \$4.2 million.

The National Sports Center Foundation, in connection with the Minnesota Amateur Sports Commission, six municipalities, and other local governmental entities, constructed a four-sheet ice arena and auxiliary facilities (the Super Rink) at the National Sports Center. The Super Rink was financed by state general obligation bonds, state grants, and local government contributions. Bond debt service is provided by operating proceeds of the Super Rink, as well as arena sponsorship and concession revenues. As part of the financing agreement for the Arena, revenues in excess of expenses from the operation of the National Sports Center may be required for debt service on the Super Rink, should operating proceeds from the Super Rink be insufficient to pay such debt service. However, a master agreement and a requirement of the bond documents between the Minnesota Amateur Sports Commission, municipalities, and other local government entities, provide for guaranteed annual rental income that exceeds anticipated debt service costs.

Note 17 – Northwest Airlines Maintenance Facilities

Laws of Minnesota 1991, Chapter 350 authorized the state to issue revenue bonds secured by the state's full faith and credit to finance the construction of an aircraft facility. In May 1995, the state issued \$47,670,000 of revenue bonds to finance the construction and equipment of an aircraft maintenance facility in Duluth, with Northwest Airlines, Inc. (NWA) as the lessee. The bonds are structured so that the initial bonds, together with expected later refunding bond issuances, will provide financing for the facility over a 30-year period.

As of June 30, 2004, \$38,680,000 of the revenue bonds remained outstanding. Of this amount, \$22,275,000 is payable primarily from lease payments of NWA, and \$16,405,000 is payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the city of Duluth. In the event these revenues are insufficient to make the debt service payments on the revenue bonds, the state may apply certain state-aid payments otherwise payable to the city of Duluth.

On July 1, 1999, \$3,435,000 of the revenue bonds were defeased, thereby reducing the outstanding bonds. As of June 30, 2004, \$2,445,000 of these defeased bonds remain outstanding. The invested funds, which are held in escrow, will be sufficient to pay the principal on the bonds to their earliest call date.

Note 18 – Equity

Fund Balances – Primary Government

The following table identifies governmental fund balances of the primary government in greater detail than presented on the face of the financial statements:

Primary Government Fund Balances				
As of June 30, 2004				
(In Thousands)				
	<u>General</u>	<u>Federal</u>	<u>Nonmajor Governmental</u>	<u>Fiduciary</u>
Fund Balances:				
Reserved for Encumbrances	\$ 65,242	\$ -	\$ 259,365	\$ -
Reserved for Inventory	-	-	15,202	-
Reserved for Long-Term Receivables	50,564	-	248,272	-
Reserved for Long-Term Commitments	-	-	122,940	-
Reserved for Local Governments	-	-	441,027	-
Reserved for Trust Principal	-	-	918,428	-
Reserved for Debt Requirements	-	-	530,879	-
Reserved for Other	<u>4,700</u>	<u>7,093</u>	<u>-</u>	<u>-</u>
Total Reserved Fund Balances	\$ 120,506	\$ 7,093	\$ 2,536,113	\$ -
Unreserved Fund Balances:				
Designated for Appropriation Carryover	\$ -	\$ -	\$ 291,809	\$ -
Designated for Fund Purposes	<u>-</u>	<u>-</u>	<u>288,309</u>	<u>38,895,818</u>
Total Designated Fund Balance	\$ -	\$ -	\$ 580,118	\$ -
Undesignated	<u>(448,465)</u>	<u>-</u>	<u>200,290</u>	<u>-</u>
Total Unreserved Fund Balance	\$ (448,465)	\$ -	\$ 780,408	\$ 38,895,818
Total Fund Balance	<u>\$ (327,959)</u>	<u>\$ 7,093</u>	<u>\$ 3,316,521</u>	<u>\$ 38,895,818</u>

Reserved Fund Balance

Reserved Fund Balance indicates the portion of the fund balance that is not available for appropriation or is legally segregated for a specific future use.

Reserved for Local Governments is the equity amount in three funds required by the state constitution to be paid to local governments. The funds are the Municipal State-Aid Street Fund and County State-Aid Highway Fund (special revenue funds) and the Permanent School Fund (permanent fund). The payments to municipalities and counties are for street and highway projects. The Permanent School Fund subsidizes education in local school districts.

Reserved for Other of \$7,093,000 in the special revenue fund type (Federal Fund) consists primarily of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

Unreserved Fund Balance consists of 1) designated fund balances indicating tentative managerial plans for future use of resources, and 2) undesignated fund balances indicating those unreserved financial resources available for appropriation. A portion of the undesignated fund balances in the Natural Resources funds (special revenue funds) may be appropriated only for specific programs.

Designated for Fund Purposes consists of fund balances for non-appropriated funds to be used for the following purposes:

Fund Balance Designated for Fund Purposes As of June 30, 2004 (In Thousands)	
	<u>Special Revenue Funds</u>
Public Safety and Corrections	\$ 21,214
Transportation	27,193
Environmental Resources	53,106
Economic and Workforce Development	61,959
General Education	4,493
Higher Education	541
Health and Human Services	75,685
General Government	42,160
Intergovernmental Aids	<u>1,958</u>
Total	<u>\$ 288,309</u>

Deficit Fund Balance

A \$20,845,000 deficit total fund balance in the Building Fund (nonmajor governmental fund) is a result of a delayed bond sales. An executive action was implemented to eliminate a forecasted deficit. The authorization in previous legislative sessions for the scheduled June 2004 general obligation bond sale for bonding projects was delayed until July 2004.

Note 19 – Risk Management

Primary Government

The state is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors and omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other insurance and self-insurance mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund, which offers liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All state agencies are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a range of deductibles from \$1,000 through \$250,000 per loss. The fund covers the balance of the claim up to \$2,000,000. The reinsurance program provides coverage up to \$750,000,000. Once annual aggregate losses paid by the Risk Management Fund reach \$5,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a \$25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature. The liability coverage is up to the statutory limit (tort claims cap) of \$300,000 bodily injury and property damage per person, and \$1,000,000 bodily injury and property damage per occurrence.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state is not able to self-insure. These coverages include aviation, medical malpractice, and foster care liability. The premiums for these policies are billed back to the agencies at cost.

Minnesota Statutes, Section 15.38, Subdivision 8, permits the purchase of insurance on state-owned buildings and contents.

All losses of state property are self-insured, covered by programs of the Risk Management Fund, or covered by insurance policies purchased by the Risk Management Fund on behalf of state agencies.

Tort Claims

Tort claims against the state are limited to \$300,000 bodily injury and property damage per person, and \$1,000,000 bodily injury and property damage per occurrence. State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget of various funds. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of \$1,444,000. The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. These costs are paid from each agency's operating budget. During fiscal year 2004, no significant change in claim liability occurred.

State Employee Group Insurance Program

The Minnesota State Legislature created an employee insurance trust fund administered by the State Employee Group Insurance Program (SEGIP) to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental benefits coverage through provider organizations. The insurance trust fund is not associated with any other public risk pools. The fund type used to account for SEGIP fiscal activities is an internal service fund dedicated solely for the purpose of this program. A contingency reserve is maintained within the trust fund to increase the controls over medical plan provisions and other insurance costs for the purpose of moderating premium and claim fluctuations, and to assume all inherent risk associated with the self-funded insurance programs, which would also include losses to the fund.

SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the state. SEGIP has not had any settlements in excess of coverage for the past three years.

In January 2000, the fund became fully self-insured for medical coverage and assumed all liability for medical claims. The self-funded programs within the fund establish claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not paid, and of claims that have been incurred but not reported. These estimates are agreed to by the insurance carriers and the state and are reviewed for accuracy and reasonableness. The estimates are based on claim experience and claim lag timetables provided by the carriers and do not include additional estimates for subrogation, salvage, or unallocated claim adjustments.

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program. The risk pool was created by the Minnesota State Legislature to provide public employees and other eligible persons with life insurance and hospital, medical, and dental benefit coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Laws of Minnesota, 1987 codified as Minnesota Statutes, Section 43A.316. The PEIP became a self-funded program again in 1998 after a brief period as a fully funded entity.

PEIP's membership as of June 30, 2004, was 2,950 members and their dependents. The members of the pool include 21 school districts, 73 cities/townships, 3 counties, and 26 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums and will reinsure for claims through its administrators/managed care organizations for Stop-Loss coverage for claims in excess of \$65,000.

The pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred, but not reported. The estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits the recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured.

The following tables present changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2004, and 2003:

**Self-Insured Claim Liabilities
As of June 30, 2004 (In Thousands)**

	<u>Beginning Claims Liability</u>	<u>Net Additions and Changes in Claims</u>	<u>Payment of Claims</u>	<u>Ending Claims Liability</u>
Risk Management Fund				
Fiscal Year Ended 6/30/03	\$ 19,711	\$ (3,248)	\$ 4,749	\$ 11,714
Fiscal Year Ended 6/30/04	\$ 11,714	\$ (713)	\$ 2,860	\$ 8,141
Tort Claims ⁽¹⁾				
Fiscal Year Ended 6/30/03	\$ -	\$ 807	\$ 807	\$ -
Fiscal Year Ended 6/30/04	\$ -	\$ 818	\$ 818	\$ -
Workers' Compensation				
Fiscal Year Ended 6/30/03	\$ 119,341	\$ 10,151	\$ 12,643	\$ 116,849
Fiscal Year Ended 6/30/04	\$ 116,849	\$ 14,653	\$ 14,764	\$ 116,738
State Employee Insurance Plans				
Fiscal Year Ended 6/30/03	\$ 40,681	\$ 365,268	\$ 367,503	\$ 38,446
Fiscal Year Ended 6/30/04	\$ 38,446	\$ 389,309	\$ 391,072	\$ 36,683

⁽¹⁾The Office of the Attorney General does not recognize liabilities for Tort Claims. Claims have never exceeded funding appropriated by the legislature.

**Public Employee Insurance
Medical
(In Thousands)**

	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	\$ 2,320	\$ 2,745
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	19,466	19,715
Increases (Decreases) in Provision for Insured Events of Prior Years	<u>(630)</u>	<u>(400)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$ 18,836</u>	<u>\$ 19,315</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	\$ 17,679	\$ 17,418
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	<u>1,667</u>	<u>2,322</u>
Total Payments	<u>\$ 19,346</u>	<u>\$ 19,740</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$ 1,810</u>	<u>\$ 2,320</u>

Component Units

Metropolitan Council

Metropolitan Council (MC) is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss as discussed below. MC has not experienced significant reduction in insurance coverage from the prior year. In addition, MC has not had any settlements in excess of coverage for the past three years.

Liability

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred, but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes, Section 466.04, generally limits the MC's tort exposure to \$300,000 per claim and \$1,000,000 per occurrence for a claim arising on or after January 1, 2000. For claims arising earlier, the limits are \$300,000 per claim and \$750,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

Workers' Compensation

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 5.5 percent. The self-insurance retention limit for workers' compensation is \$1,440,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

The University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims.

The U of M is also self-insured for workers' compensation through an internally maintained fund. The internal fund for workers' compensation is maintained only to fund current year expected payouts. Excess insurance is maintained through the Workers' Compensation Reinsurance Association. Each year, an actuarial estimate of the U of M liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2003, and 2002 or June 30, 2004, and 2003, as applicable:

	Claims Liabilities (In Thousands)			
	<u>Beginning Claims Liability</u>	<u>Net Additions and Changes in Claims</u>	<u>Payment of Claims</u>	<u>Ending Claims Liability</u>
Metropolitan Council				
Fiscal Year Ended 12/31/02	\$ 18,848	\$ 7,055	\$ 7,255	\$ 18,648
Fiscal Year Ended 12/31/03	\$ 18,648	\$ 10,374	\$ 7,227	\$ 21,795
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/03	\$ 6,492	\$ 2,197	\$ 1,032	\$ 7,657
Fiscal Year Ended 6/30/04	\$ 7,657	\$ 1,452	\$ 1,650	\$ 7,459
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/03	\$ 9,000	\$ 6,489	\$ 3,489	\$ 12,000
Fiscal Year Ended 6/30/04	\$ 12,000	\$ 2,601	\$ 3,601	\$ 11,000
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/03	\$ 13,497	\$ 112,834	\$ 108,864	\$ 17,467
Fiscal Year Ended 6/30/04	\$ 17,467	\$ 121,758	\$ 120,806	\$ 18,419

Note 20 – Budgetary Basis vs GAAP

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two bases of accounting for the General Fund is provided in the following table.

Reconciliation of GAAP Basis Fund Balance to Budgetary Fund Balance As of June 30, 2004 (In Thousands)	
	<u>General Fund</u>
GAAP Basis Fund Balance:	\$ (327,959)
Less: Reserved Fund Balance	<u>120,506</u>
Undesignated Fund Balance	<u>\$ (448,465)</u>
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	\$ (376,153)
Tax Refunds Payable	532,704
Human Services Receivable	(33,228)
Deferred Revenue	(7,709)
Other Receivables	(18,304)
Investments at Market	(1,183)
Expenditure Accruals/Adjustments:	
Medical Assistance	284,060
Human Services Grants Payable	44,302
Education Aids	1,224,718
Police and Fire Aid	73,269
Permanent School Fund Reimbursement	(6,568)
Other Payables	13,394
Fund Structure Differences:	
Terminally Funded Pension Plans	8,286
Designated for Appropriation Carryover and Budgetary Reserve	<u>(597,599)</u>
Budgetary Basis:	
Undesignated Fund Balance	<u>\$ 691,524</u>

Note 21 – Prior Period Adjustments

Prior Period Adjustment

Primary Government

GASB issued Technical Bulletin No. 2004-01, "Tobacco Settlement Recognition and Financial Reporting Entity Issues" in April 2004, which clarified the accounting principles for recognizing tobacco settlement resources. The recognition of tobacco settlement revenues should be made when domestic shipment (sales) of cigarettes occurs. As a result, during the year ended June 30, 2004, a prior period adjustment of \$84,233,000 was recorded on the Government-wide Statement of Activities to recognize tobacco settlement revenues and associated accounts receivable that were understated for the year ended June 30, 2003.

Note 22 – Litigation

- 1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable or from funds appropriated for the payment of tort claims. The tort claims appropriation for the fiscal year ended June 30, 2004 was \$671,000. The tort claims appropriation for the fiscal year ending June 30, 2005, is also \$671,000. The maximum limits of liability for tort claims are \$300,000 for any one claim and \$1,000,000 for any number of claims arising out of a single occurrence.
- 2) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over \$10,000,000 in excess of current levels.
 - a. At any one time, there are hundreds of Department of Transportation eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been or will be acquired exceeds \$10 million. Liability arising out of decisions unfavorable to the state may impact the state's trunk highway fund.
 - b. *Austin, et al. v. Goodno*, Ramsey County District Court. Plaintiffs, Minnesota Family Investment Program (MFIP) recipients, filed a class action seeking to block changes to the MFIP made during the 2003 legislative sessions including a Supplemental Social Security Income deeming provision, a requirement that a family's Housing and Urban Development (HUD) housing assistance be counted as unearned income and a lowering of the exit level for MFIP from 120% of the federal poverty guidelines to 115% of the federal poverty guidelines. Fiscal year 2004 savings from implementation of the three challenged changes are estimated to be in excess of \$20 million. On February 27, 2004, the Court ruled in plaintiffs' favor on cross-motions for summary judgment. The Department of Human Services appealed to the Court of Appeals with argument on October 7, 2004.
 - c. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Minnesota Supreme Court. Minn. Stat. § 297F.24 (2003) imposes a 35 cent per pack fee on "non settlement cigarettes." A non-settlement cigarette "means a cigarette manufactured by a person other than a manufacturer [1] that ... is making annual Division Managers payments to the state of Minnesota under a settlement of the lawsuit styled as State v. Philip Morris Inc." or [2] that has entered into a similar agreement also requiring annual payments. Plaintiffs challenged enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. On November 19, 2003, the District Court upheld §

297F.24 against all of plaintiffs' challenges. On August 24, 2004, the Minnesota Court of Appeals affirmed. On September 23, 2004, plaintiffs filed a petition for review in the Minnesota Supreme Court, which is pending. The fee will generate an estimated \$12.9 million over the current biennium. If the Supreme Court accepts review, it will likely issue a decision in the fall of 2005.

- d. *ARRM et. al. v. Goodno; Masterman, et al. v. Goodno, et al.* These are two consolidated cases in U.S. District Court, in which the first group of plaintiffs is a trade association for residential facilities and an individual plaintiff, and the second group of plaintiffs is an advocacy group and four disabled individuals receiving services under Minnesota's Mental Retardation/Related Conditions (MR/RC) Waiver. All plaintiffs challenge the state's rebasing of MR/RC waiver funding. Plaintiffs allege that rebasing will reduce services that clients receive, reduce funding to facilities, and violate federal law. If plaintiffs are successful in their challenge, Minnesota's MR/RC waiver expenditures may increase by up to \$56 million through fiscal year 2005. The federal government has filed a motion to dismiss in *ARRM*, which has not yet been heard. The parties reached a settlement in the *Masterman* lawsuit in late June of 2004. On August 18, 2004, the court issued a ruling on four motions in the *ARRM* case. As to the State, the court denied plaintiff's motion for injunction and dismissed some of plaintiff's claims pursuant to the State's motion to dismiss. The parties are engaged in discovery and exploring whether settlement may be possible.
- e. *Hutchinson Technology, Inc. v. Commissioner of Revenue*, Tax Ct. Nos. 7398-R & 7504-R. The Tax Court held: (1) that Hutchinson Technology's wholly-owned FSC subsidiary qualified as a foreign operating corporation under Minn. Stat. § 290.01, subd. 6b; (2) that Hutchinson Technology was not entitled to the dividend received deduction provided under Minn. Stat. § 290.21, subd. 4(a)(1); and (3) that Hutchinson Technology was entitled to the reduction of income for fees received under Minn. Stat. § 290.01, subd. 19(11) (1994). All three issues are currently before the Minnesota Supreme Court. If the Supreme Court rules in favor of the taxpayer on all three of these issues, the Revenue Department estimates a potential revenue loss over the current biennium of approximately \$117 million. A Supreme Court decision on these issues is expected in late spring - early summer 2005.
- f. *Polaris Industries, Inc. v. Commissioner of Revenue*, Tax Ct. No. 7694-R. The primary issue in this corporate franchise tax case is whether a payment of \$58,050,860, made by the appellant to settle a patent and trade secrets infringement lawsuit, is a non-business expense allocable to Minnesota, appellant's domicile, or a business expense subject to apportionment. The statute in question is Minn. Stat. § 290.17, subd. 1(b). A decision in the appellant's favor would result in a potential revenue loss for the current biennium in excess of \$10 million, since there are other cases pending before the Department of Revenue involving the same legal issue.
- g. *Union Pacific Railroad Co. & Soo Line Railroad Co. v. Salomone, et al.* Federal District Court. No. CV 04-924 JRT/JSM. Plaintiffs, two railroad common carriers, challenge the imposition of Minnesota's sales and use tax on their purchase and use in Minnesota of diesel fuel for locomotives and off-road vehicles. Plaintiffs allege that the tax is discriminatory under the Railroad Revitalization and Regulatory Reform Act of 1976 ("4 R Act") because their principal competitors, motor carriers, airlines, and barges, are not taxed under the same regime or pay little or no tax. The plaintiffs are seeking declaratory and injunctive relief prohibiting enforcement and collection of the tax. A determination in plaintiffs' favor could result in revenue collection losses in excess of \$10 million when applied to plaintiffs and other railroad common carriers operating in Minnesota.

Note 23 – Subsequent Events

Primary Government

On July 20, 2004, \$219,900,000 of general obligation state various purpose bonds and \$80,100,000 of general obligation state trunk highway bonds were sold at a true interest rate of 4.03 percent. The bonds were issued to finance the cost of capital improvements. These bonds are backed by the full faith and credit and taxing powers of the state.

On October 19, 2004, \$180,000,000 of general obligation state various purpose bonds, \$40,000,000 of general obligation state trunk highway bonds, and \$171,880,000 of general obligation state refunding bonds were sold at a true interest rate of 3.55 percent. The bonds were issued to finance the cost of capital improvements. These bonds are backed by the full faith and credit and taxing powers of the state.

Component Units

On May 27, 2004, the Minnesota Housing Finance Agency (HFA) approved series resolutions authorizing the issuance of \$102,345,000 bonds for the purpose of providing funds for certain HFA home ownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G, were delivered on July 22, 2004.

On June 24, 2004, the HFA approved the remarketing of \$38,610,000 convertible option Residential Housing Bonds 2003 Series H to provide funds for certain HFA homeownership programs. These bonds were remarketed on July 22, 2004.

On June 24, 2004, the HFA approved series resolutions authorizing the issuance of \$41,510,000 convertible option. The Residential Housing Bonds, 2004 Series H, were delivered on July 22, 2004.

The HFA called for early redemption subsequent to June 30, 2004, for the following bonds:

<u>Program Funds</u>	<u>Retirement Date</u>	<u>Original Par Value</u>
Residential Housing Finance	July 1, 2004	\$ 8,290,000
Single Family	July 1, 2004	64,665,000
Rental Housing	July 26, 2004	1,640,000
Residential Housing Finance	August 20, 2004	1,670,000
Single Family	August 20, 2004	47,620,000
Rental Housing	September 16, 2004	<u>870,000</u>
Total		<u>\$ 124,755,000</u>

On April 1, 2004, Metropolitan Council sold \$41,375,000 General Obligation Transit Bond, Series 2004A; \$25,000,000 General Obligation Waste Water Treatment Revenue Bonds, Series 2004B; and \$6,000,000 General Obligation Park Bonds, Series 2004C.

Minnesota Technology, Incorporated (MTI) will no longer be included in the state's reporting entity as a discretely presented component unit beginning with the year ending June 30, 2005. The state is providing no base funding to MTI after the year ended June 30, 2004.

During July 2004, the Higher Education Services Office (HESO) issued \$67,000,000 of 2004 Series A (Taxable) Supplemental Student Loan Program Revenue Bonds and \$88,500,000 of 2004 Series B (Tax Exempt) Supplemental Student Loan Program Revenue Bonds.

On August 19, 2004, the Public Facilities Authority authorized the issuance of Clean Water Bond Fund (CWBF) revenue bonds, such principal amount not to exceed \$240,000,000, and the amount of this total to be used for refunding outstanding CWBF revenue bonds not to exceed \$120,000,000.

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the state has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 2,700 bridges and tunnels maintained by the state.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (Mn/DOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below.

Description	PQI Range	PSR Range	SR Range
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI will be used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

The state assesses condition on 100 percent of the pavement surfaces at least once every two years.

	<u>Principal Arterial Average PQI</u>	<u>Non-Principal Arterial Average PQI</u>
2003	3.40	3.24
2002	3.39	3.30
2001	3.47	3.35
2000	3.47	3.35
1999	3.45	3.33

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,705 bridges under Mn/DOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have some minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

<p>Good - If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.</p> <p>Fair - If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.</p> <p>Poor - If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.</p>

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

<u>Principal Arterial</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Fair to Good	96.0%	95.6%	95.9%	96.1%	96.3%

<u>All Other Systems</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Fair to Good	96.6%	92.2%	90.8%	89.6%	90.1%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the years ended June 30, 2004, 2003, and 2002 (in thousands):

	2004		2003		2002	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Costs to be Capitalized	\$ 260,900	\$ 504,288	\$ 719,300	\$ 333,605	\$ 296,500	\$ 258,803
Maintenance of System	<u>426,000</u>	<u>227,996</u>	<u>316,400</u>	<u>304,029</u>	<u>417,400</u>	<u>357,823</u>
Total Construction Program	<u>\$ 686,900</u>	<u>\$ 732,284</u>	<u>\$ 1,035,700</u>	<u>\$ 637,634</u>	<u>\$ 713,900</u>	<u>\$ 616,626</u>

Mn/DOT projects may span several years. Project costs are budgeted in the first year but spent throughout the life of the project. This process does not allow an accurate comparison of the amounts budgeted and spent within a fiscal year due to funding carryover between two or more fiscal years. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. The table demonstrates that over the past year, the state spending has been in line with the budgeted amounts and other tables contained within this narrative demonstrate that the state has met its desired condition levels.

Actuarial Measures of Pension Funding Progress

The state of Minnesota is the employer for five defined benefit single employer plans that are administered by Minnesota State Retirement System (MSRS). MSRS prepares and publishes its own stand-alone comprehensive annual financial report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address).

The Elective State Officers Fund (ESOF) is excluded from the single employer plan disclosures since this plan is closed to new entrants and any remaining active employees have retired, terminated, or elected coverage under another plan.

Required supplementary information of funding progress is provided for the following plans:

- Correctional Employees Retirement Fund (CERF)
- Judicial Retirement Fund (JRF)
- Legislative Retirement Fund (LRF)
- State Patrol Retirement Fund (SPRF)

Required Supplementary Information Schedule of Funding Progress (In Thousands)					
		<u>SPRF</u>	<u>CERF</u>	<u>JRF</u>	<u>LRF</u>
Actuarial Valuation Date	2003 ⁽¹⁾	7/1/2003	7/1/2003	7/1/2003	-
	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
	2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
	2000	-	-	-	7/1/2000
Actuarial Value of Plan Assets	2003	\$ 591,521	\$ 470,716	\$ 134,142	-
	2002	\$ 591,383	\$ 457,416	\$ 131,379	\$ 45,501
	2001	\$ 572,815	\$ 431,134	\$ 123,589	\$ 42,608
	2000	-	-	-	\$ 37,265
Actuarial Accrued Liability	2003	\$ 538,980	\$ 484,974	\$ 176,291	-
	2002	\$ 510,344	\$ 446,426	\$ 171,921	\$ 78,070
	2001	\$ 489,483	\$ 398,633	\$ 165,244	\$ 75,072
	2000	-	-	-	\$ 69,364
Total Unfunded Actuarial Liability (Asset)	2003	\$ (52,541)	\$ 14,258	\$ 42,149	-
	2002	\$ (81,039)	\$ (10,990)	\$ 40,542	\$ 32,569
	2001	\$ (83,332)	\$ (32,501)	\$ 41,655	\$ 32,464
	2000	-	-	-	\$ 32,099
Funded Ratio ⁽²⁾	2003	110%	97%	76%	-
	2002	116%	102%	76%	58%
	2001	117%	108%	75%	57%
	2000	-	-	-	54%
Annual Covered Payroll	2003	\$ 54,175	\$ 131,328	\$ 33,771	-
	2002	\$ 49,278	\$ 124,373	\$ 31,078	\$ 5,089
	2001	\$ 48,935	\$ 120,947	\$ 28,246	\$ 5,858
	2000	-	-	-	\$ 5,808
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2003	(97%)	11%	125%	-
	2002	(164%)	(9%)	130%	640%
	2001	(170%)	(27%)	147%	554%
	2000	-	-	-	553%

⁽¹⁾The July 1, 2003, Annual Valuation Report is the most recently issued report available. Effective with the July 1, 2002, Annual Valuation Report, the LRF is included biennially in even-numbered years only.

⁽²⁾Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

During fiscal year 1998, the Public Employees Insurance Program's medical claims became a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past six years.

	Fiscal and Policy Year Ended (In Thousands)						
	1998	1999	2000	2001	2002	2003	2004
1. Required Contribution and Investment Revenue:							
Earned	\$ 2,564	\$ 7,713	\$ 10,995	\$ 18,005	\$ 22,149	\$ 23,458	\$ 22,764
Ceded	195	624	1,031	1,972	2,243	2,321	2,231
Net Earned	\$ 2,369	\$ 7,089	\$ 9,964	\$ 16,033	\$ 19,906	\$ 21,137	\$ 20,533
2. Unallocated Expenses	\$ 538	\$ 1,458	\$ 1,983	\$ 2,535	\$ 2,715	\$ 2,528	\$ 2,296
3. Estimated Claims and Expenses End of Policy Year:							
Incurred	\$ 2,002	\$ 5,800	\$ 9,972	\$ 16,550	\$ 21,055	\$ 19,715	\$ 19,466
Ceded	91	171	772	760	2,513	1,570	1,980
Net Incurred	\$ 1,911	\$ 5,629	\$ 9,200	\$ 15,790	\$ 18,542	\$ 18,145	\$ 17,486
4. Net Paid (Cumulative) as of:							
End of Policy Year	\$ 1,376	\$ 4,678	\$ 7,944	\$ 13,228	\$ 15,824	\$ 15,848	\$ 15,699
One Year Later	1,849	5,817	9,240	15,908	18,091	17,572	
Two Years Later	1,850	5,818	9,243	15,963	18,034		
Three Years Later	1,850	5,818	9,243	15,963			
Four Years Later	1,850	5,818	9,243				
Five Years Later	1,850	5,818					
Six Years Later	1,850						
5. Re-estimated Ceded Claims and Expenses	\$ 91	\$ 171	\$ 772	\$ 760	\$ 2,513	\$ 1,570	\$ 1,980
6. Re-estimated Net Incurred Claims and Expenses:							
End of Policy Year	\$ 1,911	\$ 5,629	\$ 9,200	\$ 15,790	\$ 18,542	\$ 18,145	\$ 17,486
One Year Later	1,854	5,828	9,253	15,935	18,114	17,595	
Two Years Later	1,850	5,818	9,243	15,963	18,034		
Three Years Later	1,850	5,818	9,243	15,963			
Four Years Later	1,850	5,818	9,243				
Five Years Later	1,850	5,818					
Six Years Later	1,850						
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	\$ (61)	\$ 189	\$ 43	\$ 173	\$ (508)	\$ (550)	\$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.
3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

APPENDIX B
State General Obligation
Long-Term Debt
(Unaudited)

General Obligation Bonds Outstanding October 1, 2005

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of October 1, 2005.

GENERAL OBLIGATION BONDS OUTSTANDING OCTOBER 1, 2005
(INCLUDING THIS ISSUE)
(\$ in Thousands)

<u>Category</u>	<u>Type</u>	<u>Principal Amount</u>	
1	Building	\$918,585	
	Transportation	117,778	
	Pollution Control	84,590	
	Waste Management	4,595	
	Refunding Bonds	413,046	
	Reinvest in Minnesota	4,735	
	Land Fill	23,340	
	Infrastructure Development Bonds	440,346	
	Various Purpose	<u>759,791</u>	
	Total Category 1		\$2,766,806
2	School Loan	\$ 59,845	
	School Loan Refunding	34,540	
	Municipal Energy Building	2,495	
	Rural Finance Authority	71,600	
	Game and Fish Building	<u>29</u>	
	Total Category 2		\$ 168,509
3	Trunk Highway	\$299,245	
	Trunk Highway Refunding	<u>1,310</u>	
	Total Category 3		\$ 300,555
4	State Sports & Health Club Tax Bonds		
	Refunding Bonds	<u>3,045</u>	
	Total Category 4		<u>\$ 3,045</u>
	Total Outstanding October 1, 2005 —		
	Previous Issues ⁽¹⁾		\$3,238,915
	Plus October 1, 2005 Tax Exempt Bond Issue		397,000
	Plus October 1, 2005 Refunding Bonds		160,960
	Less Bonds Refunded by October 1, 2005 Issue		<u>(163,600)</u>
	Total Outstanding October 1, 2005, Including New Issues		<u><u>\$3,633,275</u></u>

(1) Excludes all bonds previously refunded.

The full faith and credit and unlimited taxing powers of the State are pledged for the payment of all of the above bonds.

The outstanding bonds comprising the first category are payable primarily from money appropriated to the Debt Service Fund from the General Fund, which is supported by income tax, sales tax, and other receipts. The bonds comprising the second category are payable to a substantial degree from money appropriated to the Debt Service Fund from special accounts in the General Fund to which the receipts from special revenue sources, such as school district capital and debt service loan repayments, State college charges, fees and rentals, have been pledged. The third category, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 62 percent of the net proceeds of the State gasoline and motor vehicle registration taxes pursuant to the State Constitution. The fourth category, State Sports and Health Club Tax Bonds, are payable primarily from money appropriated to the Debt Service Fund from the sales tax imposed on membership dues, initiation fees and facilities fees of private sports and health clubs.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
October 1, 2005
(\$ in Thousands)

<u>Purpose of Issue</u>	<u>Law Authorizing</u>	<u>Total Authorization⁽¹⁾⁽²⁾</u>	<u>Previously Issued</u>	<u>Authorizations Dated October 1, 2005</u>	<u>Remaining Authorization</u>
Municipal Energy Building	1983, Ch. 323	\$ 29,935.0	\$ 29,935.0	\$ 0.0	\$ 0.0
Building	1987, Ch. 400	369,560.5	369,560.5	0.0	\$ 0.0
Water Pollution Control	1987, Ch. 400	66,740.0	66,740.0	0.0	\$ 0.0
Building	1989, Ch. 300	112,235.0	112,235.0	0.0	\$ 0.0
Building	1990, Ch. 610	270,129.1	270,126.0	0.0	\$ 3.1
Wetlands/Reinvest in MN	1991, Ch. 354	27,360.0	27,360.0	0.0	\$ 0.0
Building	1992, Ch. 558	196,910.0	196,910.0	0.0	\$ 0.0
Waste Management	1992, Ch. 558	1,625.0	1,625.0	0.0	\$ 0.0
Transportation	1992, Ch. 558	17,368.0	17,368.0	0.0	\$ 0.0
Building	1993, Ch. 373	38,355.0	38,355.0	0.0	\$ 0.0
Transportation	1993, Ch. 373	9,480.0	9,480.0	0.0	\$ 0.0
Building	1994, Ch. 643	523,874.5	523,849.0	0.0	\$ 25.5
Municipal Energy Building	1994, Ch. 643	3,975.0	3,975.0	0.0	\$ 0.0
Transportation	1994, Ch. 643	34,820.0	34,820.0	0.0	\$ 0.0
Water Pollution Control	X1995, Ch. 2	710.0	710.0	0.0	\$ 0.0
Building	1996, Ch. 463	478,672.9	478,505.0	0.0	\$ 167.9
Municipal Energy Building	1996, Ch. 463	3,850.0	3,850.0	0.0	\$ 0.0
Building	1997, Ch. 246	82,427.0	82,427.0	0.0	\$ 0.0
Water Pollution Control	1997, Ch. 246	3,765.0	3,765.0	0.0	\$ 0.0
Building	X1997, Ch. 2	37,544.5	37,525.0	0.0	\$ 19.5
Building	1998, Ch. 404	100,656.0	100,656.0	0.0	\$ 0.0
Building	1999, Ch. 240	439,530.1	437,165.0	500.0	\$ 1,865.1
Transportation	1999, Ch. 240	28,000.0	27,814.0	186.0	\$ 0.0
Transportation	2000, Ch. 479	7,000.0	6,545.0	455.0	\$ 0.0
Trunk Highway	2000, Ch. 479	100,100.0	98,750.0	100.0	\$ 1,250.0
Various Purpose	2000, Ch. 492	528,426.3	503,380.0	3,600.0	\$ 21,446.3
Various Purpose	X2001, Ch. 12	117,205.0	112,750.0	0.0	\$ 4,455.0
Various Purpose	2002, Ch. 280	7,800.0	0.0	0.0	\$ 7,800.0
Various Purpose	2002, Ch. 374	75,120.0	67,860.0	1,600.0	\$ 5,660.0
Various Purpose	2002, Ch. 393	624,712.0	532,645.0	33,900.0	\$ 58,167.0
Trunk Highway	X2002, Ch. 1	10,115.0	10,100.0	0.0	\$ 15.0
Various Purpose	X2002, Ch. 1	16,315.0	13,600.0	0.0	\$ 2,715.0
Trunk Highway	X2003, Ch. 19, Art.3	400,400.0	149,750.0	110,000.0	\$ 140,650.0
Trunk Highway	X2003, Ch. 19, Art.4	110,110.0	102,000.0	1,500.0	\$ 6,610.0
Various Purpose	X2003, Ch. 20	236,915.0	162,200.0	28,400.0	\$ 46,315.0
Various Purpose	2005, Ch. 20	944,980.0	0.0	214,259.0	\$ 730,721.0
Rural Finance Authority	X2005, Ch. 3	18,000.0	0.0	2,500.0	\$ 15,500.0
Totals		<u>\$6,074,721.1</u>	<u>\$4,634,335.5</u>	<u>\$397,000.0</u>	<u>\$1,043,385.6</u>

X indicates Special Session Laws.

- (1) Amount as shown reflects any amendments by subsequent session laws.
- (2) Minnesota Statutes, Section 16A.642, requires the Commissioner of Finance to prepare and present to appropriate legislative committees on or before January 1 of each odd-numbered year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

Pursuant to state law, in the Order authorizing the issuance of the Bonds the Commissioner of Finance has reserved the right, for a period of eighteen months after the Bonds have been issued, to amend the Order to determine that a portion of the Bonds were issued, or shall be deemed to have been issued, pursuant to a law other than the one specified in the Order and for a different purpose, and reallocate and transfer their proceeds to the appropriate account in the bond proceeds fund for expenditure pursuant to the law designated in the amendment.

Debt Management Policy

The Governor has established a State Debt Management Policy. Included in this policy is a guideline providing for the issuance of general obligation bonds in amounts such that appropriations to the Debt Service Fund from the General Fund should not exceed 3.0% of the General Fund non-dedicated revenues for a biennium; and a second guideline providing that the principal amount of general obligation bond debt should not exceed 2.5% of the personal income of State residents. A third guideline is that the total amount of all State general obligation bonds, moral obligation debt, State bond guarantees, equipment capital leases, and real estate leases outstanding at the end of any fiscal year should not exceed 5.0% of State personal income for that fiscal year. The purpose of the third guideline is to acknowledge all future commitments of the State, and to establish an upper limit on the total amount of the commitments.

The percentages of the appropriation for debt service from the General Fund and the ratios of debt to personal income are as follows:

<u>Biennium Ending</u>	<u>Percentage of General Fund Revenues for Debt Service</u>	<u>Debt/Personal Income</u>	<u>Future Commitments/ Personal Income</u>
June 30, 1997	2.47%	1.8%	3.64%
June 30, 1999	2.64%	1.8%	3.60%
June 30, 2001	2.43%	1.6%	3.03%
June 30, 2003	2.32%	1.7%	3.03%
June 30, 2005 (est)	2.06%	1.9%	3.00%

Of the State's general obligation bonds outstanding on June 30, 2005, 40.1 percent were scheduled to mature within five years, and 70.3 percent were scheduled to mature within ten years.

**NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND
FOR GENERAL OBLIGATION BONDS DEBT SERVICE
(\$ in Thousands)**

<u>In Fiscal Year</u>	<u>General Fund</u>	<u>All Other Funds</u>	<u>Transfer Total</u>
1996	214,504	26,728	241,232
1997	235,519	22,459	257,978
1998	237,609	19,346	256,955
1999	286,495	20,445	306,940
2000	255,037	16,244	271,281
2001	304,994	18,315	323,309
2002	285,553	19,438	304,991
2003	295,441	43,958	339,399
2004	265,706	73,965	339,671
2005	323,453	70,768	393,921

The Net Transfer amount does not include investment earnings in the Debt Service Fund and the Bond Proceeds Fund which are also appropriated to pay debt service on State general obligation bonds.

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STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

(\$ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2005						
			2006	2007	2008	2009	2010	2011
GENERAL FUND								
STATE BUILDING CAPITAL IMPROVEMENT								
	'87.400	75 21	15 3	5 3	5 3	5 2	5 2	5 2
	'89.300	6,285 1,975	915 331	515 287	515 260	515 234	515 206	515 178
	'90.610	1,935 595	415 89	125 74	120 68	120 63	120 57	120 51
	'92.558	7,575 2,007	1,870 352	515 281	515 253	505 227	505 202	505 176
	'93.373	920 223	345 43	55 31	55 28	55 25	55 22	55 19
	'94.643	140,880 45,856	18,565 6,959	10,495 6,139	10,520 5,610	10,420 5,084	10,415 4,555	10,415 4,017
X	'95.002	575 122	245 26	40 17	40 15	30 14	30 12	30 10
	'96.463	216,920 75,367	17,035 10,775	16,850 9,902	16,845 9,055	16,405 8,211	16,405 7,383	16,405 6,547
	'97.246	48,370 15,315	4,555 2,328	4,255 2,108	4,255 1,902	3,755 1,696	3,755 1,514	3,755 1,332
X	'97.002	25,730 9,540	1,925 1,294	1,925 1,197	1,925 1,100	1,925 1,002	1,925 905	1,925 807
	'98.404	28,275 11,276	1,990 1,473	1,990 1,372	1,990 1,269	1,985 1,165	1,985 1,061	1,985 957
	'99.240	321,105 131,479	23,375 15,989	25,195 14,766	20,555 13,612	20,490 12,568	20,490 11,505	18,505 10,473
STATE MUNICIPAL ENERGY BUILDING BONDS								
	'83.323	645 74	220 27	125 18	125 12	55 8	55 5	25 3
	'90.610	25 6	0 1	0 1	5 1	5 1	5 1	5 0
	'94.643	625 37	395 22	95 9	95 4	20 2	20 1	0 0
	'96.463	1,145 89	385 46	345 28	345 12	60 2	10 1	0 0
REFUNDING BONDS								
	'16A.66	575,416 117,510	64,257 25,512	79,497 22,929	75,217 19,295	75,858 15,477	74,503 11,718	52,575 8,541
REINVESTMENT IN MINNESOTA (RIM)								
	'87.400	15 0	15 0	0 0	0 0	0 0	0 0	0 0
	'89.300	5 0	5 0	0 0	0 0	0 0	0 0	0 0

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
5	5	5	5	5	5	5	0	0	0	0	0	0	0
2	1	1	1	1	0	0	0	0	0	0	0	0	0
515	515	515	515	515	125	75	20	0	0	0	0	0	0
150	122	93	65	36	8	3	1	0	0	0	0	0	0
120	120	120	120	120	120	115	30	30	10	10	0	0	0
45	39	33	27	21	14	8	4	2	1	0	0	0	0
505	505	505	505	505	505	55	55	20	0	0	0	0	0
150	123	97	71	45	20	6	3	1	0	0	0	0	0
55	55	55	55	50	10	10	5	5	0	0	0	0	0
16	13	10	7	4	1	1	0	0	0	0	0	0	0
10,415	10,410	10,410	10,390	10,320	7,505	5,505	2,570	1,295	645	445	120	20	0
3,476	2,931	2,384	1,840	1,298	759	431	202	102	46	19	4	1	0
30	30	30	30	30	5	5	0	0	0	0	0	0	0
9	7	5	4	2	0	0	0	0	0	0	0	0	0
16,405	15,955	16,055	16,050	16,050	14,255	10,730	6,580	2,760	1,025	780	190	140	0
5,706	4,861	4,037	3,212	2,390	1,567	936	447	205	81	36	12	4	0
3,755	3,355	3,355	3,355	3,355	3,355	3,355	155	0	0	0	0	0	0
1,148	963	798	632	465	297	129	4	0	0	0	0	0	0
1,925	1,930	1,685	1,685	1,685	1,685	1,685	535	535	430	180	85	85	50
709	612	514	427	341	256	171	86	58	31	16	9	5	1
1,985	1,985	1,985	1,985	1,985	1,985	1,985	1,335	990	45	45	20	20	0
853	749	645	541	437	333	229	125	61	5	3	2	1	0
18,505	18,505	18,505	18,505	18,505	18,505	18,505	18,505	18,505	13,120	8,775	2,675	840	540
9,509	8,551	7,587	6,618	5,649	4,688	3,738	2,786	1,831	981	429	138	48	14
25	15	0	0	0	0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
51,980	34,740	32,410	23,005	11,375	0	0	0	0	0	0	0	0	0
6,059	4,069	2,483	1,144	284	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2005	2006	2007	2008	2009	2010	2011
GENERAL FUND (CONT)								
REINVESTMENT IN MINNESOTA (RIM) (CONT)								
	'90.610	65 19	10 3	10 3	5 3	5 2	5 2	5 2
	'91.354	1,805 520	405 89	135 73	130 67	130 60	130 53	130 46
RURAL FINANCE AUTHORITY (RFA)								
	'86.398	23,000 1,311	14,000 942	9,000 369	0 0	0 0	0 0	0 0
	'96.463	33,100 5,789	0 1,863	5,000 1,863	18,000 1,343	4,500 414	3,100 236	2,500 69
	'00.492	5,000 1,859	0 261	0 261	0 261	500 249	0 236	0 236
	'02.393	15,000 2,693	0 705	0 705	0 705	10,500 465	4,500 113	0 0
LANDFILL								
	'94.639	19,330 6,705	1,835 978	1,465 886	1,465 810	1,465 736	1,465 661	1,455 585
POLLUTION CONTROL								
	'87.400	990 297	130 50	80 44	80 39	80 35	80 31	80 27
	'89.300	180 55	15 9	15 8	15 7	15 7	15 6	15 5
	'90.610	645 192	80 31	50 27	50 25	50 22	50 20	50 17
	'92.558	775 193	195 36	65 29	65 25	50 22	50 19	50 17
	'93.373	1,480 435	330 78	115 64	115 58	115 52	115 46	115 39
	'94.643	11,100 3,348	1,800 542	845 466	845 425	835 383	835 342	835 299
	X'95.002	390 124	30 18	30 17	30 15	30 14	30 12	30 11
	'96.463	16,980 5,729	1,275 810	1,275 747	1,275 685	1,275 624	1,275 562	1,275 500
	'97.246	2,695 1,056	195 138	190 129	190 119	190 109	190 99	190 89
	'98.404	2,855 1,165	185 145	185 135	185 126	185 116	185 106	185 96
	'99.240	31,150 13,199	2,020 1,609	2,020 1,503	2,020 1,398	1,970 1,294	1,970 1,189	1,970 1,085
VARIOUS PURPOSE								
	'00.492	296,384 112,721	25,915 14,450	32,240 13,001	17,045 11,761	17,845 10,876	19,850 9,910	17,850 8,942

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
5	5	5	5	5	0	0	0	0	0	0	0	0	0
1	1	1	1	0	0	0	0	0	0	0	0	0	0
130	130	130	125	125	45	45	15	0	0	0	0	0	0
39	32	25	18	11	4	2	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	4,500	0	0	0	0	0	0	0	0	0	0	0	0
236	118	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
1,455	1,455	1,455	1,455	1,455	1,345	810	375	375	0	0	0	0	0
509	433	357	282	207	132	76	37	16	0	0	0	0	0
80	80	80	80	80	60	0	0	0	0	0	0	0	0
23	18	14	10	6	2	0	0	0	0	0	0	0	0
15	15	15	15	15	15	0	0	0	0	0	0	0	0
4	3	3	2	1	0	0	0	0	0	0	0	0	0
50	50	50	50	50	50	15	0	0	0	0	0	0	0
15	12	10	7	5	2	0	0	0	0	0	0	0	0
50	50	50	50	50	50	0	0	0	0	0	0	0	0
14	11	9	6	4	1	0	0	0	0	0	0	0	0
115	115	115	115	115	0	0	0	0	0	0	0	0	0
33	26	20	13	7	0	0	0	0	0	0	0	0	0
835	835	835	835	835	465	465	0	0	0	0	0	0	0
256	212	169	125	80	36	13	0	0	0	0	0	0	0
30	30	30	30	30	30	30	0	0	0	0	0	0	0
10	8	7	5	4	2	1	0	0	0	0	0	0	0
1,275	1,275	1,275	1,275	1,275	1,275	975	320	135	50	50	50	50	50
437	373	309	245	182	118	61	28	17	11	9	6	4	1
190	190	185	185	185	185	185	135	85	10	10	5	0	0
80	70	60	50	41	31	21	12	6	1	1	0	0	0
180	180	180	180	180	180	180	180	180	125	0	0	0	0
87	77	68	58	48	39	29	20	11	3	0	0	0	0
1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	950	500	0	0	0
980	876	771	666	561	457	353	250	146	49	13	0	0	0
24,355	20,735	13,030	13,030	13,034	13,035	13,035	13,035	13,045	11,980	8,400	3,975	3,150	1,800
7,860	6,711	5,846	5,169	4,492	3,822	3,161	2,497	1,832	1,171	659	348	169	45

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

(\$ IN THOUSANDS)

GROUP & FUND & TYPE GENERAL FUND (CONT) VARIOUS PURPOSE (CONT)	AUTHORIZATION YEAR-CHAPTER	AMOUNT	2006	2007	2008	2009	2010	2011
		OUTSTANDING 6/30/2005						
	X'01.012	76,965 34,151	4,625 3,763	4,625 3,538	4,625 3,308	4,295 3,083	4,295 2,866	4,295 2,649
	'02.374	69,740 29,671	4,030 3,439	7,210 3,160	4,040 2,880	3,920 2,679	3,920 2,480	3,920 2,280
	'02.393	341,972 162,421	18,210 16,594	19,600 15,753	19,610 14,800	19,335 13,823	17,335 12,901	18,035 12,011
	X'02.001	7,455 3,665	380 360	380 344	380 326	380 307	380 288	380 269
	X'03.020	137,200 68,521	6,860 6,626	6,860 6,328	6,860 6,003	6,860 5,660	6,860 5,317	6,860 4,974
STATE TRANSPORTATION	'84.597	2,700 323	700 136	700 95	700 55	300 27	300 11	0 0
	'87.400	120 38	20 6	10 6	10 5	10 5	10 4	10 3
	'89.300	85 20	25 4	10 3	10 3	5 2	5 2	5 2
	'90.610	1,130 365	150 54	85 48	85 44	80 40	80 36	80 32
	'92.558	3,628 1,265	430 175	260 157	245 145	245 133	245 121	245 108
	'93.373	2,975 1,082	365 154	230 137	230 126	210 114	210 103	210 92
	'94.643	20,635 7,581	1,945 1,028	1,450 940	1,450 868	1,445 795	1,445 722	1,445 648
	X'95.002	1,790 566	170 86	140 78	140 71	140 64	140 58	140 51
	'96.463	4,465 1,506	355 218	350 201	345 184	345 167	345 150	345 133
	'97.246	2,030 758	150 102	150 94	150 87	145 79	145 72	145 65
	X'97.002	980 342	70 46	70 44	70 40	70 37	70 33	70 30
	'98.404	3,025 1,101	225 152	225 141	225 130	225 118	225 107	225 96
	'99.240	22,255 9,523	1,430 1,163	1,430 1,088	1,430 1,013	1,430 938	1,430 861	1,430 785
	'00.479	6,175 2,703	360 299	360 282	360 264	355 246	355 228	355 210
	X'01.012	3,965 1,918	205 192	205 183	205 173	205 162	205 152	205 142

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
4,295	4,295	4,295	4,295	4,295	4,295	4,295	4,295	4,295	4,295	4,295	1,845	840	275
2,432	2,214	1,997	1,780	1,563	1,345	1,128	911	694	476	259	103	35	7
3,920	3,920	3,555	3,560	3,560	3,560	3,570	3,570	3,575	3,575	3,575	1,920	420	420
2,080	1,880	1,690	1,508	1,326	1,145	963	780	598	416	233	92	32	11
18,035	18,030	16,980	17,230	17,240	17,242	17,245	17,250	17,260	17,260	17,260	15,970	13,785	9,060
11,104	10,197	9,316	8,456	7,589	6,721	5,853	4,986	4,117	3,249	2,380	1,544	798	227
380	380	380	380	380	380	380	380	380	380	380	380	355	260
250	231	212	193	174	155	136	117	97	78	59	40	22	7
6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860	6,860
4,631	4,288	3,945	3,602	3,259	2,916	2,573	2,230	1,887	1,544	1,201	858	515	172
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	10	10	10	10	0	0	0	0	0	0	0	0	0
3	2	2	1	1	0	0	0	0	0	0	0	0	0
5	5	5	5	5	0	0	0	0	0	0	0	0	0
1	1	1	1	0	0	0	0	0	0	0	0	0	0
80	80	80	80	80	65	65	20	10	10	0	0	0	0
28	24	20	15	11	7	4	2	1	0	0	0	0	0
245	245	245	245	245	243	240	140	95	5	5	5	0	0
96	84	71	59	46	33	21	11	5	1	0	0	0	0
210	210	210	210	210	120	120	80	65	25	25	25	10	0
80	69	58	46	35	24	17	11	7	4	2	1	0	0
1,445	1,445	1,445	1,445	1,445	1,350	1,320	770	570	115	90	15	0	0
574	500	425	350	275	200	131	76	40	8	3	0	0	0
140	140	140	140	140	110	110	0	0	0	0	0	0	0
44	37	30	23	15	8	3	0	0	0	0	0	0	0
345	345	335	335	335	295	295	80	5	5	5	0	0	0
115	98	81	64	47	30	15	3	1	0	0	0	0	0
145	140	140	140	140	140	140	90	70	0	0	0	0	0
57	50	43	35	28	21	14	7	3	0	0	0	0	0
70	70	70	70	70	70	70	70	0	0	0	0	0	0
26	23	19	16	12	9	5	2	0	0	0	0	0	0
225	225	230	230	230	230	230	25	25	10	10	5	0	0
84	73	62	50	38	27	15	4	2	1	1	0	0	0
1,430	1,425	1,425	1,425	1,425	1,425	1,425	1,425	1,425	510	190	65	65	15
708	632	556	479	402	326	250	175	99	30	12	6	2	0
355	355	350	350	345	345	345	345	345	345	345	70	70	65
193	175	157	140	122	105	88	71	53	36	19	9	5	2
205	205	205	205	205	205	205	205	205	205	205	205	205	70
132	121	111	101	91	80	70	60	50	39	29	19	9	2

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
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PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT	2006	2007	2008	2009	2010	2011
		OUTSTANDING 6/30/2005						
GENERAL FUND (CONT)								
STATE TRANSPORTATION (CONT)	'02.374	3,510 1,656	195 178	195 168	195 158	195 148	195 138	195 128
	'02.393	21,600 10,241	1,150 1,056	1,150 1,003	1,150 946	1,150 888	1,150 830	1,150 772
	X'02.001	4,550 2,150	250 229	250 216	250 204	250 191	250 178	250 165
	X'03.020	1,140 541	60 55	60 53	60 50	60 47	60 44	60 41
WASTE MANAGEMENT								
	'90.610	1,320 389	150 65	150 56	100 50	100 45	100 40	100 34
	'92.558	1,210 479	105 59	105 53	90 48	65 44	65 41	65 37
	'96.463	2,000 749	140 99	140 92	140 86	140 79	140 71	140 64
INFRASTRUCTURE DEVELOPMENT								
STATE BUILDING CAPITAL IMPROVEMENT								
	'90.610	580 102	330 24	25 14	25 13	25 11	25 10	25 9
	'92.558	1,830 54	1,830 54	0 0	0 0	0 0	0 0	0 0
	'94.643	51,370 16,799	5,255 2,559	4,020 2,304	4,020 2,104	4,015 1,903	4,015 1,701	4,010 1,495
	'96.463	73,770 26,579	5,530 3,636	5,365 3,370	5,350 3,111	5,340 2,844	5,340 2,575	5,335 2,303
	'98.404	46,675 19,568	2,965 2,354	2,965 2,202	2,900 2,052	2,900 1,903	2,900 1,751	2,900 1,598
VARIOUS PURPOSE								
	'00.492	102,301 44,650	6,040 5,091	6,040 4,784	6,025 4,478	6,025 4,171	6,025 3,861	6,025 3,549
	'02.393	108,835 51,362	5,935 5,414	5,930 5,129	5,930 4,832	5,930 4,531	5,930 4,226	5,930 3,921
	X'03.020	22,610 10,734	1,190 1,095	1,190 1,041	1,190 982	1,190 922	1,190 863	1,190 803
SPORTS & HEALTH TAX REFUNDING BONDS								
	'16A.66	3,045 226	1,100 122	1,215 67	470 25	140 10	120 3	0 0
GROUP TOTAL GENERAL FUND		2,995,081 1,082,698	257,877 144,718	267,897 132,666	243,707 120,029	239,473 107,474	230,148 95,633	199,335 84,674
GAME & FISH								
	'16A.66	29 2	13 1	8 1	3 0	3 0	3 0	0 0
GROUP TOTAL GAME & FISH		29 2	13 1	8 1	3 0	3 0	3 0	0 0

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
195	195	195	195	195	195	195	195	195	195	195	195	0	0
118	107	97	87	77	67	56	46	36	26	15	5	0	0
1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	900	0
713	655	597	539	481	423	365	307	248	190	132	74	23	0
250	250	250	250	250	250	250	250	250	250	250	250	50	0
152	139	126	113	100	87	74	61	48	35	22	9	1	0
60	60	60	60	60	60	60	60	60	60	60	60	60	0
38	35	32	29	26	23	20	17	14	11	8	5	2	0
100	100	100	100	100	100	10	10	0	0	0	0	0	0
29	24	19	14	9	4	1	0	0	0	0	0	0	0
65	65	65	65	65	65	65	65	65	65	65	0	0	0
34	31	28	24	21	18	15	11	8	5	2	0	0	0
140	140	140	140	140	140	140	100	75	5	0	0	0	0
57	50	43	36	28	21	14	7	2	0	0	0	0	0
25	25	25	25	25	0	0	0	0	0	0	0	0	0
7	6	4	3	1	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,010	4,010	4,010	4,010	4,005	2,740	2,240	890	120	0	0	0	0	0
1,288	1,078	869	659	450	241	116	29	3	0	0	0	0	0
5,335	5,335	5,335	5,335	5,335	4,725	4,725	3,425	1,660	275	25	0	0	0
2,029	1,755	1,481	1,205	929	653	413	198	66	8	1	0	0	0
2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,745	2,100	1,000	100	0	0
1,446	1,296	1,144	990	837	686	537	388	242	108	30	3	0	0
6,025	6,025	6,025	6,025	6,021	6,020	6,015	6,015	6,015	5,745	4,475	1,470	245	0
3,239	2,930	2,620	2,308	1,996	1,686	1,380	1,073	766	461	202	51	6	0
5,930	5,930	5,930	5,930	5,925	5,925	5,920	5,920	5,920	5,920	5,920	5,800	2,280	0
3,615	3,310	3,005	2,700	2,394	2,089	1,784	1,480	1,175	870	565	263	57	0
1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	0
744	684	625	565	506	446	387	327	268	208	149	89	30	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
202,740	185,500	169,375	160,195	148,485	129,160	121,515	103,595	94,560	78,945	66,770	44,700	31,640	19,465
74,564	64,824	55,835	47,433	39,510	32,184	25,818	19,888	14,817	10,184	6,508	3,689	1,764	487
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT	2006	2007	2008	2009	2010	2011
		OUTSTANDING 6/30/2005						
TRUNK HIGHWAY REFUNDING BONDS (CONT)								
	'16A.66	1,310	530	595	185	0	0	0
		81	52	24	5	0	0	0
TRUNK HIGHWAY								
	'00.479	85,195	5,065	5,065	5,065	5,050	5,050	5,050
		36,649	4,221	3,962	3,705	3,449	3,189	2,928
	X'02.001	9,600	505	505	505	505	505	505
		4,560	465	442	417	392	366	341
	X'03.018	96,900	5,100	5,100	5,100	5,100	5,100	5,100
		46,002	4,692	4,463	4,208	3,953	3,698	3,443
	X'03.019	147,550	7,450	7,450	7,450	7,450	7,450	7,450
		73,022	7,139	6,806	6,446	6,074	5,701	5,329
GROUP TOTAL TRUNK HIGHWAY		340,555	18,650	18,715	18,305	18,105	18,105	18,105
		160,314	16,569	15,697	14,781	13,867	12,954	12,041
MAX EFFORT SCHOOL LOAN REFUNDING BONDS								
	'16A.66	34,540	5,215	5,180	4,870	4,750	4,710	3,745
		5,733	1,453	1,275	1,035	794	558	346
SCHOOL LOANS								
	'91.265	55	55	0	0	0	0	0
		2	2	0	0	0	0	0
	'93.373	60	60	0	0	0	0	0
		2	2	0	0	0	0	0
	'94.643	150	150	0	0	0	0	0
		5	5	0	0	0	0	0
	X'95.002	8,650	1,185	690	685	685	685	685
		2,533	426	370	332	298	263	227
	'00.492	13,790	805	805	805	805	805	805
		5,957	674	634	593	553	512	472
	X'01.012	17,670	930	930	930	930	930	930
		8,389	856	814	767	721	674	628
	'02.393	11,905	620	620	620	620	620	620
		5,715	577	549	518	487	456	425
GROUP TOTAL MAX EFFORT SCHOOL LOAN		86,820	9,020	8,225	7,910	7,790	7,750	6,785
		28,335	3,993	3,641	3,245	2,852	2,463	2,098
STATE GUARANTEED BONDS GUARANTEED BOND CLASS								
	'91.350	37,825	975	1,035	1,105	1,180	1,260	1,350
		19,189	2,348	2,282	2,211	2,133	2,050	1,966
GROUP TOTAL STATE GUARANTEED BONDS		37,825	975	1,035	1,105	1,180	1,260	1,350
		19,189	2,348	2,282	2,211	2,133	2,050	1,966

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

(\$ IN THOUSANDS)

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	3,550	725	75	0
2,669	2,411	2,151	1,889	1,628	1,369	1,114	858	602	348	131	23	2	0
505	505	505	505	505	505	505	505	505	505	505	505	505	5
316	291	265	240	215	190	164	139	114	89	63	38	13	0
5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	0
3,188	2,933	2,678	2,423	2,168	1,913	1,658	1,403	1,148	893	638	383	128	0
7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	6,000
4,956	4,584	4,211	3,839	3,466	3,094	2,721	2,349	1,976	1,604	1,231	859	486	150
18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	16,605	13,780	13,130	6,005
11,128	10,218	9,305	8,391	7,476	6,565	5,657	4,748	3,840	2,933	2,063	1,302	629	150
3,545	1,510	1,015	0	0	0	0	0	0	0	0	0	0	0
179	73	20	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
685	680	680	680	680	630	0	0	0	0	0	0	0	0
192	156	120	84	50	16	0	0	0	0	0	0	0	0
805	805	805	805	805	805	805	805	800	800	800	120	0	0
431	391	350	310	269	229	188	147	107	67	26	3	0	0
930	930	930	930	930	930	930	930	930	930	930	930	930	0
581	535	488	442	395	349	302	256	209	163	116	70	23	0
620	620	620	620	620	620	620	620	620	620	620	615	620	130
394	363	332	301	270	239	208	177	146	115	84	53	22	3
6,585	4,545	4,050	3,035	3,035	2,985	2,355	2,355	2,350	2,350	2,350	1,665	1,550	130
1,777	1,517	1,310	1,137	984	832	698	580	462	344	226	126	45	3
1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0	0
1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0	0
1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0	0
1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

(\$ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING						
		<u>6/30/2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
TOTAL PRINCIPAL - LESS GUARANTEE		3,422,485	285,560	294,845	269,925	265,370	256,005	224,225
TOTAL INTEREST - LESS GUARANTEE		1,271,349	165,282	152,004	138,055	124,193	111,050	98,813
TOTAL DEBT SERVICE - LESS GUARANTEE (1)		4,693,834	450,842	446,849	407,980	389,563	367,055	323,038
TOTAL PRINCIPAL - ALL FUNDS		3,460,310	286,535	295,880	271,030	266,550	257,265	225,575
TOTAL INTEREST - ALL FUNDS		1,290,538	167,630	154,286	140,265	126,326	113,100	100,779
TOTAL DEBT SERVICE - ALL FUNDS (1)		4,750,848	454,165	450,166	411,295	392,876	370,365	326,354

The Total Debt Service - All Funds does not include:

\$56,350,000 of bonds dated April 1, 1995; \$2,040,000 of bonds dated May 1, 1995; \$113,650,000 of bonds dated August 1, 1995;
For which funds are held in escrow, have been invested and will be sufficient to pay the principal of, and interest on, the bonds
to their earliest call date.

STATE OF MINNESOTA
GENERAL OBLIGATION DEBT
SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

(\$ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
227,430	208,150	191,530	181,335	169,625	150,250	141,975	124,055	115,015	99,400	85,725	60,145	46,320	25,600
87,470	76,559	66,450	56,960	47,970	39,581	32,173	25,217	19,119	13,461	8,798	5,117	2,438	640
314,900	284,709	257,980	238,295	217,595	189,831	174,148	149,272	134,134	112,861	94,523	65,262	48,758	26,240
228,860	209,665	193,135	207,705	169,625	150,250	141,975	124,055	115,015	99,400	85,725	60,145	46,320	25,600
89,353	78,353	68,149	57,784	47,970	39,581	32,173	25,217	19,119	13,461	8,798	5,117	2,438	640
318,213	288,018	261,284	265,489	217,595	189,831	174,148	149,272	134,134	112,861	94,523	65,262	48,758	26,240

Market Value of Taxable Property: The market value, as defined by statute, of taxable real and personal property in the State, based upon the January 2005 valuation, was estimated by the Commissioner of Revenue to be \$465,979,422,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY
(\$ in Thousands)

<u>Year of Assessment</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Market Value</u>	<u>Percentage Increase from Prior Year</u>
1996	189,112,000	3,440,000	192,552,000	6.71
1997	202,875,000	3,490,000	206,365,000	7.17
1998	219,034,000	3,641,000	222,675,000	7.90
1999	237,387,125	3,931,269	241,318,394	8.37
2000	260,679,384	4,003,571	264,682,955	9.68
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,524,447	363,687,940	11.83
2004	407,146,983	4,713,782	411,860,765	13.25
2005 (est)	461,108,486	4,870,936	465,979,422	13.14

EQUIPMENT FINANCING

The Commissioner of Finance is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of June 30, 2005, principal in the amount of \$14,755,414 was outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent of moneys appropriated from time to time for this purpose.

Various State agencies, with the Commissioner of Finance's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of June 30, 2005, principal in the amount of \$14,406,498 was outstanding and unpaid under such equipment leases. The nature of the State's obligation to make rental payments under these equipment leases is the same as under the master leases described above.

REAL ESTATE FINANCING

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued \$8,220,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. As of October 1, 2005, \$7,415,000 of the bonds will remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The State's obligation to make rental payments is not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent of moneys appropriated from time to time for this purpose.

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds sold to finance both of the facilities was \$193,105,000, all of which remain will be outstanding, on October 1, 2005. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as when the Lease and Option to Purchase Agreement with the City of Bemidji described above.

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APPENDIX C

I. Project Description

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose.⁽¹⁾

(\$ in Thousands)				
Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
1999, Chapter 240	Natural Resources	Statewide	Flood Hazard Grants (State Share)	1,698
	Natural Resources	Statewide	Flood Hazard Grants (Local Share)	17,270
	Administration	Park Rapids	Infrastructure Improvement Grant	1,000
	Transportation	Statewide	Light Rail Transit	60,000
	University of Minnesota	Minneapolis	Folwell Hall Renovations	690
	Transportation	Statewide	Transitways Hiawatha Corridor	40,000
	Transportation	Statewide	Local Bridges	28,000
	Transportation	Statewide	Local Bridges	28,000
	Natural Resources	Statewide	Trail Acquisition and Development	3,350
	Administration	St. Paul	Capitol Building	6,500
	Veterans Home Board	Minneapolis	Veterans Home	6,000
	Veterans Home Board	Hastings	VHB Power Plant	5,000
2000, Chapter 479	Transportation	Statewide	Local Bridge Replacement	7,000
	Transportation	Systemwide	Trunk Highway Improvements	100,000
2000, Chapter 492	Administration, Department of	Capitol Complex	717 Delaware Street (Health Building)	4,000
	Administration, Department of	Statewide	Statewide CAPRA	10,000
	Administration, Department of	Capitol Complex	Electrical Utility Infrastructure, Phase 4	2,500
	Children, Families & Learning	Minneapolis	Minnesota Planetarium	1,000
	Children, Families & Learning	Statewide	Library Access Grants	1,000
	Corrections, Department of	Stillwater	MCF-STW — Conversion to Health Services	1,800
	Corrections, Department of	Lino Lakes	MCF-LL — H-Building Remodel, Phase III	3,400
	Corrections, Department of	Faribault	MCF-FRB — Sewer Repair	7,500
	Corrections, Department of	Stillwater	MCF-STW — Wall, Towers, Catwalk, & Security	1,000
	Corrections, Department of	Oak Park Heights	MCF-OPH — 60-bed Admin. Control Unit	855
	Corrections, Department of	Bayport	Storm Sewer Project	2,680
	Human Services, Department of	Systemwide	Roof Repair/Replacement	1,971
	Human Services, Department of	St. Peter	SPRTC — Upgrade Shantz & Pextons Bldgs.	7,200
	Human Services, Department of	Systemwide	Asset Preservation	3,000
	MN State Colleges and Universities	St. Cloud	Riverview Renovation Design	3,864
	Military Affairs, Department of	Systemwide	Asset Preservation	1,500
	Military Affairs, Department of	Little Falls	Camp Ripley Museum	125
	Natural Resources, Department of	Systemwide	ADA Compliance	2,000

I. Project Description (continued)
(\$ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Natural Resources, Department of	Two Harbors	Two Harbors Marina	1,000
	Natural Resources, Department of	St. Paul	Trails, Upper Landing, Raspberry Island	3,000
	Natural Resources, Department of	Systemwide	RIM — Critical Habitat Match	750
	Natural Resources, Department of	Systemwide	Forest Roads and Bridges	1,000
	Natural Resources, Department of	Systemwide	Blazing Star State Trail Bridge	750
	Natural Resources, Department of	Systemwide	Prairie Bank Easements	1,000
	Natural Resources, Department of	Red Lake	Red River State Rec Area	1,000
	Natural Resources, Department of	Systemwide	RIM — Wildlife Dev/Habitat Improve	1,000
	Natural Resources, Department of	Systemwide	Trail Acq. Dev. — Paul Bunyan Trail	1,750
	Natural Resources, Department of	Systemwide	Office Facilities Development — DNR	3,250
	Natural Resources, Department of	St. Paul	Como Park Education Resource Center	16,000
	Natural Resources, Department of	Systemwide	Shooting Star State Trail	500
	Natural Resources, Department of	Systemwide	Lewis & Clark Rural Water Project	610
	Natural Resources, Department of	Systemwide	State Park and Rec Area Acquisition	500
	Natural Resources, Department of	Systemwide	State Park & Rec Area Bldg Rehab	1,900
	Natural Resources, Department of	Systemwide	State Park & Rec Betterm't Rehab	1,500
	Natural Resources, Department of	Systemwide	Flood Hazard Mitigation Grants	14,000
	Natural Resources, Department of	Systemwide	Metro Greenways and Natural Areas	1,500
	Natural Resources, Department of	Lake County	Gitchi Gami Trail	400
	Natural Resources, Department of	Duluth	Lake Superior Safe Harbors	2,000
	Natural Resources, Department of	Systemwide	Dam Repair/Reconstruction/Removal	954
	Natural Resources, Department of	Systemwide	Statewide Asset Preservation	2,000
	Natural Resources, Department of	Beltrami County	Big Bog State Rec Area	2,017
	Public Safety, Department of	Little Falls	Public Safety Training Facility	3,000
	Trade & Economic Development	Statewide	MPFA Wastewater Infrastructure Funding	12,010
	Veterans Homes Board	Statewide	Asset Preservation	3,000
	Veterans Homes Board	Minneapolis	Repair and Replacement	1,700
	Water & Soil Resources Board	Statewide	RIM Reserve — Habitat, Soil Cons, Water Quality	20,000
	Water & Soil Resources Board	Statewide	Local Gov't Roads Wetland Banking	2,300
	Water & Soil Resources Board	Statewide	RIM Reserve Reserve Programs (Non-CREP)	1,000

I. Project Description (continued)

(\$ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation	
2002, Chapter 374	Natural Resources	Systemwide	1998 Forest Road/Bridges	750	
	Natural Resources	Systemwide	1998 Metro Greenway Acquisition	2,000	
	Natural Resources	Systemwide	Safe Harbors Program	3,223	
	BWSR	Systemwide	Local Road Replacement	300	
	Administration	Statewide	2000 Asset Preservation	350	
	Administration	St. Paul	2000 Bureau of Criminal Apprehension Facility	42,700	
	Administration	Statewide	2000 Property Acquisition	450	
	Administration	Statewide	1998 Asset Preservation	750	
	Administration	Statewide	1998 Real Property Acquisition	1,000	
	CAAPB	Capitol Complex	HHH Memorial	250	
	Transportation	Statewide	2000 County/Local Bridges	13,000	
	Transportation	Statewide	1998 County State Aid Hwy 90	590	
	Human Services	Systemwide	1998 Asset Preservation	1,500	
	Corrections	Systemwide	1998 Asset Preservation	250	
	DTED	Statewide	2000 WIF	3,590	
	Historical Society	Systemwide	1998 Site Preservation/Repair	850	
	Historical Society	Silver Bay	Split Rock Lighthouse	700	
	Finance	Statewide	Bond Sale Expense	77	
	2002, Chapter 393	University of MN	St. Paul	Plant Growth Phase II	17,700
		University of MN	Crookston	Bede Hall Replacement	7,701
University of MN		Systemwide	Classroom Improvements	2,000	
MNSCU		Systemwide	HEAPR	60,000	
MNSCU		Alexandria	TC Classroom/Technology Building	9,150	
MNSCU		Century	CC Design Space Remodel	2,500	
MNSCU		St. Paul	Metro State Library	17,442	
MNSCU		Minneapolis	CC Consolidation Remodel Phase II	9,000	
MNSCU		Moorhead	Science Building	18,955	
MNSCU		Winona	Science Lab Facility	30,000	
DCFL		Red Lake	Red Lake Additions and Renovations	12,400	
MN State Academies		Faribault	Asset Preservation	1,500	
DNR		Statewide	Statewide Asset Preservation	2,600	
DNR		Statewide	Field Office Renovation and Improvement	1,000	
DNR		Statewide	Office Facilities Development	1,500	
DNR		Statewide	State Park Initiative	23,500	
DNR		Statewide	Metro Regional Parks	6,000	
DNR		Statewide	Forest Roads and Bridges	1,200	
DNR		Statewide	Luce Line	300	
DNR		Statewide	Douglas Trail	300	
DNR		Statewide	Willard Munger Trail	300	
DNR		Statewide	Well Sealing	600	
DNR		Statewide	Dam Repair, Reconstruction and Removal	650	
DNR		Statewide	Flood Hazard Mitigation Grants	30,000	
DNR		Statewide	RIM Critical Habitat	1,000	
PCA		PCA	Closed Landfill Bonding	10,000	
Administration		Statewide	Statewide CAPRA	14,000	
Administration		Capitol Complex	Electrical Work	3,231	
Administration		St. Paul	New State Buildings	60,000	
Military Affairs		Systemwide	Asset Preservation and Kitchen Repair	2,500	
Military Affairs		Systemwide	ADA improvements	357	
Military Affairs		Systemwide	Facility Life Safety	1,000	
Transportation		Systemwide	Local Bridge Assistance	45,000	
Metropolitan Council		Metro	Northwest Metro Busway	20,000	
Commerce		Systemwide	Energy Investment Loans	5,000	
DHS		Systemwide	Systemwide Roof Replacement	2,789	
DHS		Systemwide	Systemwide Asset Preservation	4,000	
DHS		Systemwide	Systemwide Building Demolition	2,750	

I. Project Description (continued)
(\$ in Thousands)

<u>Law Authorizing</u>	<u>Agency</u>	<u>Location Or Program</u>	<u>Project/Program Description</u>	<u>Total Project Appropriation</u>
	DHS	Fergus Falls	Upgrade Program Facilities	3,000
	DHS	St. Peter	Convert Power to Low Pressure	3,619
	Vets Home	Systemwide	Asset Preservation	2,000
	Vets Home	Hastings	Building Preservation	8,553
	Vets Home	Silver Bay	Roof Replacement	2,345
	Corrections	Systemwide	DOC Asset Preservation	17,000
	Corrections	Lino Lakes	416 Bed Offender Housing	4,160
	Corrections	Shakopee	LC Renovation and Support Space	3,070
	Housing Finance	Statewide	Transitional Veterans Housing	16,200
	Historical Society	St. Paul	Fort Snelling Improvements	500
	Finance	Statewide	Bond Sale Expense	880
X2003, Chapter 19	Transportation	Statewide	Trunk Highway System Projects	400,400
X2003, Chapter 20	Transportation	Statewide	Trunk Highway System Projects	110,110
	UofM	Minneapolis	Jones Hall	8,000
	UofM	Minneapolis	Teaching & Technology Ctr	3,000
	UofM	Morris	Social Science Building	8,600
	UofM	Systemwide	Research & Outreach Centers	2,508
	UofM	Rochester	Genomics Building	400
	MnSCU	Bemidji	Colocation BSU & NWTC	1,000
	MnSCU	Dakota	Information Tech & Telecommunication Ctr	500
	MnSCU	Fergus Falls	Maintenance Shop Expansion	760
	MnSCU	Inver Hills	One Stop Student Services Shop — Design	500
	MnSCU	Lake Superior	One Stop Student Service Shop — Design	700
	MnSCU	Mankato	Otto Arena — Phase 3	8,400
	MnSCU	Worthington	One Stop Student Services Shop	6,300
	MnSCU	Virginia	Science Lab/Resource Center/Classrooms	5,496
	MnSCU	Moorhead	NWTC-Allied Health and Applied Tech lab — Design	400
	MnSCU	Willmar	Ridgewater — Chemistry/Physics/Biology Labs	2,880
	MnSCU	SCTC	N. Mankato/Faribault-Teaching Lab/Asset Preservation	300
	MnSCU	Winona	TC — Student Service Area and Workforce Ctr	580
	MnSCU	SWSU	Library and New Entrance	9,200
	MnSCU	St. Cloud	SU-Centennial Hall Renovation	10,000
	MnSCU	St. Cloud	Technical College Connect and Renovate G wing — Design	700
	CFL	Statewide	Library Access Grants	1,000
	CFL	St. Paul	Paul & Sheila Wellston Community Ctr — Grant	5,000
	CFL	Moorhead	Trollwood Performing Arts School — Grant	5,500
	DNR	Systemwide	State Park & Recreation Area Acquisition	1,000
	DNR	St. Paul	Como Park — Phase 2 — Met Cncl Grant	2,700
	DNR	Systemwide	State Trail Acquisition & Development — Goodhou Pioneer Tr	475
	DNR	Crookston	Dam Improvements — Red Lake River Grant	1,050
	DNR	Warren	Flood Hazard Mitigation Grants	1,405
	DNR	Systemwide	Stream Protection and Restoration	500
	DNR	Statewide	Scientific & Natural Area — Acquisition & Improvement	2,000
	DNR	Statewide	Native Prairie Bank Easements	1,000
	DNR	Wabasha	National Eagle Center — Grant	500
	DNR	Statewide	Flood Hazard Mitigation Grants	3,000
	BWSR	Statewide	RIM Conservation Easements	1,000
	BWSR	Statewide	Wetland Replacement — Land Acquisition	2,700

I. Project Description (continued)
(\$ in Thousands)

<u>Law Authorizing</u>	<u>Agency</u>	<u>Location Or Program</u>	<u>Project/Program Description</u>	<u>Total Project Appropriation</u>
	BWSR	Statewide	Lazarus Creek — MN River Basin Floodwater Retention Grant	1,400
	BWSR	Stillwater	Brown's Creek — Grant	1,300
	ASC	Plymouth	Sports Conf Ctr — National Sport Event Center	5,000
	Arts	Minneapolis	Children's Theatre Company — Grant	5,000
	Arts	Minneapolis	Guthrie Theater — Grant	25,000
	Met Cncl	Systemwide	Northwest Busway Corridor — Design	1,000
	Health	Duluth	Community Dental Clinic	775
	DTED	Systemwide	Wastewater Infrastructure Program	15,000
	DTED	Statewide	Greater MN Business Development Grant Program	7,500
	DTED	St. Paul	Roy Wilkins Auditorium — Grant	2,300
	DTED	St. Paul	Phalen Boulevard Land Acquisition — Grant	4,000
	DTED	Statewide	Public Infrastructure — Drinking Water Grants	1,125
	DHS	Statewide	County & Local Preservation Grants	300
	DHS	Jackson	Fort Belmont — Grant	200
	DOF	Statewide	Bond Sale Expense	236
2005, Chapter 20	UofM	Systemwide	HEAPR	40,000
	UofM	Duluth	Life Science	10,100
	UofM	Duluth	Rec Sports Center	8,700
	UofM	Morris	District Facilities	5,800
	UofM	Minneapolis	TC Kolthoff Hall	17,400
	UofM	Minneapolis	TC Education Science	14,500
	UofM	St. Paul	Academic Health Center	11,600
	UofM	Grand Rapids	Research and Outreach	283
	MnSCU	Systemwide	HEAPR	41,500
	MnSCU	Anoka CC	Cambridge Academic Building Addition	10,483
	MnSCU	Bemidji	Bridgeman Hall	10,863
	MnSCU	Central Lakes TC	Heavy Equipment/Music	5,953
	MnSCU	Century College	Technology Center	4,888
	MnSCU	Century College	New Science and Library Design	1,000
	MnSCU	Dakota TC	Info & Telecom Renovation	7,387
	MnSCU	Fond du Lac CTC	Library design	635
	MnSCU	Inver Hills CC	CC Student Services	6,045
	MnSCU	Lake Superior	Academic and Student Services	11,243
	MnSCU	Minneapolis	CTC Health and Science Lab	900
	MnSCU	Winona	Student Services/Nursing	3,802
	MnSCU	Fergus Falls	Instruction, Fine Arts	7,604
	MnSCU	Moorhead	Science and Trades Addit	7,061
	MnSCU	Mankato	Science/Trafton Hall	2,560
	MnSCU	Moorhead	Hagen Hall Science Renovation	10,477
	MnSCU	Moorhead	McLean Hall Renov Design	500
	MnSCU	Northland CTC	Workforce Addition, Nursing Renov	2,156
	MnSCU	Riverland CTC	Science Lab Renovations	5,540
	MnSCU	Rochester CTC	Health Science Renovation	12,759
	MnSCU	St. Cloud	State Centennial Renovation	3,150
	MnSCU	St. Cloud	State Brown Science and Math Design	900
	MnSCU	St. Cloud	Tech Workforce Center Addition	15,056
	MnSCU	St. Paul	Construction Trades Renovation	10,993
	MnSCU	South Central TC	Tech Applied Lab	5,157
	MnSCU	Winona	Pasteur Hall Science Facility	11,118
	MnSCU	Systemwide	Science Renovations	6,668
	MnSCU	Systemwide	Workforce Classrooms	3,083
	MnSCU	Systemwide	Technology Upgrade	1,019
	MnSCU	Systemwide	Demolition	1,625
	MnSCU	Systemwide	Program Consolidation	1,173

I. Project Description (continued)
(\$ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	MnSCU	Systemwide	Land Acquisition	300
	Ctr for Arts Educ		Asset Preservation	558
	Ctr for Arts Educ		Beta Building Demolition	525
	Education	Red Lake	Maximum Effort School Loan	18,000
	Education	East Metro	Magnet School	1,083
	Education	Statewide	Library Capital Improvement Grants	1,000
	Education	Statewide	Early Childhood Facilities	500
	MN State Academies	Systemwide	Asset Preservation	4,255
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	27,000
	Natural Resources	Statewide	Dam Repair/Reconstruction/Removal	2,000
	Natural Resources	Statewide	Rim Critical Habitat Match	2,000
	Natural Resources	Statewide	RIM Wildlife Area Acquisition	10,000
	Natural Resources	Systemwide	Fisheries Acquisition and Improvement	1,050
	Natural Resources	Systemwide	Water Access/Fishing Piers	2,000
	Natural Resources	Red River	Canoe and Boating Routes	300
	Natural Resources	Statewide	Stream Protection	500
	Natural Resources	Systemwide	Reforestation	2,000
	Natural Resources	Statewide	Metro Greenways	500
	Natural Resources	Systemwide	Native Prairie Bank Easements	1,000
	Natural Resources	Systemwide	SNA Acquisition	7,910
	Natural Resources	Statewide	County Forest Reforestation	1,000
	Natural Resources	Systemwide	Fish Hatchery Improvements	1,700
	Natural Resources	Systemwide	RIM Wildlife Management Area Development	600
	Natural Resources	Systemwide	State Forest Land Acquisition	1,500
	Natural Resources	Systemwide	Forest Roads and Bridges	300
	Natural Resources	Systemwide	State Park Acquisition	2,500
	Natural Resources	Systemwide	State Park Building Development	1,800
	Natural Resources	Statewide	Local Initiative Grants	1,000
	Natural Resources	Lake Superior	Safe Harbors	2,000
	Natural Resources	Statewide	Asset Preservation	2,000
	Natural Resources	Systemwide	Field Office Renovations	300
	PCA	Statewide	Closed Landfill	10,000
	OEA	Statewide	Capital Assistance Program	4,000
	BWSR	Statewide	RIM Reserve and CREP	23,000
	BWSR	Statewide	Local Government Road Wetland Replacement	4,362
	BWSR	Statewide	Area 2 Minn River Flooding	500
	Agriculture	Statewide	Water Management Research Partnership	619
	Agriculture	Statewide	Joint Plant Pathology Research Facility	3,300
	MN Zoo	Apple Valley	Gateway of the North — New Exhibit	20,640
	MN Zoo	Apple Valley	Asset Preservation	2,000
	Administration	Statewide	CAPRA	3,000
	Administration	Statewide	Asset Preservation- Admin Properties	2,500
	Administration	Statewide	Parking	1,779
	CAAPB	St. Paul	Capitol Restoration Design	1,200
	CAAPB	St. Paul	Capitol Building Repair	1,170
	Military Affairs	Systemwide	Asset Preservation	3,000
	Military Affairs	Systemwide	Facility Life Safety	1,000
	Veteran's Affairs	St. Paul	WWII Monument	670
	Public Safety	Blue Earth	Fire and Police Station	642
	Transportation	Statewide	Local Bridge Replacement	40,000
	Transportation	Statewide	Local Road Improvement Grants	10,000
	Transportation	Statewide	Port Development	2,000
	Transportation	Systemwide	Northstar Commuter Rail	37,500
	Transportation	New Brighton	Rail Service Improvement Grants	2,500
	Transportation	Duluth	Aerial Lift Bridge	1,000
	Transportation	St. Paul	Holman Field Flood Protection	1,000
	Met Council	Minneapolis	Cedar Avenue Bus Rapid Transit	10,000
	Met Council	Minneapolis	Central Corridor	5,250

I. Project Description (continued)
(\$ in Thousands)

<u>Law Authorizing</u>	<u>Agency</u>	<u>Location Or Program</u>	<u>Project/Program Description</u>	<u>Total Project Appropriation</u>
	Met Council	Hastings	Red Rock Corridor	500
	Met Council	St. Paul	Rush Line Corridor	500
	Met Council	Metropolitan	Regional Parks	14,664
	Human Services	St. Peter	New Facilities Sex Offender Program	3,259
	Human Services	St. Peter	Forensic Nursing Facility	8,600
	Human Services	Systemwide	Redevelopment/Demolition	9,000
	Human Services	Willmar	Regional Treatment Center Retrofit	900
	Human Services	Systemwide	Roof Repair	1,014
	Human Services	Systemwide	Asset Preservation	3,000
	Human Services	Systemwide	RTC Grave Markers	300
	Vet's Home Board	Systemwide	Asset Preservation	4,000
	Vet's Home Board	Luverne	Dementia Wander Area	306
	Vet's Home Board	Minneapolis	Adult Day Care	1,031
	Vet's Home Board	Willmar	Vets Home Predesign	100
	Corrections	Faribault	MCF Expansion	84,844
	Corrections	Stillwater	MCF 150 Bed Segregation Unit	3,500
	Corrections	Willow River	MCF Activities Building	2,000
	Corrections	Moose Lake	MCF CIP Expansion	350
	Corrections	Systemwide	Asset Preservation	8,000
	DEED	Statewide	US EPA Drinking Water/ Wastewater	14,380
	DEED	Statewide	Wastewater Infrastructure Funding	29,900
	DEED	Statewide	Total Maximum Daily Load Grants	2,000
	DEED	Austin	Flood Damage	2,000
	DEED	Burnsville	Water Treatment	3,000
	DEED	Crookston	Emergency Riverbank Protection	2,500
	DEED	Worthington	Lewis and Clark Rural Water System	2,000
	DEED	Roseau	Infrastructure Repair and Improvements	13,220
	DEED	Statewide	Rural Infrastructure	10,000
	DEED	Statewide	Redevelopment Grants	15,000
	DEED	Statewide	Bioscience Development	18,500
	DEED	Buffalo Lake	Maintenance Garage/Street Repair	690
	DEED	Detroit Lakes	Regional Pavillion	283
	DEED	Hibbing	Laurentian Energy Authority	2,000
	DEED	Minneapolis	Minnesota Planetarium	22,000
	DEED	Minneapolis	Shubert Theater	1,000
	DEED	Moorhead	Heritage Hjemkomst	1,000
	DEED	Big Island	Veteran's Camp	2,000
	DEED	Rochester	U of M/Mayo Biotech Research Facility	21,726
	DEED	St. Paul	Phalen Boulevard	4,000
	Housing Finance	Statewide	Permanent Supportive Housing Loans	12,000
	Housing Finance	Hennepin	County Housing	350
	Historical Society	Systemwide	Historic Sites Asset Preservation	4,000
	Historical Society	St. Paul	Fort Snelling Revitalization	1,000
	Historical Society	Statewide	County and Local Preservation Grants	1,000
	Finance	Statewide	Bond Sale Expenses	884
X2005, Chapter 3	Agriculture	Statewide	Rural Finance Authority Loans	18,000

(1) In the Order authorizing the issuance of the Bonds the Commissioner of Finance has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "Authorization and Purpose" and on page B-2 of Appendix B. (See Appendix B page B-3).

II. Schedule of Bonds Being Refunded

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated May 1, 1996, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after May 1, 2007 will be called for redemption and prepayment on May 1, 2006 at par plus accrued interest.

(\$ in Thousands)

<u>Maturing May 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	\$ 8,070,000*	5.20%
2008	8,100,000	5.30%
2009	8,100,000	5.40%
2010	8,100,000	5.60%
2011	8,100,000	5.60%
2012	8,100,000	5.70%
2013	8,100,000	5.70%
2014	8,100,000	5.70%
2015	8,080,000	5.70%
2016	<u>8,000,000</u>	5.70%
	\$80,850,000	

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated November 1, 1996, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2007 will be called for redemption and prepayment on November 1, 2006 at par plus accrued interest.

<u>Maturing November 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	\$ 8,275,000	5.00%
2008	8,275,000	5.00%
2009	8,275,000	5.125%
2010	8,275,000	5.125%
2011	8,275,000	5.25%
2012	8,275,000	5.25%
2013	8,275,000	5.25%
2014	8,275,000	5.00%
2015	8,275,000	5.00%
2016	<u>8,275,000</u>	5.00%
	\$82,750,000	

*\$4,500,000 in principal of the State Various Purpose Bonds maturing on May 1, 2007 will not be called and will remain outstanding.

APPENDIX D

Cash Flow Information

The Statutory General Fund is established in Minnesota Statutes, Section 16A.671, subdivision 3a, and is defined as follows:

“ *** all cash and investments from time to time received and held in the treasury, except proceeds of state bonds and amounts received and held in special or dedicated funds created by the constitution, or by or pursuant to federal laws or regulations, or by bond or trust instruments, pension contracts, or other agreements of the state or its agencies with private persons, entered into under state law.”

The General Fund, special revenue funds, internal service funds, enterprise funds and capital projects funds make up the Statutory General Fund. Cash contained in the Statutory General Fund is available for State cash flow purposes.

Major special revenue funds included in the Statutory General Fund include the Petro Tank Release, the State Airports, the Game and Fish, the Workforce Development, the Tobacco Use Prevention, the Workers Compensation, the Environmental Waste and the Northeast Minnesota Economic Development funds.

Internal service funds, enterprise funds and capital project funds included in the Statutory General Fund include the MnSCU, the General Projects, the Risk Management, the Lottery Cash Flow and the State Operated Services Funds.

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout the Current Biennium.

The Legislature established the Cash Flow Account at \$350 million for the Current Biennium.

The State has not done any short-term borrowing since January 1985 and has no short-term debt outstanding.

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Fiscal Year Ended June 30, 2006
(Thousand of Dollars)

	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Total
Beginning Cash Balance	\$ 3,039,377	\$ 2,109,754	\$ 1,547,962	\$ 1,663,233	\$ 1,545,002	\$ 1,258,427	\$ 1,545,319	\$ 2,198,232	\$ 1,724,288	\$ 1,647,447	\$ 1,653,665	\$ 1,756,523	
Receipts:													
Individual Income Tax	456,556	458,855	690,149	465,408	477,641	612,892	889,575	191,374	350,368	696,786	616,345	673,183	6,579,132
Sales and Use Taxes	173,724	407,466	368,388	417,504	361,495	352,180	453,623	321,689	302,042	356,341	352,630	595,695	4,462,777
Corporate & Bank Excise	1,952	30,067	144,991	38,491	15,891	136,691	34,360	20,060	201,035	19,635	17,135	111,835	772,145
Statewide Property Tax	33,911	0	0	0	1,130	275,108	3,824	0	0	0	0	320,725	634,698
Motor Vehicle Taxes	52,386	33,404	29,954	33,122	27,311	24,438	24,317	23,036	28,961	32,437	33,187	46,030	388,584
Tobacco Product Taxes	2,638	17,853	28,882	22,040	21,102	19,720	21,038	22,146	18,968	19,687	20,480	29,181	243,734
Insurance Taxes	1,912	5,615	56,396	15,464	2,176	59,048	14,622	16,579	90,888	18,051	1,352	77,177	359,280
Other Excise Taxes	101,138	22,899	14,705	65,805	12,939	17,933	55,376	26,983	19,926	66,469	34,945	15,552	454,670
Investment Earnings	5,431	1,665	2,938	1,825	1,950	2,076	1,917	2,330	2,353	2,542	2,611	2,696	30,335
Tobacco Settlement	0	0	0	0	0	171,657	0	0	0	0	0	0	171,657
Inter-governmental Grants	4,585	52,646	3,223	6,185	11,146	18,245	4,858	8,493	4,725	8,115	3,782	4,885	130,890
Other Sources	178,374	297,316	358,580	227,030	230,728	352,334	362,830	255,703	229,732	224,888	243,233	352,103	3,302,851
Subtotal Receipts	\$ 1,012,607	\$ 1,327,786	\$ 1,698,207	\$ 1,292,874	\$ 1,163,511	\$ 2,042,323	\$ 1,866,341	\$ 868,393	\$ 1,248,997	\$ 1,444,952	\$ 1,325,700	\$ 2,239,061	\$ 17,530,751
Total Resources	\$ 4,051,984	\$ 3,437,540	\$ 3,246,169	\$ 2,956,107	\$ 2,708,513	\$ 3,300,750	\$ 3,411,659	\$ 3,066,625	\$ 2,973,285	\$ 3,092,399	\$ 2,979,364	\$ 3,995,584	
Expenditures:													
State Payroll	205,733	189,248	222,254	242,917	195,390	195,720	194,824	198,999	237,238	257,773	206,138	185,628	2,531,864
Agency Operations	132,693	104,278	88,987	87,624	98,659	130,545	79,083	104,751	104,019	75,856	146,498	217,629	1,370,622
Aid to School Districts	459,272	991,779	691,400	444,755	183,951	502,415	588,011	541,602	657,939	658,932	353,744	111,470	6,185,270
Aid to Cities	230,850	6,338	14,765	104,544	14,151	277,536	2,601	4,445	4,791	3,268	1,968	4,898	670,154
Aid to Counties	233,140	53,869	32,804	114,673	28,728	205,709	18,575	34,651	39,790	22,094	29,414	19,532	832,981
Aid to Higher Education Institutions:	93,730	79,417	0	53,598	50,562	53,676	51,431	4,818	50,912	67,025	98,869	80,071	684,109
Aid to Non-Gov't Organizations	27,936	22,848	18,045	17,327	20,309	12,616	17,353	17,582	10,376	17,141	18,618	25,508	225,659
Aid to Special Districts	34,192	37,425	21,529	34,739	16,724	15,117	29,510	11,949	13,118	14,271	14,286	14,407	257,266
Payments to Individuals	513,938	222,731	303,957	291,742	430,938	311,651	205,058	414,953	193,238	307,495	345,080	302,044	3,842,825
Other	10,745	181,646	189,194	19,185	29,321	50,447	26,981	8,566	14,418	14,879	8,227	17,169	570,800
Debt Service	0	0	0	0	381,352	0	0	0	0	0	0	0	381,352
Total Expenditures	\$ 1,942,229	\$ 1,889,578	\$ 1,582,936	\$ 1,411,105	\$ 1,450,085	\$ 1,755,432	\$ 1,213,428	\$ 1,342,337	\$ 1,325,838	\$ 1,438,734	\$ 1,222,842	\$ 978,357	\$ 17,552,901
Ending Cash Balance	\$ 2,109,754	\$ 1,547,962	\$ 1,663,233	\$ 1,545,002	\$ 1,258,427	\$ 1,545,319	\$ 2,198,232	\$ 1,724,288	\$ 1,647,447	\$ 1,653,665	\$ 1,756,523	\$ 3,017,228	
Minimum Statutory Cash Balance for the Month	\$ 1,968,613	\$ 1,314,176	\$ 1,016,871	\$ 1,525,797	\$ 1,329,087	\$ 1,434,550	\$ 1,593,810	\$ 1,884,779	\$ 1,529,067	\$ 1,514,778	\$ 1,419,670	\$ 1,539,128	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Fiscal Year Ended June 30, 2007
(Thousand of Dollars)

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Total
Beginning Cash Balance	\$ 3,017,228	\$ 2,103,485	\$ 1,399,499	\$ 1,383,515	\$ 1,310,406	\$ 1,104,767	\$ 1,347,592	\$ 1,824,169	\$ 1,369,805	\$ 1,247,892	\$ 1,269,071	\$ 1,451,037	
Receipts:													
Individual Income Tax	436,127	485,363	725,609	500,774	504,408	641,585	947,631	227,505	389,749	795,389	612,121	723,097	\$ 6,989,359
Sales and Use Taxes	174,206	419,845	379,742	430,389	363,629	357,023	463,910	337,243	316,076	373,756	369,686	619,258	4,604,762
Corporate & Bank Excise	25,254	27,454	134,554	32,354	9,754	129,554	28,431	13,931	202,231	17,731	15,131	109,331	745,706
Statewide Property Tax	94	0	0	0	1,180	287,330	3,926	0	0	0	0	363,989	656,519
Motor Vehicle Taxes	23,079	37,571	34,017	37,551	31,468	28,524	28,392	27,093	33,354	36,542	37,332	50,681	405,603
Tobacco Product Taxes	8,582	22,823	22,821	21,326	20,419	19,056	20,335	21,424	18,314	19,084	19,818	28,447	242,370
Insurance Taxes	6,276	5,734	58,410	16,827	2,088	61,166	15,645	17,124	94,546	19,394	1,100	80,734	378,845
Other Excise Taxes	71,757	28,025	19,147	73,924	17,427	22,656	62,849	32,075	24,832	74,765	40,709	20,019	488,186
Investment Earnings	1,658	3,174	1,946	2,075	2,192	2,310	2,163	2,551	2,567	2,743	2,812	2,881	29,073
Tobacco Settlement	0	0	0	0	0	168,469	0	0	0	0	0	0	168,469
Inter-governmental Grants	62,926	151,892	97,152	98,235	121,457	169,317	111,973	102,304	89,102	95,579	103,707	133,335	1,337,978
Other Sources	135,646	194,551	263,411	132,577	119,350	204,491	294,851	141,323	144,941	136,755	143,110	233,882	2,104,888
Subtotal Receipts	\$ 945,605	\$ 1,376,432	\$ 1,736,809	\$ 1,346,833	\$ 1,193,372	\$ 2,091,481	\$ 1,940,106	\$ 922,572	\$ 1,315,712	\$ 1,571,657	\$ 1,345,525	\$ 2,365,653	\$ 18,151,757
Total Resources	\$ 3,962,832	\$ 3,479,917	\$ 3,136,308	\$ 2,730,347	\$ 2,503,778	\$ 3,196,248	\$ 3,287,698	\$ 2,746,741	\$ 2,685,516	\$ 2,819,549	\$ 2,614,597	\$ 3,816,690	
Expenditures:													
State Payroll	\$ 210,914	\$ 190,265	\$ 227,813	\$ 248,400	\$ 199,174	\$ 198,622	\$ 197,424	\$ 200,982	\$ 242,160	\$ 260,510	\$ 207,098	\$ 187,360	\$ 2,570,724
Agency Operations	131,413	134,860	82,545	121,711	102,245	137,171	104,361	93,582	116,207	121,426	116,983	144,247	1,406,751
Aid to School Districts	502,279	1,054,040	725,396	461,270	193,368	520,290	606,539	574,222	689,005	678,708	394,820	131,012	6,530,949
Aid to Cities	245,291	6,747	74,717	42,869	4,496	285,125	12,079	4,074	3,776	3,852	2,419	4,432	689,878
Aid to Counties	141,228	150,563	45,324	104,419	28,808	211,615	21,992	35,417	36,301	27,443	27,530	26,845	857,485
Aid to Higher Education Institution	51,549	93,909	58,961	12,542	48,376	103,459	35,667	48,889	44,196	60,664	83,041	68,739	709,994
Aid to Non-Gov't Organizations	22,577	26,910	17,760	20,683	31,271	14,826	16,650	19,879	10,680	16,188	12,402	30,002	229,826
Aid to Special Districts	28,376	23,356	16,945	40,400	16,649	23,141	43,021	11,031	14,016	14,412	14,782	15,560	261,690
Payments to Individuals	482,978	341,271	443,924	327,798	318,254	322,640	382,471	346,828	232,263	323,307	250,506	232,571	4,004,811
Other	42,742	58,496	59,409	39,849	66,576	31,767	43,325	42,033	49,019	43,968	53,977	56,522	587,684
Debt Service	0	0	0	0	399,794	0	0	0	0	0	0	0	399,794
Total Expenditures	\$ 1,859,347	\$ 2,080,417	\$ 1,752,793	\$ 1,419,941	\$ 1,399,012	\$ 1,848,657	\$ 1,463,529	\$ 1,376,937	\$ 1,437,625	\$ 1,550,478	\$ 1,163,560	\$ 897,291	\$ 18,249,586
Calculated Ending Cash Balance	\$ 2,103,485	\$ 1,399,499	\$ 1,383,515	\$ 1,310,406	\$ 1,104,767	\$ 1,347,592	\$ 1,824,169	\$ 1,369,805	\$ 1,247,892	\$ 1,269,071	\$ 1,451,037	\$ 2,919,399	
Minimum Statutory Cash Balance for the Month	\$ 2,068,140	\$ 1,294,235	\$ 885,181	\$ 1,526,880	\$ 1,401,140	\$ 1,545,196	\$ 1,662,519	\$ 1,780,499	\$ 1,380,273	\$ 1,347,362	\$ 1,440,021	\$ 1,394,519	

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APPENDIX E

Obligations of State Agencies

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of October 1, 2005, is set forth below.

Agency Indebtedness

Minnesota Housing Finance Agency (MHFA). The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. The enabling legislation for the MHFA authorizes it to issue bonds and notes in amounts such that the principal amount outstanding at any instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to an amount of \$3.0 billion. The proceeds from the MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the production and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds are general obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor for inclusion in the State budget, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds to its debt service reserve requirement. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized to appropriate the amount included in the Governor's proposed budget for debt service reserve fund, but is not legally obligated to appropriate such amount. Under Chapter 462A, if such a deficiency is certified, the MHFA is also required to certify to the Governor any anticipated deficiency in the revenues of the following fiscal year, estimated to be available for the payment of principal installments and interest due in that year, and the Governor is required to report such an anticipated deficiency to the Legislature.

The principal amount of bonds and notes of the MHFA which are outstanding at any time (excluding the principal amount of any bonds and notes advance refunded) is limited to \$3,000,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the MHFA, which will be outstanding as of October 1, 2005:

Minnesota Housing Finance Agency Bonds Outstanding As Of: October 1, 2005

	<u>Number of Series</u>	<u>Interest Rate</u>	<u>Maturity Due</u>	<u>Original Amount (in thousands)</u>	<u>Outstanding Amount 11/01/2004 (in thousands)</u>
Rental Housing	21	1.95% to 6.60%	2006-2045	\$ 458,670	\$ 202,270
Residential Housing Finance	40	1.75% to 5.85%	2006-2036	414,005	1,297,960
Single Family Mortgage	66	2.00% to 8.05%	2006-2035	297,895	464,930
	<u>127</u>			<u>\$3,170,570</u>	<u>\$1,965,160</u>

The payment of principal and interest on obligations of the Agency as shown above may be made, if necessary, from the MHFA's General Reserve Account.

University of Minnesota. The University of Minnesota was established by Territorial Laws 1851, Chapter 3, adopted by the legislative assembly of the Territory of Minnesota. Pursuant to authorization by Congress on February 26, 1857, the voters of the State approved and adopted a State constitution on October 13, 1857. The State was admitted to the union by act of Congress passed on May 11, 1858.

The State Constitution confirmed and fixed the existence of the University as a separate institution of the State, having all rights, immunities, franchises and endowments previously granted or confirmed, and all lands and donations thereafter given to it. The University is governed by a board of twelve regents who are elected by the Legislature, and is dependent upon appropriations by the Legislature to pay much of its instructional costs. The regents are a body corporate with the right to sue and be sued and to make contracts.

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of October 1, 2005 will have \$581,897,417. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University.

Minnesota Office of Higher Education (MOHE). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed \$850,000,000. The loans are made and insured in accordance with MOHE's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of October 1, 2005, MOHE will have \$487,000,000 of bonds outstanding payable from the Student Educational Loan Fund II and III. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MOHE, and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the state universities within the Minnesota State Colleges and Universities System. As of October 1, 2005, the MnSCU will have \$22,045,000 tax exempt bonds and \$12,050,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students for student activities, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guaranties have been issued to date, one for \$3,814,304 and the other for \$16,370,000. The guaranties are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority (MHEFA). The MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law authorized the MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed \$800,000,000. As of October 1, 2005, the MHEFA will have \$681,308,643 principal amount of bonds outstanding. Each issue is payable solely from and secured by a first lien on the revenues of the project financed, reserve funds and a guarantee of the institution for which the project is financed.

Minnesota State Armory Building Commission (MSABC). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed \$15,000,000. As of October 1, 2005, the MSABC will have \$5,410,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or

municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota State Zoological Board. (MSZB). The State appropriated moneys to finance the acquisition and construction of a State zoological garden which is owned and operated by the MSZB. The MSZB is not specifically authorized by law to borrow money or issue obligations in evidence thereof. However, in 1977 the Legislature authorized the MSZB to acquire an automated, monorail transportation system for the garden by installment purchase contract, and the MSZB entered into such a contract for this purpose.

On April 1, 1980, the Minnesota State Zoological Board was unable to make the installment payment then due under the installment purchase contract. On December 30, 1985 the State and investors entered into closing documents through which the State acquired all investor rights to the monorail system for the sum of \$1.5 million. The documents released the State from any and all investor claims against the State and MSZB regarding the monorail system.

Minnesota Rural Finance Authority. In 1986 the Legislature created the Minnesota Rural Finance Authority (RFA) and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of October 1, 2005, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Finance is authorized to issue up to \$141.1 million in State general obligation bonds to finance certain programs of the RFA and has issued \$125.6 million of these bonds, including bonds of this issue, for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of October 1, 2005, the RFA had issued \$32,174,785, of revenue bonds for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of October 1, 2005, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, \$746,515,000, Drinking Water Revenue Bonds, \$115,255,000, and Transportation Revenue Bonds, \$27,450,000, for a total outstanding amount of \$889,220,000. The MPFA's bonds are not a debt or liability of the state. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed \$1,250,000,000.

Minnesota Agricultural and Economic Development Board (MAEDB). The MAEDB was established by Minnesota Statutes, Chapter 41A, to provide for agricultural and economic development in the State, and is authorized to issue revenue bonds for these purposes. The revenue bonds issued by the MAEDB are not general obligations of the State. As of October 1, 2005, MAEDB will have outstanding \$22,850,000 of pooled revenue bonds which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB will have outstanding \$559,803,086 of revenue bonds that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Office of the Commissioner of the Iron Range Resources & Rehabilitation Authority (IRRRRA). The IRRRA was established by Minnesota Statutes, Chapter 298, to perform certain functions for the Northeastern portion of the State, including the promotion of economic development. The IRRRA is

authorized to issue revenue bonds to accomplish the promotion of economic development. As of October 1, 2005 the IRRRA will have \$14,255,000 of bonds outstanding to finance the Giant's Ridge Recreation Area.

Minnesota Department of Finance. Minnesota Laws 1991, Chapter 350, authorized the State to issue revenue bonds secured by the State's full faith and credit in an amount up to \$50,000,000 to finance the construction and equipping of an engine repair facility in Hibbing, and up to \$125,000,000 to finance the construction and equipping of an aircraft maintenance facility in Duluth. By agreement dated December 21, 1994 with Northwest Airlines, Inc. ("NAI"), the intended lessee of both facilities, and certain other parties, it was agreed that the Hibbing facility would not be constructed and that the State would use its best efforts to issue revenue bonds secured by the State's full faith and credit for the Duluth facility. The State issued \$47,670,000 of revenue bonds in May 1995, \$36,850,000 of the revenue bonds will remain outstanding as of October 1, 2005, of which \$21,225,000 are payable primarily from lease payments of NAI, and \$15,625,000 are payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the City of Duluth. In the event such revenues are insufficient the State will have the right to apply to the payment of such bonds, or to reimburse itself for making such payments from, certain state-aid payments otherwise payable to the City of Duluth. NAI filed for bankruptcy on September 14, 2005. All \$36,850,000 of the revenue bonds outstanding are secured by the State's full faith and credit. The bonds are structured so that the initial bonds, together with expected later refundings, will provide financing over a 30 year amortization period. The 1997 Minnesota Legislature cancelled \$48,765,000 of the bonding authorization for the Hibbing facility. The 2001 Legislature cancelled \$81,275,000 of the bonding authorization for the Duluth facility.

The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to \$38 million of state revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Finance sold \$29,000,000 of the revenue bonds in June 2000. As of October 1, 2005, there will be \$27,150,000 of Minnesota State Retirement System bonds outstanding.

APPENDIX F

State Government and Fiscal Administration

State Government

The State was formally organized as a territory in 1849 and was admitted to the Union on May 11, 1858, as the 32nd state. Bordered by Canada on the north, Lake Superior and Wisconsin on the east, Iowa on the south, and North and South Dakota on the west, it is the 12th largest and 20th most populous state in the Union.

The State's Constitution organizes State government into three branches: Executive, Legislative and Judicial.

The Executive Branch is headed by the Governor. The Governor, Lt. Governor, Attorney General, State Auditor, and Secretary of State are popularly elected to four year terms. There are 18 departments and over one hundred agencies, boards, councils, and authorities which comprise the Executive Branch. Most departments and agency heads are appointed and serve at the pleasure of the Governor, subject to confirmation by the Senate.

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve 4 year terms. House members number 134 and serve 2 year terms.

The Judicial Branch is headed by a Supreme Court. Three levels of courts function within the Judicial Branch: Supreme Court, Appellate Court, and District Courts.

A general organization chart of the Executive Branch of State government is shown on the following page. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.

Fiscal Administration

The Department of Finance was created in 1973 under the control and supervision of the Commissioner of Finance. The Commissioner is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Minnesota voters approved a constitutional amendment in November 1998 that eliminated the Office of the State Treasurer as of January 6, 2003. The Commissioner of Finance assumed the duties of the State Treasurer. Included in the financial duties of the Commissioner are:

- Preparation of State biennial budget and capital budget.
- Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.
- Administration of the State payroll system.
- Sale and issuance of State general obligation and certain revenue bonds, general obligation certificates of indebtedness, and equipment lease purchase financings.
- Preparation of periodic and special reports on the financial affairs of the State.
- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- To receive and account for all moneys paid into the State treasury properly disbursed or invested.

Accounting System

State law requires the Commissioner of Finance to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

STATE ORGANIZATION CHART



State law requires the Commissioner of Finance to administer the payroll of all employees of the executive branch of government.

The accounting system is organized on a fund basis. A fund is an independent fiscal and accounting entity with a self balancing set of accounts. Funds are established for the purpose of carrying on specific activities or objectives in accordance with legal requirements.

Financial Reporting

State law requires the Commissioner of Finance to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2004 general purpose financial statements are presented in Appendix A, and general long-term debt unaudited schedules are presented in Appendix B.

Investments

The State Board of Investment, comprised of four of the State's constitutional officers, is responsible for the formulation of State investment policies and for the purchase and sale of securities. Moneys from various funds are invested according to regulations on types and terms of investments imposed by law on each grouping. The investments are grouped as follows:

Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the constitution, State law, or by federal law.

Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

Revenues and Budgeting

The Department of Revenue exercises general supervision over the administration of the taxation and assessment laws of the State. In the exercise of such power, the Department of Revenue promulgates guidelines to ensure that property tax laws are administered uniformly by local governmental units and that the assessments of property are made on an equal basis throughout the State.

The Department of Revenue administers taxes owing to the State by collecting, among others, individual income and corporation taxes, sales and use taxes, inheritance and gift taxes, motor fuel taxes and excise taxes on liquor and tobacco. Additionally, the Department of Revenue is responsible for informing localities when their expenditures exceed the limit set for them by the State Legislature.

Audit Control Procedures

The Office of the Legislative Auditor is the post audit agency of all State departments, agencies, boards and commissions. The Office of the Legislative Auditor conducts the audits of all accounts, records, inventories, vouchers, receipts, funds, securities, and other assets at least once a year, if funds and personnel permit, and more often if deemed necessary or as directed by the Legislature or the Legislative Audit Commission. As an agency of the legislative branch, the Office of the Legislative Auditor is independent of the executive branch and the departments, boards, commissions and other agencies thereof that it is responsible for auditing.

Status of Collective Bargaining

The State currently has 15 bargaining units for State employees. The Department of Employee Relations (DOER), Labor Relations unit, negotiates seven non-faculty labor contracts. Minnesota State Colleges and Universities System staff negotiates three faculty contracts. The DOER develops compensation plans for unrepresented employees. All contracts and compensation plans are subject to review and approval by the Legislature.

The State has tentative voluntary agreements with three of the bargaining units including AFSCME, MAPE and MMA. Members of AFSCME and MAPE have ratified the agreements for the Current Biennium. The remaining agreements are currently being negotiated. Expired agreements remain in effect until subsequent agreements are reached.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of July 2005
AFSCME (6 bargaining units)	18,140
MN Association of Professional Employees (MAPE)	10,730
Middle Management Association (MMA)	2,700
MN Government Engineers Council (MGEC)	890
MN Nurses Association (MNA)	750
MN Law Enforcement Association (MLEA)	720
State Residential Schools Education Association (SRSEA)	170
State College Faculty Association (MSCF)	4,100
State University Interfaculty Organization (IFO)	2,940
State University Admin and Service Faculty (MSUAF)	580
Total Represented Employees	41,720
Total State Employment	47,540
Percent of All Executive Branch Employees Unionized	88%

APPENDIX G

Minnesota Defined Benefit Retirement Plans

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriation. Estimates of direct General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in Table G-1. Additionally, Table G-2 presents summary data on the financial condition of the plans for the most recent Fiscal Year on which valuation data is available. Information provided in Table G-2 includes:

- a. current assets held in trust for participants;
- b. the accrued benefit liability;
- c. the accrued liability funding ratio;
- d. the number of plan members;
- e. identification of the funds for which the State has custodial responsibility; and
- f. identification of the funds for which the State may have a contingent liability.

Information concerning the specific benefit provisions of each plan is available upon request from the Commissioner of Finance.

Since July 1, 1997, annual cost-of-living increases tied to national CPI are guaranteed up to 2.5%. Any benefit increase beyond that level is based on a rolling five-year average market value gain to retiree assets, less an assumed minimum 6% return.

Each plan's financing requirement is determined by a specific formula established in State law. No assurance can be provided that the formulas will not change in the future. A brief description of the existing formulas follows:

1. *Minnesota State Retirement System; State Teachers' Retirement Association; Public Employees' Retirement Association; and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds the contribution is specified in statute as a fixed percentage of the plan member's salary.

2. *Adjustments for Pre-1973 Retirees in Various Funds.* Contributions for these adjustments are included in payroll deductions and employer contributions as part of the total fund liabilities with the exception of the *Minneapolis Employees Retirement Fund (MERF)*, for which the State made annual appropriations of \$550,000. This appropriation terminated at the end of Fiscal Year 2001.

3. *State's share of amortizing unfunded liabilities of local police or fire relief associations that are being phased out.* Current State law provides that the State's contribution will remain at the level of the Fiscal Year 1992 appropriation, or less, as plans achieve full-funding, before the year 2010.

4. *Minneapolis Employees' Retirement Fund.* This fund is closed to new members. The annual General Fund obligation is specified in statute as: (a) the total annual level dollar contribution needed to amortize the entry-age normal unfunded liability by 2020 as estimated in the most recent valuation, less (b) 2.5% of covered payroll, and less (c) \$3,900,000. The total cannot exceed \$9,000,000 per year.

5. *Legislators' Retirement Plan.* General Fund appropriations are transferred to this account on a current disbursement basis as retirement benefits are paid.

6. *Judges' Retirement Plan.* This plan is funded through employer/employee contributions as a fixed percentage of salary, as defined in statute.

7. *Constitutional Officers' Plan.* General Fund appropriations are transferred to this account on a current disbursements basis as retirement benefits are paid.

TABLE G-1

	Estimated General Fund Appropriation		
	Previous Biennium	Current Biennium	Next Biennium
	(\$ in thousands)		
Constitutional Officers' Retirement	\$ 766	\$ 796	\$ 860
Legislators' Retirement Plan ⁽¹⁾	1,350	1,585	1,664
Minneapolis Employees Retirement Fund ⁽²⁾	13,725	16,130	16,130
Basic Local Police & Fire Association ⁽³⁾	164,246	193,028	222,718
Local Police or Fire Associations Amortization	10,005	9,296	9,296
Public Employees Retirement Association Aid	29,169	29,168	29,168
Minneapolis Teachers' Retirement Assoc. ⁽⁴⁾	31,590	31,600	31,600
St. Paul Teachers' Retirement Association ⁽⁴⁾	5,929	5,934	5,934
TOTAL	<u>\$256,780</u>	<u>\$287,637</u>	<u>\$317,370</u>

- (1) The payment of pension obligations for pre-1997 legislators was converted from a pre-funded post-retirement system to an annual pay-as-you-go system. All annual pension obligations for members in that plan are paid in full on an annual basis with no changes implemented in member contribution rates or benefit levels.
- (2) Effective July 1, 1998, the state contribution is provided on a formula basis and is capped at no more than \$9 million per fiscal year. Any requirements beyond the capped aid are the exclusive obligation of the employer units.
- (3) Basic local police and fire pension aid is an open General Fund appropriation based on the dedicated proceeds equivalent to a 2% insurance premium tax on fire insurance.
- (4) These plans are separate from the State Teachers' Retirement Association, and the State has no direct custodial relationship. Benefits, investment practices and contributions are, however, controlled by statute.

2005 Pension Legislation

- Increased employer and employee contributions for Public Employees Retirement Association (PERA).
- Extended the amortization date for the unfunded liability for the Minneapolis Police Relief Association from 2010 to 2020.
- Provided that any unfunded liability for the Bloomington Fire Department Relief Association be amortized over 20 years.

TABLE G-2
Condition of Defined Benefit Pension Plans to Which
Minnesota Provides General Fund Resources, July 1, 2004⁽¹⁾
(\$ in Millions)

	<u>Current Assets</u>	<u>Accrued Benefit Liability</u>	<u>Funding Ratio</u>	<u>Active Members</u>	<u>Other Members</u>
1. Funds For Which the State Has Custodial Responsibility					
Minnesota State Retirement System:					
— General Employee Fund	\$ 7,884	\$ 7,878	100.08%	48,899	49,179
— Correctional Employee Fund	487	524	92.83%	3,326	2,205
— State Patrol Employee Fund	595	545	109.09%	834	843
— Judges Retirement Fund	139	190	73.00%	294	272
— Legislators Retirement Fund ⁽²⁾	46	83	55.48%	87	433
— Constitutional Officers Fund ⁽²⁾2	4	5.09%	0	16
Public Employees Retirement Association:					
— Public Employees Fund	11,478	14,959	76.73%	138,164	190,960
— PERA Police & Fire Fund	4,747	4,692	101.16%	10,055	8,260
— Local Correctional Service Fund	76	86	88.59%	3,251	1,808
Teachers Retirement Association	17,520	17,519	100.01%	72,008	66,639
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund	1,513	1,643	92.10%	552	5,162
Local Police & Fire Associations ⁽¹⁾	637	853	74.75%	224	1,749
St. Paul Teachers' Retirement Fund	899	1,251	71.82%	4,568	5,286
Minneapolis Teachers' Retirement Fund	878	1,720	50.75%	5,074	8,391
Duluth Teachers' Retirement Fund	277	302	91.79%	1,178	2,099

(1) The information provided in this table reflects the condition of all funds as of June 30, 2004, except for five local police & fire relief association funds that report separately on December 31, 2003: Minneapolis Fire, Minneapolis Police, Fairmont Police, Bloomington Fire, and Virginia Fire.

(2) The pre-1997 Legislators and Constitutional Officers defined benefit retirement plans are now financed on a pay-as-you-go basis from annual appropriations — there are no separate assets reserved for these plans. Legislators and Constitutional Officers first elected after July 1, 1997 are members of the State's defined contribution plan.

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APPENDIX H

Selected Economic and Demographic Statistics

Population Trends In The State

Minnesota resident population grew from 4,390,000 in 1990 to 4,934,000 in 2000 or, at an average annual compound rate of 1.2 percent as shown in Table 1. In comparison, U.S. population also grew at an annual compound rate of 1.2 percent during this period. Between 2000 and 2004, data in Table 1 indicate Minnesota population grew at annual compound rate of 0.8 percent compared to 1.0 percent for the U.S. Minnesota population is currently forecast by the U.S. Department of Commerce to grow at an annual compound rate of 0.8 percent through 2030, compared to 0.9 percent nationally.

The Structure Of The State's Economy

Diversity and a significant natural resource base are two important characteristics of the State's economy.

When viewed in 2004 at a highly aggregative level of detail, the structure of the State's economy parallels the structure of the United States economy as a whole. As shown in Table 2 below, State employment in fourteen major sectors was distributed in approximately the same proportions as national employment. In all sectors, the share of total State employment was within two percentage points of national employment share.

Some unique characteristics of the State's economy are apparent in employment concentrations in industries that comprise the durable goods and non-durable goods manufacturing categories summarized in Tables 3 and 4. In the durable goods industries, the State's employment in 2004 was highly concentrated in the fabricated metals, machinery, and computers and electronics categories. Of particular importance is the computers and electronics category in which 24.3 percent of the State's durable goods employment was concentrated in 2004, as compared to 14.9 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the computers and electronics classification. The miscellaneous manufacturing category includes Medtronic and other manufacturers of cardiac pacemakers.

The importance of the State's rich resource base is apparent in the employment mix in non-durable goods industries displayed in Table 4. In 2004, 36.0 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 27.7 percent in the national economy. Food Manufacturing relies heavily on renewable resources in the State. Over half of the State's acreage is devoted to agricultural purposes. Printing and Related is also relatively more important in the State than in the U.S.

Mining is currently a less significant factor in the State economy than it once was. Mining employment, primarily in the iron ore or taconite industry, dropped to 3.5 thousand in 2004, down from 6.1 thousand in 1990. However, Minnesota retains vast quantities of taconite as well as copper, nickel, cobalt, and peat which may be utilized in the future.

Employment Growth In The State

In the period 1990 to 2000, overall employment growth in Minnesota exceeded national growth as shown in Table 5. Manufacturing has been a strong sector, with Minnesota employment outperforming its U.S. counterpart in both the 1990-2000 and 2000-2004 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.9 percent while increasing 19.9 percent nationally. Non-farm employment data indicate the recession which began in July 1990 was less severe in Minnesota than in the national economy, and that Minnesota's recovery was more rapid than the nation's. The recent recession and recovery presents a mixed picture. For the 2000 to 2004 period, Minnesota non-farm employment declined 0.4 percent compared to 1.0 percent nationally. However since the fall of 2003, Minnesota seasonally adjusted non-farm employment has grown slightly more slowly than its national counterpart.

Performance Of The State's Economy

Since 1990, State per capita personal income has usually been within nine percentage points of national per capita personal income. As shown in Table 6, the State's per capita income, which is computed by dividing personal income by total resident population, has generally remained above the national average. In 2004, Minnesota per capita personal income was 108.9 percent of its U.S. counterpart.

Tables 7, 8, and 9 show the performance of the Minnesota economy relative to the eleven other states in the North Central Region. Measures used for comparison are total personal income, population, personal income per capita, and non-agricultural employment. In the level of personal income per capita, as shown in Table 7, Minnesota ranked second among the twelve states in 1990 and first in 2004. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and fourth during the period 2000 to 2004. Table 8 shows that Minnesota ranked fourth in personal income growth among neighboring states in 2003-2004. Over the period 1990 to 2000, Table 9 shows Minnesota non-farm employment grew 25.7 percent while the entire North Central Region grew 18.6 percent. During the 2000-2004 period, Minnesota non-farm employment declined 0.3 percent, while regional employment declined 2.9 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2003 and 2004, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 4.9 percent in 2003, as compared to the national average of 6.0 percent. In 2004, Minnesota's unemployment rate averaged 4.7 percent, as compared to the national average of 5.6 percent.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

<u>Year</u>	<u>U.S.</u>	<u>Minnesota</u>	<u>% Change U.S.</u>	<u>% Change Minnesota</u>
1990	249,623	4,390	0.9	0.7
1991	252,981	4,441	1.3	1.2
1992	256,514	4,496	1.4	1.2
1993	259,919	4,556	1.3	1.4
1994	263,126	4,610	1.2	1.2
1995	266,278	4,660	1.2	1.1
1996	269,394	4,713	1.2	1.1
1997	272,647	4,763	1.2	1.1
1998	275,854	4,813	1.2	1.0
1999	279,040	4,873	1.2	1.2
2000	282,192	4,934	1.2	1.2
2001	285,102	4,986	1.0	1.1
2002	287,941	5,025	1.0	0.8
2003	290,789	5,064	1.0	0.8
2004	293,655	5,101	1.0	0.7

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2004
(Thousands of Jobs)

<u>Category</u>	<u>Minnesota</u>	<u>% of Total</u>	<u>U.S.</u>	<u>% of Total</u>
Manufacturing Durables	219.6	8.0	8,923	6.7
Manufacturing Non-Durables	123.0	4.5	5,406	4.0
Natural Resources and Mining	5.9	0.2	591	0.4
Construction	126.5	4.6	6,964	5.2
Trade.....	430.1	15.7	20,690	15.5
Transportation, Warehousing, Public Utilities .	92.8	3.4	4,820	3.6
Information.....	60.2	2.2	3,138	2.3
Financial Activities.....	175.8	6.4	8,052	6.0
Professional and Business Services	301.8	11.0	16,414	12.3
Education and Health Services.....	376.9	13.8	16,954	12.7
Leisure and Hospitality	248.6	9.1	12,479	9.3
Other Services	118.4	4.3	5,431	4.1
Government	397.6	14.5	21,618	16.2
Agriculture	61.3	2.2	2,232	1.7
Total	<u>2,738.5</u>	<u>100.0</u>	<u>133,712</u>	<u>100.0</u>

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data, March 2005. Minnesota Leisure and Hospitality data includes Indian gaming.

Minnesota employment data benchmarked to March 2004 levels.

Industry detail determined according to the North American Industry Classification System (NAICS).

U.S. employment data benchmarked to March 2004 levels.

Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Employment and Economic Development.

U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January 2005.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN
UNITED STATES AND MINNESOTA FOR 2004
(Thousands of Jobs)

<u>Durable Goods</u>	<u>Minnesota</u>	<u>% of Total</u>	<u>U.S.</u>	<u>% of Total</u>
Wood Products	17.1	7.8	548	6.1
Fabricated Metals	41.2	18.8	1,498	16.8
Machinery	34.4	15.5	1,142	12.8
Computers and Electronics	53.4	24.3	1,326	14.9
Electrical Equipment	7.9	3.6	447	5.0
Transportation Equipment.....	14.8	6.7	1,764	19.8
Furniture and Related	12.6	5.7	573	6.4
Miscellaneous Manufacturing	20.7	9.4	656	7.4
Other Durables	17.5	8.0	971	10.9
Total	<u>219.6</u>	<u>100.0</u>	<u>8,925</u>	<u>100.0</u>

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota employment data benchmarked to March 2004. U.S. data benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 4
EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN
UNITED STATES AND MINNESOTA FOR 2004
(Thousands of Jobs)

<u>Non-Durable Goods</u>	<u>Minnesota</u>	<u>% of Total</u>	<u>U.S.</u>	<u>% of Total</u>
Food Manufacturing	44.3	36.0	1,497	27.7
Paper and Paper Products	12.3	10.0	499	9.2
Printing and Related	30.5	24.8	665	12.3
Plastic and Rubber Products	16.4	13.3	807	14.9
Other Non Durables	19.5	15.9	1,938	35.8
Total	<u>123.0</u>	<u>100.0</u>	<u>5,406</u>	<u>100.0</u>

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota data benchmarked to March 2004. U.S. data benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 5
EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2004
(Thousands of Jobs)

Category	Minnesota					United States				
	1990	2000	2004	% Change		1990	2000	2004	% Change	
				1990-2000	2000-2004				1990-2000	2000-2004
Manufacturing										
Durables	217.2	255.5	219.6	17.6	(14.1)	10,736	10,876	8,923	1.3	(18.0)
Manufacturing										
Non-Durables	124.3	141.1	123.0	13.5	(12.8)	6,959	6,388	5,406	(8.2)	(15.4)
Natural Resources and										
Mining	8.4	8.1	5.9	(3.6)	(27.2)	765	599	591	(21.7)	(1.3)
Construction	77.9	118.9	126.5	52.6	6.4	5,263	6,787	6,964	29.0	2.6
Trade	362.1	436.2	430.1	20.5	(1.4)	18,451	21,213	20,690	15.0	(2.5)
Transportation										
Warehousing and										
Utilities	85.9	103.4	92.8	20.4	(10.3)	4,216	5,012	4,820	18.9	(3.8)
Information	54.4	69.3	60.2	27.4	(13.1)	2,688	3,631	3,138	35.1	(13.6)
Financial Activities	129.3	164.8	175.8	27.5	6.7	6,614	7,687	8,052	16.2	4.7
Professional and										
Business Services	214.5	319.3	301.8	48.9	(5.5)	10,848	16,666	16,414	53.6	(1.5)
Education and Health										
Services	241.8	325.0	376.9	34.4	16.0	10,984	15,108	16,954	37.6	12.2
Leisure and										
Hospitality	181.0	235.0	248.6	29.8	5.8	9,288	11,862	12,479	27.7	5.2
Other Services	92.2	114.7	118.4	24.4	3.2	4,261	5,168	5,431	21.3	5.1
Government	346.9	393.4	397.6	13.4	3.5	18,415	20,790	21,618	12.9	4.0
Agriculture	103.1	90.2	61.3	(32.0)	(16.5)	3,223	2,464	2,232	(23.5)	(9.4)
Total	<u>2,239.0</u>	<u>2,774.9</u>	<u>2,738.5</u>	<u>23.9</u>	<u>(0.1)</u>	<u>112,711</u>	<u>135,093</u>	<u>133,712</u>	<u>19.9</u>	<u>(1.0)</u>

Sources: Minnesota 1990, 2000 and 2004 — Minnesota Department of Employment and Economic Development, unpublished data.

U.S. 1990, 2000 and 2004, Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota employment data benchmarked to March 2004. Minnesota Leisure and Hospitality data includes Indian gaming. U.S. employment benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industrial Classification System (NAICS).

Minnesota agricultural employment: Unpublished estimate from Minnesota Department of Employment and Economic Development. U.S. Agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings January 2005.

U.S. and Minnesota agricultural employment data for 2004 not necessarily comparable with earlier years because of changes in methodology.

TABLE 6
MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

<u>Year</u>	<u>Minnesota</u>	<u>U.S.</u>	<u>Minnesota as % of U.S.</u>
1994	22,985	22,172	103.7
1995	24,078	23,076	104.3
1996	25,716	24,175	106.4
1997	26,953	25,334	106.4
1998	28,993	26,883	107.9
1999	30,106	27,939	107.8
2000	32,017	29,845	107.3
2001	32,609	30,575	106.7
2002	33,180	30,804	107.7
2003	34,031	31,472	108.1
2004	35,861	32,937	108.9

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2004

State	1990		2000		1990-2000		2004		2000-2004		2000		1990		2004			
	Personal Income (Millions)	Regional Rank	Personal Income (Millions)	Regional Rank	Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	Personal Income (Millions)	Regional Rank	Rate of Increase (%)	Regional Rank 2000-2004	Population (Thousands)	Per Capita Personal Income (\$)	Regional Rank	Per Capita Personal Income (\$)	Regional Rank	Population (Thousands)	Per Capita Personal Income (\$)	Regional Rank
Illinois	238,499	6	400,373	6	5.32	6	436,731	12	2.20	12	12,440	20,824	1	34,351	2	12,714	34,351	2
Ohio	203,630	12	320,538	12	4.64	12	358,920	10	2.87	10	11,364	18,743	4	31,322	7	11,459	31,322	7
Michigan	176,189	7	294,227	7	5.26	7	323,142	11	2.37	11	9,956	18,922	3	31,954	4	10,113	31,954	4
Indiana	97,213	4	165,285	4	5.45	4	187,714	8	3.23	8	6,092	17,491	9	30,094	12	6,238	30,094	12
Wisconsin	88,635	2	153,548	2	5.65	2	177,154	6	3.64	6	5,374	18,072	6	32,157	3	5,509	32,157	3
Missouri	90,407	5	152,722	5	5.38	5	176,137	7	3.63	7	5,606	17,627	8	30,608	10	5,755	30,608	10
Minnesota	87,318	1	157,964	1	6.11	1	182,924	4	3.74	4	4,934	19,891	2	35,861	1	5,101	35,861	1
Iowa	48,358	10	77,763	10	4.86	10	90,929	3	3.99	3	2,928	17,389	10	30,560	11	2,954	30,560	11
Kansas	44,876	9	74,570	9	5.21	9	84,282	9	3.11	9	2,693	18,085	5	30,811	9	2,736	30,811	9
Nebraska	28,444	8	47,329	8	5.22	8	54,756	5	3.71	5	1,713	17,983	7	31,339	6	1,747	31,339	6
South Dakota	11,273	3	19,438	3	5.60	3	23,787	2	5.18	2	756	16,172	11	30,856	8	771	30,856	8
North Dakota	10,166	11	16,097	11	4.70	11	19,918	1	5.47	1	641	15,943	12	31,398	5	634	31,398	5

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION⁽¹⁾
2003-2004

<u>Rank</u>	<u>State</u>	<u>Percent Growth</u>
1	North Dakota	8.73
2	Iowa	8.29
3	South Dakota	7.77
4	MINNESOTA	6.14
5	Wisconsin	5.46
6	Kansas	5.07
7	Indiana	4.99
8	Illinois	4.74
9	Missouri	4.52
10	Nebraska	4.43
11	Ohio	4.15
12	Michigan	<u>2.80</u>
	REGION	4.74

Source: Global Insight (USA), Inc., @ Markets Data Bank.

(1) Refer to Table 7 for Personal Income figures.

TABLE 9
NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION
(Thousands of Jobs)

<u>State</u>	<u>1990</u> <u>Employment</u>	<u>2000</u> <u>Employment</u>	<u>2004</u> <u>Employment</u>	<u>% Increase</u> <u>1990-2000</u>	<u>2000-2004</u>
Illinois	5,288.4	6,044.8	5,807.1	14.3	(3.9)
Ohio	4,882.3	5,624.7	5,407.0	15.2	(3.9)
Michigan	3,969.7	4,673.9	4,390.8	17.7	(6.1)
Indiana	2,521.9	3,000.1	2,929.9	19.0	(2.3)
Wisconsin	2,291.5	2,833.8	2,803.2	23.7	(1.1)
Missouri	2,345.0	2,748.7	2,692.9	17.2	(2.0)
MINNESOTA	2,135.9	2,684.9	2,677.4	25.7	(0.3)
Iowa	1,226.4	1,478.5	1,456.1	20.6	(1.5)
Kansas	1,088.5	1,344.9	1,323.2	23.6	(1.6)
Nebraska	730.1	914.0	922.9	25.2	1.0
South Dakota	288.7	377.7	382.9	30.8	1.4
North Dakota	<u>265.8</u>	<u>327.7</u>	<u>337.2</u>	<u>23.2</u>	<u>2.9</u>
Region	<u>27,034.2</u>	<u>32,053.7</u>	<u>31,130.6</u>	<u>18.6</u>	<u>(2.9)</u>

Source: Global Insight (USA), Inc., @ Markets Data Bank. Minnesota employment data from Minnesota Department of Employment and Economic Development, benchmarked to March 2004.

TABLE 10
MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1998-2004 AND
THE FIRST SEVEN MONTHS OF 2005 NOT SEASONALLY ADJUSTED

<u>Year</u>	<u>Annual Average</u>	
	<u>Minnesota</u>	<u>U.S.</u>
1998	2.7%	4.5%
1999	2.8%	4.2%
2000	3.2%	4.0%
2001	3.9%	4.7%
2002	4.6%	5.8%
2003	4.9%	6.0%
<u>Month</u>	<u>Minnesota</u>	<u>U.S.</u>
2004		
January	5.9%	6.3%
February	5.4%	6.0%
March	5.7%	6.0%
April	4.6%	5.4%
May	4.2%	5.3%
June	4.9%	5.8%
July	4.5%	5.7%
August	4.4%	5.4%
September	4.3%	5.1%
October	3.9%	5.1%
November	4.0%	5.2%
December	4.3%	5.1%
Annual Average	<u>4.7%</u>	<u>5.6%</u>
<u>Month</u>	<u>Minnesota</u>	<u>U.S.</u>
2005		
January	5.2%	5.7%
February	4.7%	5.8%
March	5.0%	5.4%
April	4.1%	4.9%
May	3.8%	4.9%
June	3.9%	5.2%
July	3.4%	5.2%

Source: Minnesota Department of Employment and Economic Development.

**TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500**

Rank		Company	Revenues	Assets	Profits	Industry	Rank
04	03		\$000	\$000	\$000	Category	
27	23	Target	49,934,000	32,293,000	3,198,000	General Merchandisers	2
40	54	UnitedHealth Group	37,218,000	27,879,000	2,587,000	Health Care: Insurance	1
77	78	Best Buy	24,901,000	8,652,000	705,000	Specialty Retailers	4
85	227	St. Paul Travelers Cos..	22,934,000	111,815,000	955,000	Insurance; P & C (stock)	4
104	99	Supervalu	20,209,700	6,152,900	280,100	Wholesalers: Food and Grocery	2
105	105	Minnesota Mining & Mfg.	20,011,000	20,708,000	2,990,000	Miscellaneous	1
143	133	U.S. Bancorp	14,705,700	195,104,000	4,166,800	Commercial Banks	6
190	207	Northwest Airlines	11,279,000	14,042,000	(862,000)	Airlines	4
197	186	General Mills	11,070,000	18,448,000	1,055,000	Consumer Food Products	4
198	212	Cenex Harvest States.	11,050,600	4,031,300	221,300	Wholesalers: Food and Grocery	3
246	273	Medtronic	9,087,200	14,110,800	1,959,300	Medical Products & Equipment	2
256	254	Xcel Energy	8,506,700	20,304,800	356,000	Utilities: Gas & Electric	15
279	308	Land O'Lakes.	7,742,200	3,199,800	21,400	Consumer Food Products	9
319	284	Thrivent Financial for Lutherans	6,445,200	53,541,300	353,600	Insurance: Life, Health (mutual)	6
402	411	Hormel Foods.	4,779,900	2,534,000	231,700	Consumer Food Products	12
442	467	C.H. Robinson Worldwide.	4,341,500	1,080,700	137,300	Transportation and Logistics	3
455	451	Ecolab	4,184,900	3,716,200	310,500	Chemicals	13
476	433	Nash Finch.	3,897,100	815,600	14,900	Wholesalers: Food and Grocery	6

Source: *Fortune Magazine*, dated April 18, 2005.

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APPENDIX I

Continuing Disclosure Undertaking

The Commissioner's Order authorizing the issuance of the Bonds will contain provisions enabling participating underwriters in the primary offering of the Bonds to comply with the requirements of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5), in substantially the following form:

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated October 1, 2005 (the "Official Statement"), is a final official statement within the meaning of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12 as in effect and interpreted from time to time ("Rule 15c2-12"). The initial purchasers of the Bonds designated in Section 12 hereof (the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds are reoffered.

3.02. *Continuing Disclosure.*

(a) *General Undertaking.* On behalf of the State the Commissioner covenants and agrees with the Registered Owners from time to time of the Bonds to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to nationally recognized municipal securities information repositories and any Minnesota state information depository, annual financial information of the type included in the Official Statement and notice of the occurrence of certain specified events which materially affect the terms, payment, security, rating or tax status of the Bonds, as set forth in this Section. The State is the only "obligated person" in respect of the Bonds within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Bond, any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or is treated as the owner of the Bond for federal income tax purposes.

(b) *Information To Be Disclosed.* The Commissioner will provide, in the manner set forth in paragraph (c) hereof, either directly or indirectly through an agent designated by the Commissioner, the following information (the "Disclosure Information") at the following times:

(1) On or before December 31 of each year, commencing in 2005 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the Fiscal Year ending on the previous June 30, prepared by the Department of Finance in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such Fiscal Year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been submitted to each of the repositories referred to

under this paragraph (b) or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this paragraph (b)(1) or subsection (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, notice of the occurrence of any of the following events and which is a Material Fact (as hereinafter defined):

- (A) Principal and interest payment delinquencies;
- (B) Non-payment related defaults;
- (C) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (D) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (E) Substitution of credit or liquidity providers, or their failure to perform;
- (F) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (G) Modifications to rights to security holders;
- (H) Bond calls;
- (I) Defeasances;
- (J) Release, substitution, or sale of property securing repayment of the securities; and
- (K) Rating changes.

As used herein, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a "Material Fact" is also an event that would be deemed "material" for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

(3) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (1) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the State under subsection (d)(2);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (1) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) ***Manner of Disclosure.*** The Commissioner agrees to make available the information described in paragraph (b) to the following entities by telecopy, overnight delivery, mail or other means, as appropriate:

(1) the information described in subparagraph (1) of paragraph (b), to each then nationally recognized municipal securities information repository under Rule 15c2-12 and to any State information depository then designated or operated by the State of Minnesota as contemplated by Rule 15c2-12 (the "State Depository"), if any;

(2) the information described in subparagraphs (2) and (3) of paragraph (b), to the Municipal Securities Rulemaking Board and to the State Depository, if any; and

(3) the information described in paragraph (b), to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraphs (1) or (2) of this paragraph (c), as the case may be, or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(d) ***Term; Amendments; Interpretation.***

(1) The covenants of the State in this Section 3.02 shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (3) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (i) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2-12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that Rule 15c2-12 is in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) ***Failure to Comply; Remedies.*** If the State fails to comply with any provision of this Section 3.02 any person aggrieved thereby, including the Registered Owner of any outstanding Bond, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) ***Further Limitation of Liability of State.*** If and to the extent the limitations of liability contained in subsection (e) are not effective, anything contained in this Section 3.02 to the contrary notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State.

The Commissioner of Finance is not in default of any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

APPENDIX J

Definition of Ratings

Moody's Investors Service, Inc.:

Aa1 Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Standard & Poor's Ratings Group:

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

Fitch Ratings:

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

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APPENDIX K

Form of Legal Opinion

The Honorable Peggy S. Ingison
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: \$557,960,000 General Obligation State Bonds

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance of the State of Minnesota on behalf of the State, preliminary to and in issuance of \$557,960,000 General Obligation State Bonds dated October 1, 2005 (the "Bonds") consisting of \$285,400,000 General Obligation State Various Purpose Bonds, \$111,600,000 General Obligation State Trunk Highway Bonds and \$160,960,000 General Obligation State Refunding Bonds. The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, rules, regulations and judicial decisions now in effect, it is our opinion that:

1. The Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Bonds (a) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes. Noncompliance by the State following the issuance of the Bonds with covenants made by the Commissioner of Finance in the Order authorizing the issuance of the Bonds relating to certain continuing requirements of the Code may result in inclusion of interest to be paid on the Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Bonds. No provision has been made for an increase in the interest payable on the Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Bonds.

Dated: October , 2005.