

OFFICIAL STATEMENT DATED SEPTEMBER 8, 2010

NEW ISSUES – BOOK ENTRY ONLY

RATINGS: Fitch: AAA  
Moody's: Aa1  
Standard & Poor's: AAA  
See "Ratings" herein

*In the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain covenants, the interest to be paid on the Series 2010D Bonds and the Series 2010E Bonds (collectively 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 includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and 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. The interest to be paid on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax. For a discussion of tax matters see "Tax Matters" herein.*

**\$907,785,000**  
**STATE OF MINNESOTA**  
**General Obligation State Bonds**  
consisting of

**\$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D**

**\$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E**

*(collectively referred to as the "Bonds")*

**Dated: Date of Delivery**

**Due: as shown on inside cover**

**THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE OF MINNESOTA (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 are subject to redemption and prepayment by the State as provided herein.

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 Bank of New York Mellon Trust Company, N.A. is the Bond Registrar and Paying Agent for the Bonds.

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

The Bonds are offered by the State subject to the legal opinions of Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel, and of the State Attorney General as to the validity of the Bonds, and Dorsey & Whitney LLP as to the tax exemption of the interest on the Bonds. The Underwriters are represented in this offering by Faegre & Benson LLP, Minneapolis, Minnesota. Delivery will be made on or about Wednesday, September 29, 2010.

**RBC Capital Markets**

|                                |              |                           |                                  |                               |
|--------------------------------|--------------|---------------------------|----------------------------------|-------------------------------|
| <b>Barclays Capital</b>        |              | <b>BofA Merrill Lynch</b> |                                  | <b>Morgan Stanley</b>         |
| <b>Piper Jaffray &amp; Co.</b> |              |                           |                                  | <b>Wells Fargo Securities</b> |
| Citi                           | Cronin & Co. | Dougherty & Co.           | Fidelity Capital Markets         | Goldman, Sachs & Co.          |
| Jefferies & Company            | J.P. Morgan  | Loop Capital Markets      | Raymond James & Associates, Inc. | Robert W. Baird & Co.         |

**\$907,785,000**  
**State of Minnesota**  
**General Obligation State Bonds**

**Maturities, Amounts, Interest Rates, Prices or Yields and CUSIPs\***

**\$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D**

| Maturity (August 1) | Amount       | Interest Rate | Yield | CUSIP* 604129 |
|---------------------|--------------|---------------|-------|---------------|
| 2011                | \$67,060,000 | 2.00%         | 0.28% | VK9           |
| 2012                | 72,945,000   | 3.00          | 0.44  | VL7           |
| 2013                | 58,440,000   | 4.00          | 0.57  | VM5           |
| 2014                | 1,430,000    | 2.00          | 0.84  | VN3           |
| 2014                | 2,475,000    | 4.00          | 0.84  | WP7           |
| 2014                | 54,600,000   | 5.00          | 0.84  | WQ5           |
| 2015                | 3,290,000    | 1.75          | 1.18  | WT9           |
| 2015                | 3,135,000    | 3.00          | 1.18  | VP8           |
| 2015                | 500,000      | 4.00          | 1.18  | WR3           |
| 2015                | 51,600,000   | 5.00          | 1.18  | WS1           |
| 2016                | 7,000,000    | 4.00          | 1.46  | VQ6           |
| 2016                | 38,385,000   | 5.00          | 1.46  | WU6           |

| Maturity (August 1) | Amount      | Interest Rate | Yield  | CUSIP* 604129 |
|---------------------|-------------|---------------|--------|---------------|
| 2017                | \$2,000,000 | 2.00%         | 1.75%  | WW2           |
| 2017                | 10,870,000  | 3.00          | 1.75   | VR4           |
| 2017                | 15,655,000  | 4.00          | 1.75   | WV4           |
| 2017                | 16,780,000  | 5.00          | 1.75   | WX0           |
| 2018                | 45,255,000  | 5.00          | 1.97   | VS2           |
| 2019                | 45,425,000  | 5.00          | 2.19   | VT0           |
| 2020                | 45,610,000  | 5.00          | 2.39   | VU7           |
| 2021                | 1,995,000   | 4.00          | 2.53** | VV5           |
| 2021                | 43,795,000  | 5.00          | 2.53** | WY8           |
| 2022                | 37,275,000  | 5.00          | 2.65** | VW3           |
| 2023                | 37,485,000  | 5.00          | 2.77** | VX1           |
| 2024                | 24,110,000  | 5.00          | 2.84** | VY9           |

**\$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E**

| Maturity (August 1) | Amount       | Interest Rate | Yield | CUSIP* 604129 |
|---------------------|--------------|---------------|-------|---------------|
| 2011                | \$17,110,000 | 3.00%         | 0.30% | VZ6           |
| 2012                | 16,850,000   | 3.00          | 0.44  | WA0           |
| 2013                | 350,000      | 2.00          | 0.57  | WB8           |
| 2013                | 16,310,000   | 4.00          | 0.57  | WZ5           |
| 2014                | 16,640,000   | 5.00          | 0.84  | WC6           |
| 2015                | 16,615,000   | 4.00          | 1.18  | WD4           |
| 2016                | 16,595,000   | 5.00          | 1.46  | WE2           |
| 2017                | 1,385,000    | 4.00          | 1.75  | WF9           |
| 2017                | 15,265,000   | 5.00          | 1.75  | XA9           |
| 2018                | 1,705,000    | 3.00          | 1.97  | WG7           |
| 2018                | 14,985,000   | 5.00          | 1.97  | XB7           |
| 2019                | 4,755,000    | 4.00          | 2.19  | WH5           |

| Maturity (August 1) | Amount       | Interest Rate | Yield  | CUSIP* 604129 |
|---------------------|--------------|---------------|--------|---------------|
| 2019                | \$11,960,000 | 5.00%         | 2.19%  | XC5           |
| 2020                | 4,300,000    | 3.00          | 2.39   | WJ1           |
| 2020                | 1,000,000    | 4.00          | 2.39   | XE1           |
| 2020                | 11,410,000   | 5.00          | 2.39   | XD3           |
| 2021                | 16,645,000   | 4.00          | 2.53** | WK8           |
| 2022                | 535,000      | 3.00          | 2.65** | WL6           |
| 2022                | 14,505,000   | 5.00          | 2.65** | XF8           |
| 2023                | 2,320,000    | 4.00          | 2.77** | WM4           |
| 2023                | 12,115,000   | 5.00          | 2.77** | XG6           |
| 2024                | 5,105,000    | 3.00          | 2.84** | WN2           |
| 2024                | 2,210,000    | 5.00          | 2.84** | XH4           |

\* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

\*\* Priced to the first redemption date of August 1, 2020.

**STATE OF MINNESOTA OFFICIALS**

|                     |                 |
|---------------------|-----------------|
| GOVERNOR            | Tim Pawlenty    |
| LIEUTENANT GOVERNOR | Carol Molnau    |
| SECRETARY OF STATE  | Mark Ritchie    |
| STATE AUDITOR       | Rebecca Otto    |
| ATTORNEY GENERAL    | Lori Swanson    |
| LEGISLATIVE AUDITOR | James R. Nobles |

**COMMISSIONER OF MANAGEMENT AND BUDGET**

Tom J. Hanson

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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 or Underwriters 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 or Underwriters. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information. 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 contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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.

## SUMMARY STATEMENT

**(The Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement)**

|                               |  |
|-------------------------------|--|
| <b>Issuer:</b>                | State of Minnesota   |
| <b>Offering:</b>              | <p>\$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D (the “Series 2010D Bonds”)</p> <p>\$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E (the “Series 2010E Bonds”)</p> <p><i>(collectively referred to as the “Bonds”)</i></p>  |
| <b>Principal Amounts:</b>     | The principal amounts of the Bonds are set forth on the inside cover pages.  |
| <b>Interest:</b>              | Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date of the Bonds, payable semiannually on each February 1 and August 1, commencing February 1, 2011.  |
| <b>Dated Date:</b>            | Date of Delivery, expected to be September 29, 2010.   |
| <b>Security:</b>              | General obligations of the State of Minnesota to which its full faith, credit and taxing powers are pledged.   |
| <b>Book-Entry Bonds:</b>      | The Bonds will be issued in fully registered form without interest coupons in denominations of \$5,000 and integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds.            |
| <b>Redemption:</b>            | The Series 2010D Bonds and the Series 2010E Bonds maturing on or after August 1, 2021 will be subject to redemption and prepayment in whole or in part at the option of the State on August 1, 2020 and on any business day thereafter. Redemption and prepayment is at a price of par plus accrued interest to the date specified for redemption. |
| <b>Continuing Disclosure:</b> | In the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.   |
| <b>Bond Ratings:</b>          | The Bonds described herein have been rated “AAA” by Fitch Ratings, “Aa1” by Moody’s Investors Service Inc. and “AAA” by Standard & Poor’s Ratings Group.   |

**Registrar/Paying Agent/  
Escrow Agent:**

The Bank of New York Mellon Trust Company, N.A.

**Legal Opinions:**

The Bonds are approved as to validity by the State Attorney General and Dorsey & Whitney LLP, Minneapolis, Minnesota as bond counsel. Only Dorsey & Whitney LLP will provide the opinion regarding the tax exemption of interest on the Bonds. The Underwriters are represented by Faegre & Benson LLP, Minneapolis, Minnesota.

**Bonds Outstanding:**

The total amount of State general obligation bonds outstanding on the date of issuance of the Bonds, including these issues will be approximately \$5.71 billion. The total amount of general obligation bonds authorized but unissued as of the date of issuance of the Bonds, will be approximately \$2.60 billion. See Appendix C, pages C-1 and C-2.

**Additional Information:**

Questions regarding this Official Statement should be directed to Katherine Kardell, Assistant Commissioner, Minnesota Management and Budget, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8030, email [kathy.kardell@state.mn.us](mailto:kathy.kardell@state.mn.us), Susan Gurrola, Financial Analyst, Minnesota Management and Budget, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8046, email [sue.gurrola@state.mn.us](mailto:sue.gurrola@state.mn.us) or Thomas Huestis, Public Resources Advisory Group, telephone (610) 565-5990, email [thuestis@pragny.com](mailto:thuestis@pragny.com). 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](mailto:rice.len@dorsey.com).

**OFFICIAL STATEMENT**

**STATE OF MINNESOTA**  
**\$907,785,000**  
**General Obligation State Bonds**  
consisting of

**\$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D**

**\$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E**

*(collectively referred to as the "Bonds")*

**THE BONDS**

**General**

This Official Statement, including the cover page and the Appendices (this "Official Statement"), has been prepared by the State of Minnesota Department of Management and Budget (the "Department" or "MMB") to furnish information relating to \$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D (the "Series 2010D Bonds"), and \$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E (the "Series 2010E Bonds"), (together with the Series 2010D Bonds, the "Bonds") of the State of Minnesota (the "State") to be dated the date of issuance, to prospective purchasers and actual purchasers of the Bonds. Prospective and actual purchasers should read this entire Official Statement.

**Authorization and Purpose**

The Bonds are being issued by the State of Minnesota, acting by and through its Commissioner of Management and Budget (the "Commissioner"), pursuant to the constitutional and statutory authority as hereinafter described.

The Series 2010D Bonds in the principal amount of \$687,115,000 are being issued for the purpose of refunding \$631,850,000 in principal amount of outstanding general obligation various purpose bonds of the State, (the "Various Purpose Refunded Bonds"). The proceeds to refund the Various Purpose Refunded 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 Various Purpose Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Various Purpose Refunded Bonds and the dates on which they will be called for redemption are described in Appendix D.

The Series 2010E Bonds in the principal amount of \$220,670,000 are being issued for the purpose of refunding \$201,820,000 in principal amount of outstanding general obligation trunk highway bonds of the State, (the "Trunk Highway Refunded Bonds"). The proceeds to refund the Trunk Highway Refunded 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 Trunk Highway Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Trunk Highway Refunded Bonds and the dates on which they will be called for redemption are described in Appendix D.

*Constitutional Provisions.*

Article XI, Section 5 of the Minnesota Constitution authorizes the State to refund outstanding bonds of the State.

### *Statutory Provisions.*

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council. The issuance of the Series 2010D Bonds and the Series 2010E Bonds was approved by resolutions of the State Executive Council on March 20, 2007, and September 29, 2009.

### **Bond Terms**

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable semiannually on each February 1 and August 1 to maturity or prior redemption, if any, commencing February 1, 2011. If principal or interest is due on a date on which commercial banks are not open for business in the states of Minnesota and New York, then payment will be made on the first day thereafter when such banks are open for business.

The Bonds are issued in book entry form and in denominations of \$5,000 or multiples thereof of a single interest rate of a single maturity for each series of Bonds. 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."

### **Optional Redemption**

The Bonds maturing on or before August 1, 2020 will not be subject to redemption prior to their stated maturity dates. The Bonds maturing on or after August 1, 2021 will be subject to redemption and prepayment by the State at its option on August 1, 2020 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each interest rate of a single maturity, at a price of par plus accrued interest to the date specified for redemption.

### **Notices of Redemption**

So long as the Bonds are 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," notice of any redemption of Bonds 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 (as herein defined) 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.

If, in the future, the Bonds are not in book entry form, 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.

Notice of redemption having been so given, 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.

## SECURITY<sup>1</sup>

*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 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, along 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 (the "General Fund" as defined on page B-2) 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 transfers 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 C-5 with respect to the Debt Service Fund transfer.)

*Additional Security — State Trunk Highway Bonds:* The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund" or "State 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

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<sup>1</sup> While the State has adopted the revised Article 9 of the Uniform Commercial Code that generally covers 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).

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 allocating the 5% may be made within six years of the last previous change, which occurred in 1998.

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.

### SOURCES AND USES OF FUNDS

| <b>Sources:</b>                    | <b>Series 2010D</b>     | <b>Series 2010E</b>     | <b>Total</b>              |
|------------------------------------|-------------------------|-------------------------|---------------------------|
|                                    | <b>Bonds</b>            | <b>Bonds</b>            |                           |
| Par Amount of Bonds                | \$687,115,000.00        | \$220,670,000.00        | \$907,785,000.00          |
| Premium on Bonds                   | 103,095,063.50          | 32,082,888.50           | 135,177,952.00            |
| Previous Debt Service Fund Balance | 20,802,812.50           | 5,960,000.00            | 26,762,812.50             |
| <b>Total Sources</b>               | <b>\$811,012,876.00</b> | <b>\$258,712,888.50</b> | <b>\$1,069,725,764.50</b> |
| <b>Uses:</b>                       |                         |                         |                           |
| Refunding Escrow Deposit           | \$707,590,650.84        | \$226,522,072.00        | \$934,112,722.84          |
| Underwriters' Discount             | 2,192,090.98            | 733,543.07              | 2,925,634.05              |
| Cost of Issuance                   | 327,161.66              | 107,928.00              | 435,089.66                |
| Deposit to State Bond Fund         | 100,902,972.52          | 31,349,345.43           | 132,252,317.95            |
| <b>Total Uses</b>                  | <b>\$811,012,876.00</b> | <b>\$258,712,888.50</b> | <b>\$1,069,725,764.50</b> |

### FUTURE FINANCINGS

The State anticipates the issuance in the third quarter of calendar year 2010 of general obligation certificates of indebtedness for the purpose of financing the State's cash flow needs in the Current Biennium. See "Appendix B – STATE FINANCES, CASH FLOW INFORMATION."

Certain State agencies that issue bonds that have been granted financial assistance from the Legislature in the form of standing appropriations for debt service are considering future financings. The University of Minnesota anticipates issuing \$147,200,000 in bonds for the Biomedical Science Research Facilities on September 29, 2010. The Minnesota Housing Finance Agency is considering the issuance of \$22,730,000 in bonds in the next six months for its permanent supportive housing program. See "Appendix C-11 STATE DEBT, CONTINGENT LIABILITIES, State Standing Appropriations."

## 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 interest rate of a maturity for each series of the Bonds in the aggregate principal amount thereof 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 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 the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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 affect 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 above 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.

## **TAX MATTERS**

### **The Bonds**

*General.* In the opinion of Dorsey & Whitney LLP, bond counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain covenants described below, 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 includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and 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. The interest to be paid on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

*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.

*Premium Bonds.* The 2010D Bonds and 2010E Bonds are being issued at a premium to the principal amount payable at maturity (the “Premium 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 Premium Bonds must, from time to time, reduce their federal and Minnesota tax bases for the Premium Bonds for purposes of determining gain or loss on the sale or payment of such Premium 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 Premium Bonds might recognize taxable gain upon sale of such Premium Bonds, even if such Premium 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 Premium Bonds 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 such Premium Bonds.

*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 Tax Exempt 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, except to the extent permitted under section 265(b)(7) of the Code, as limited by sections 265(a)(2) and 291 of the Code; and

(8) because of the Code's basis reduction rules for amortizable bond premium, Bondholders who acquire Premium Bonds might recognize taxable gain upon sale of such Premium Bonds, even if such Premium 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 of interest on the Bonds. The forms of legal opinions to be issued by Dorsey & Whitney LLP with respect to the Bonds are set forth in Appendix H.

## **FINANCIAL INFORMATION**

General financial information relating to the State is set forth in the Official Statement, Appendices A through F, and is a part of this Official Statement. The State's most recent audited financial statements are included as Appendix F.

## **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 20 to the State Financial Statements for the Fiscal Year Ended June 30, 2009, set forth in Appendix F and additional

actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of \$15 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 20 that occurred and are subsequent to the date of the financial statements contained in Appendix F, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix F and are material for purposes of this Official Statement.

1. *35W Bridge Collapse*. The State's claim against the company which had performed inspections and analysis of the bridge has been settled for \$5 million.

2. *ACS State and Local Solutions, Inc. v. State of Minnesota, through its Commissioner of the Department of Human Services*. The court's scheduling order sets the case on for a three-week trial beginning March 14, 2011.

3. *Brayton, et al. v. Pawlenty, et al.* On December 30, 2009, the district court granted Plaintiffs' motion for a temporary restraining order with respect to the unallotment of \$5.33 million in funding this biennium for the Minnesota Supplemental Aid-Special Diet Program. The district court concluded the unallotment does not comport with Minnesota Statutes, Section 16A.152. Judgment was entered against the State on January 8, 2010. On January 12, 2010, the State filed an appeal. On May 5, 2010, the Minnesota Supreme Court affirmed the district court's conclusion that the unallotment of the Minnesota Supplemental Aid-Special Diet Program funds was unlawful and void.

4. *Eminent Domain Actions*. The Department of Transportation has agreed to acquire properties for the Metropolitan Council's Central Corridor light rail transit project. This project is likely to involve eminent domain actions. In the aggregate, the potential cost to the State for property which has been, or will be, acquired exceeds \$15 million. Liability arising out of decisions unfavorable to the State may impact funding to be provided to the Department of Transportation by the Metropolitan Council.

5. *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry (Ramsey County District Court)*. The Home Insurance Company ("Home") seeks a declaration that it is entitled to reimbursement from the Special Compensation Fund for certain workers' compensation payments Home has made. Home, which is in liquidation, seeks the reimbursement to which it claims it is entitled under the State's workers' compensation scheme, and without recourse to the General Fund. Defendants Minnesota Department of Labor and Industry and Special Compensation Fund have denied Home's requests for reimbursement, raising various statutory defenses and that Home is not entitled to reimbursement under the law. Home claims it is entitled to \$21 million in past and future reimbursements. Plaintiffs ask for reimbursement from the workers compensation Special Compensation Fund. Summary judgment motions of both parties were heard in May 2010. Defendants asked to have Plaintiffs' complaint dismissed. The district court granted partial summary judgment in favor of the plaintiff in the amount of \$7,265,246, and denied summary judgment as premature as to future payments on qualifying claims. The State is considering options, including appeal.

6. *McLane Minnesota, Inc. v. Commissioner of Revenue*. McLane did not file a petition for certiorari to the U.S. Supreme Court.

7. *Merrill Lynch Pierce Fenner & Smith, Inc. v. Commissioner of Revenue*. Merrill Lynch settled by paying the Department of Revenue \$2.6 million and agreeing its claims for 1992-94 were untimely.

8. *Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue*. MERC filed a new appeal in Minnesota Tax Court for its 2009 tax assessment. A new rule governs calculation for the tax year 2009. MERC's appeal of the 2009 tax assessment involves about the same amount of taxable property as the 2008 tax assessment. Discovery is ongoing.

9. *Swanson, et al. v. State, Public Employees Retirement Association, Minnesota State Retirement System, Teachers Retirement Association (PERA, MSRS, TRA ), et al. (Ramsey County District Court)*. A class action lawsuit was filed in May 2010, against the State's pension funds. Plaintiffs are challenging 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. Plaintiffs seek a

judicial determination that the legislation violates the contract clause of both the state and federal constitution; that the legislation violates the taking clause of the federal constitution, that the legislation is arbitrary and capricious and violates substantive due process, and that the named individual defendants violated 42 USC. The State Defendants moved for summary judgment with argument scheduled for September 15, 2010.

10. *Union Pacific Railroad Co. & Soo Line Railroad Co. v. Salomone, et al.* On February 5, 2010 the Federal District Court ordered an amended judgment granting declaratory and injunctive relief to the plaintiff railroads in accordance with the 8th Circuit's reversal of his order. A further appeal will not be filed, as the merits of this matter were decided by the 8th Circuit's 2007 ruling.

11. *Jensen, et al. v. METO, et al. (U.S District Court)*. Parents/guardians of several patients/former patients of the Minnesota Extended Treatment Options ("METO") program allege violations of various state and federal constitutional and statutory rights because of alleged misuse of restraints and seclusion of people committed in part because of developmental disabilities and seek class action status, money damages and injunctive relief.

12. *R.J. Reynolds Tobacco Co. v. Comm'r of Revenue (Minnesota Tax Court)*. This is a corporate franchise case where the taxpayer originally reported a \$2.9 billion sale from the sale of certain international business operations as business income apportionable to Minnesota which increased its sales factor denominator by the gain amount. The Commissioner excluded gain from the company's sales factor and made no adjustment to the taxable income. The taxpayer objected, arguing that the business income must be represented in the apportionment factors to avoid distortion, or in the alternative, the gain must be deemed non-business income because the taxpayer did not conduct a unitary business with its international operations. The Commissioner rejected both arguments and also allowed only an 80% deduction for dividends received from a foreign subsidiary, rather than a 100% deduction. The Commissioner denied the taxpayer's refund claim asserting that the gain from the sale of trademark assets (\$2.6 billion) was non-business income. The amount at issue with this particular taxpayer is \$3.2 million plus \$1.2 million in a denied refund claim. If the Commissioner's decision is not upheld the Commissioner estimates that the outcome of this litigation will affect similarly situated taxpayers resulting in a prospective loss of \$8 million per year starting in FY 2011, and a retroactive effect of \$24 million for FY 2011.

### **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) as currently in effect; and, for this purpose, to provide to the Municipal Securities Rulemaking Board annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain 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 G. In the previous five years, the Commissioner has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

### **FINANCIAL ADVISOR**

Public Resources Advisory Group, New York, New York, is serving as Financial Advisor to the State in connection with the issuance of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Financial Advisor is not obligated to undertake to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.



## VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the arithmetical computations of the adequacy of maturing amounts of principal and interest on the obligations placed in escrow to pay, when due, the principal of, premium, if any, and the interest on the Bonds to be Refunded will be verified by Causey, Demgen & Moore, Inc.

## UNDERWRITING

The Series 2010D Bonds are being purchased by RBC Capital Markets Corporation, as representative of a group of underwriters shown on the cover hereof (the "Underwriters"). The Underwriters have agreed to purchase the Series 2010D Bonds for a purchase price of \$788,017,972.52 (which is equal to the aggregate principal amount of the Series 2010D Bonds of \$687,115,000, plus net original issue premium of \$103,095,063.50, less underwriters' discount of \$2,192,090.98). The Underwriters' obligation to purchase the Series 2010D Bonds is subject to certain terms and conditions, the approval of certain matters by Bond Counsel, and certain other conditions. The price at which the Series 2010D Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering price appearing on the inside cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering price to dealers and others.

The Series 2010E Bonds are being purchased by the Underwriters. The Underwriters have agreed to purchase the Series 2010E Bonds for a purchase price of \$252,019,345.43 (which is equal to the aggregate principal amount of the Series 2010E Bonds of \$220,670,000, plus net original issue premium of \$32,082,888.50, less underwriters' discount of \$733,543.07). The Underwriters' obligation to purchase the Series 2010E Bonds is subject to certain terms and conditions, the approval of certain matters by Bond Counsel, and certain other conditions. The price at which the Series 2010E Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering price appearing on the inside cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering price to dealers and others.

Fidelity Capital Markets ("FCM") is a division of National Financial Services LLC ("NFS"), which provides fully-disclosed clearing and other services to correspondent broker-dealers (the "correspondent broker-dealers"). NFS has entered into Master Reallowance Agreements with several of the correspondent broker-dealers to allow them to redistribute municipal securities underwritten by NFS to their retail investors at the original offering price. Pursuant to these Master Reallowance Agreements, NFS may share a portion of the underwriting compensation with respect to this bond offering with its correspondent broker-dealers.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. and, each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocation of the Bonds.

Piper Jaffray & Co., ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings allocated to Piper at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association

### **RATINGS**

The Bonds described herein have been rated “AAA” by Fitch Ratings, “Aa1” by Moody’s Investors Service Inc. and “AAA” by Standard and Poor’s Ratings Group. The ratings reflect only the views of these services. 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.

Tom J. Hanson  
Commissioner of Management and Budget  
State of Minnesota

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## **APPENDIX A**

### **State Government and Fiscal Administration**

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# 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 Department of Finance was created in 1973. On June 1, 2008, the Department of Finance completed a merger with the Department of Employee Relations, resulting in the Commissioner assuming many of the duties related to human resource management, employee insurance and collective bargaining on behalf of the State as an employer. After the merger, the Department was renamed the Department of Minnesota Management and Budget.

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve 4 year terms and there are 134 house members that 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 below. 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 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. 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, including certificates of participation.
- 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.
- Negotiation and administration of bargaining agreements and compensation plans.
- Development and management of employee, retiree and dependent insurance benefits.

## **Accounting System**

State law requires the Commissioner 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 law requires the Commissioner 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.

On July 1, 2009 the Commissioner was authorized to acquire a new statewide accounting and procurement system. A request for proposal process has been completed, proposals have been evaluated, and the Commissioner has made a software selection and finalized a contract with a system implementation vendor. A two year implementation period is underway with the new system expected to go live on July 1, 2011, the beginning of fiscal year 2012.

## **Financial Reporting**

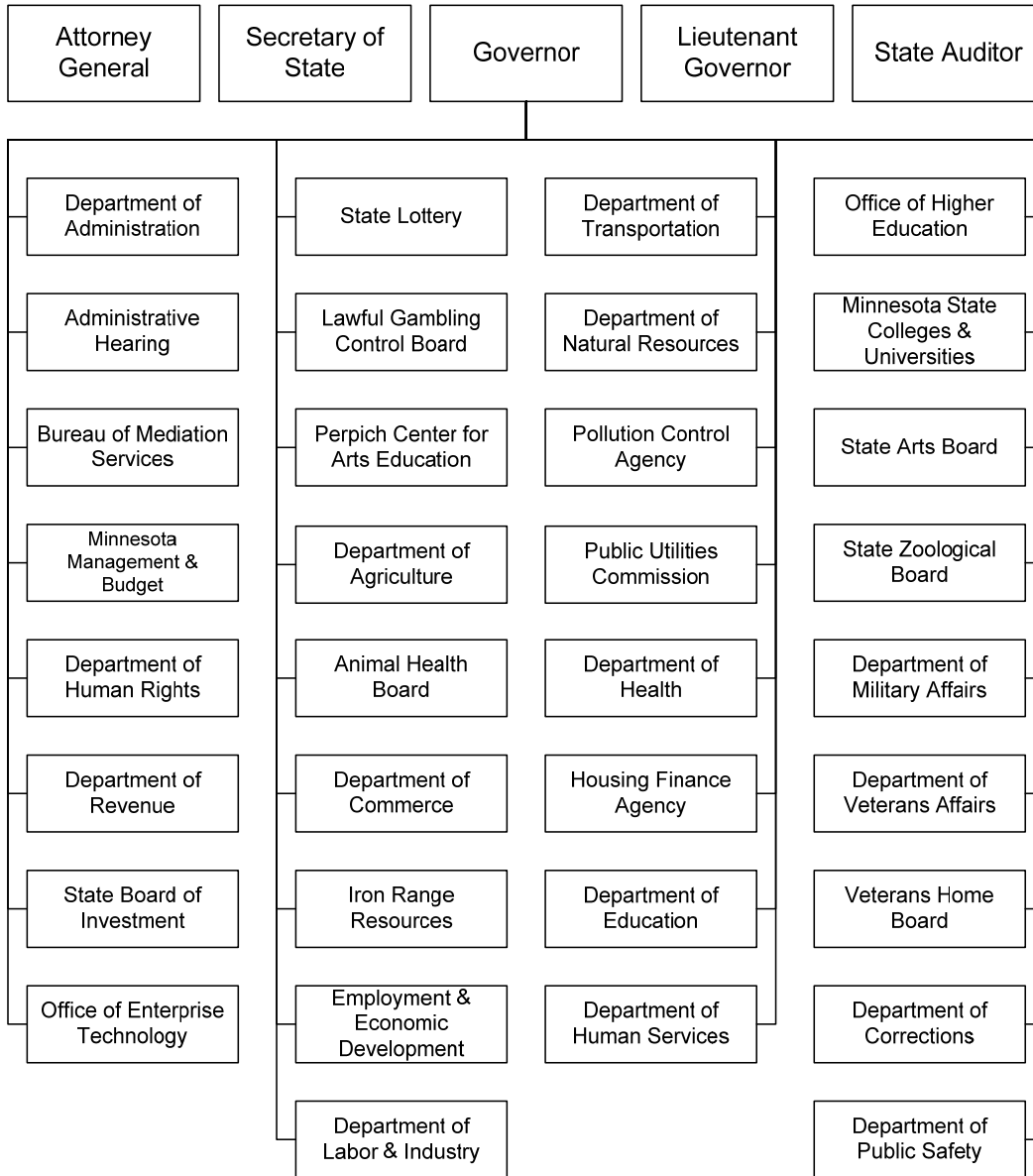
State law requires the Commissioner to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2009 basic financial statements are presented in Appendix F, and general long-term debt unaudited schedules are presented in Appendix C.

## **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.

# STATE ORGANIZATION CHART



## 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 has a total of 16 bargaining units for State employees which includes three faculty bargaining units negotiated and maintained by the Minnesota State Colleges and Universities System. Each odd-numbered year, the State Department of MMB negotiates the terms and conditions of employment with the seven exclusive representatives for employees covered by one of the 13 non-faculty labor agreements for executive branch State employees. The Department also develops two compensation plans for employees not represented by a bargaining unit. All contracts and compensation plans are subject to review and approval by the Legislature.

The State currently has agreements with all of the sixteen units, AFSCME (7 units-craft, service, health care non-professional, clerical, technical, correctional officers and radio communications operators), MAPE, MMA, MGEC, MLEA, SRSEA, MNA, IFO, MSCF and MSUAF for the Current Biennium which expires on June 30, 2011.

Following is a summary that shows the number of employees assigned to State bargaining units.

### **INFORMATION ON STATE BARGAINING UNITS**

| <b>UNIT<br/>Union or Association</b>                    | <b>Employees as of<br/>April 2010</b> |
|---|---------------------------------------|
| AFSCME (7 bargaining units)                             | 17,761                                |
| MN Association of Professional Employees (MAPE)         | 12,603                                |
| Middle Management Association (MMA)                     | 2,872                                 |
| MN Government Engineers Council (MGEC)                  | 974                                   |
| MN Nurses Association (MNA)                             | 751                                   |
| MN Law Enforcement Association (MLEA)                   | 742                                   |
| State Residential Schools Education Association (SRSEA) | 190                                   |
| State College Faculty Association (MSCF)                | 5,514                                 |
| State University Interfaculty Organization (IFO)        | 3,861                                 |
| State University Admin and Service Faculty (MSUAF)      | <u>748</u>                            |
| Total Represented Employees                             | 46,016                                |
| Total State Employment                                  | 52,790                                |
| Percent of All Executive Branch Employees Unionized     | 87%                                   |

# APPENDIX B

## State Finances

### APPENDIX B

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**This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.**

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# STATE FINANCES

## FINANCIAL STATEMENTS

The basic financial statements for the State for the fiscal year ended June 30, 2009 are included herein as Appendix F. 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 F and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise funds, which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor, independent auditor for the State to the extent indicated in his report included in Appendix F. 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 Appendix F in reliance upon the report of the Legislative Auditor. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2010 and comparative data for the same period ending June 30, 2009 are summarized on page B-6.

### Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2009 and prior years are available at [www.mmb.state.mn.us](http://www.mmb.state.mn.us). Financial statements for the fiscal year ending June 30, 2010 are expected to be available by December 31, 2010.

## FINANCIAL INFORMATION

### Budgeting Process

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (i.e. in odd-numbered calendar years). Supplemental appropriations and changes in revenue and expenditure measures are usually adopted during legislative sessions in even-numbered calendar years.

The Minnesota constitution limits the number of days that the Minnesota legislature (the "Legislature") may meet to a maximum of 120 days during a biennium. The number of days may be split between the two years in a biennium, provided that the Legislature may not meet in a regular session after the first Monday following the third Saturday in May of any year. The regular sessions of the Legislature are scheduled for and occur between January 2 and the first Monday following the third Saturday in May of each year.

Revenue and expenditure forecasts are performed in February and November of each calendar year. See "Revenue and Expenditure Forecasting" later in this appendix. Forecasts are performed for the biennium during which the forecasts are made and for next succeeding biennium. Based upon the results of these forecasts, the Governor may recommend revenue and expenditure changes that are then recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve budget changes.

The February and November forecasts for the biennium during which the forecasts are made are used to evaluate if the State is on track to finish that biennium with a balanced budget, and may be used by the Governor and the Legislature to fine-tune the budget for that biennium.

The November forecast in even-numbered years for the next succeeding biennium becomes the basis for the Governor's budget recommendations for that biennium. All subsequent February and November forecasts for that biennium supplement and fine-tune the original even-numbered year November forecast with more current data, and the Governor may use these forecasts to submit modifications to the budget that was developed from the original even-numbered year November forecast.

## **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 F). 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 amount and use of funds in the Cash Flow Account is governed by statute.

## **Budget Reserve Account**

A budget reserve account (the "Budget Reserve Account") was established in the General Fund, as a special account (separate from the Cash Flow Account) that serves as a savings account to be used to offset budget shortfalls during economic downturns. Funds in the Budget Reserve Account may be spent in the event that projected general fund receipts will be less than forecast, and the amount of resources available for the remainder of the biennium will be less than needed to cover authorized spending. Funds in the Budget Reserve Account may be used, after consultation with the Legislative Advisory Commission, to the extent needed to balance expenditures with revenues. The amount and use of funds from the Budget Reserve Account and its replenishment are governed by statute.

## **Control Procedures**

*Dollar Control:* Expenditures in excess of legislative appropriations are prohibited by law. In order to prevent spending in excess of appropriations, MMB 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, MMB 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:* MMB 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:* MMB 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.

### **Balanced Budget**

Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of a biennium. Options for dealing with a projected deficit are provided for in statute. Borrowing for cash flow purposes within a biennium is allowed; however, revenues for the entire biennium plus any balances carried forward from the previous biennium must be greater than or equal to expenditures for the entire biennium.

If a forecast shows a shortfall for the General Fund for the then existing biennium, the Commissioner shall use funds in and reduce the Budget Reserve Account as needed to balance revenues with expenditures. If there are not enough funds in the Budget Reserve Account to balance the General Fund in the current biennium, the Commissioner, with the consent of the Governor and after consulting with the Legislative Advisory Commission may also reduce outstanding appropriations, commonly referred to as "unallotting."

If a forecast shows a shortfall for the General Fund for the next succeeding biennium, the Governor's budget recommendations must propose revenue and/or expenditure changes in order for the budget for that biennium to be in balance at the end of that biennium.

## **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 MMB by the Economic Analysis Division. Expenditure forecasts for the State are prepared by MMB 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, MMB 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 and mandates 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 IHS Global Insight, Inc. ("IHS GII") of Lexington, Massachusetts. IHS GII furnishes a monthly forecast of economic growth and individual incomes across all segments of the national economy.

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

Forecasts of individual income tax receipts are based on IHS GII forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The IHS GII forecasts are then entered into an economic model of Minnesota maintained by MMB. 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. 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 rate of realizations instead of adjusting instantaneously to a shock in model variables.

Corporate income tax receipts are forecast using IHS 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. This data is 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 MMB 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 2010 baseline forecast from IHS GII, the scenario which IHS GII considered to be the most likely at the time it was made, was used for the February 2010 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown on the following page. IHS GII estimated potential GDP growth at 2.3 percent over the 2008 to 2012 period. The Forecast and Actual growth rates for 2008 through 2012 average 1.5% which is less than potential GDP growth. The gap between forecast GDP and potential is due to the recession which began in December 2007. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

**IHS GII FEBRUARY 2010  
GROSS DOMESTIC PRODUCT (GDP)  
BASELINE FORECAST  
(Chained Rates of Growth)**

|                          | <b>Calendar<br/>Year 2008<br/>Actual %</b> | <b>Calendar<br/>Year 2009<br/>Forecast %</b> | <b>Calendar<br/>Year 2010<br/>Forecast %</b> | <b>Calendar<br/>Year 2011<br/>Forecast %</b> | <b>Calendar<br/>Year 2012<br/>Forecast %</b> |
|--------------------------|--|--|--|--|--|
| REAL GDP Growth Rate     | 0.4  | -2.4   | 3.0  | 2.8  | 3.7  |
| GDP DEFLATOR (Inflation) | 2.1  | 1.2  | 1.1  | 1.5  | 1.5  |
| NOMINAL GDP Growth Rate  | 0.4  | -1.3   | 4.1  | 4.4  | 5.3  |

A report is published with each forecast and is available at [www.mmb.state.mn.us](http://www.mmb.state.mn.us). The November 2010 revenue and expenditure forecast is expected to be released in early December 2010. The November 2010 IHS GII Baseline will in all likelihood be used as the baseline for the next revenue and expenditure forecast.

**Economic Update**

The July 2010 quarterly Economic Update shows General Fund revenues for FY 2010 are estimated to be \$99 million or 0.7 percent less than forecast in February 2010. Individual income tax receipts were the primary source of the shortfall ending the fiscal year \$188 million below forecast. The negative variance for the individual income tax was due largely to final settlement of tax year 2009 tax liabilities as individual refunds exceeded projections and final payments, including those accompanying extensions, fell short of February's estimates. The reduction in tax year 2009 estimated liability will carry forward into the future, lowering the base from which income tax forecasts for tax year 2010 and beyond will be made. Withholding tax receipts finished the 2010 fiscal year \$15 million above forecast. Net sales tax revenues were \$14 million more than forecast and corporate franchise tax receipts exceeded projections by \$33 million. Other revenues were \$42 million above forecast.

**HISTORIC REVENUES AND EXPENDITURES**

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ending June 30, 2007 through 2009, and for the additional time periods shown. For the Fiscal Years ended June 30, 2007 through 2009 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, 2009 and June 30, 2010, such revenues and expenditures include only cash receipts and disbursements allocable to such periods, 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 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, EXPENDITURES AND CHANGES IN FUND BALANCES  
(\$ in thousands)  
UNAUDITED**

|   | Fiscal Year Ended June 30 <sup>(1)</sup> |                      |                       | July 1, 2008<br>through<br>June 30<br>2009 <sup>(1)</sup> | July 1, 2009<br>through<br>June 30<br>2010 <sup>(1)</sup> |
|---|--|----------------------|-----------------------|---|---|
|   | 2007                                     | 2008                 | 2009                  |   |   |
| <b>NET REVENUES:</b>  |  |                      |                       |   |   |
| Individual Income Taxes .....   | \$ 7,412,381                             | \$ 7,932,036         | \$ 7,162,974          | \$ 6,988,910  | \$ 6,499,285  |
| Corporation Income Taxes .....  | 1,163,095                                | 1,024,040            | 727,928               | 707,599   | 652,859   |
| Sales Taxes .....   | 4,512,957                                | 4,499,400            | 4,279,055             | 4,335,481   | 4,167,801   |
| Property Taxes .....  | 665,746                                  | 704,246              | 729,373               | 715,860   | 782,247   |
| Motor Vehicle Excise Taxes.....                                       | 368,279                                  | 319,599              | 244,917               | 247,271   | 241,954   |
| Other Taxes.....  | 1,232,758                                | 1,209,366            | 1,196,171             | 1,225,087   | 1,184,225   |
| Tobacco Settlement .....  | 183,911                                  | 184,411              | 179,854               | 179,854   | 164,786   |
| Federal Revenues.....   | 7,328                                    | -                    | -                     | -   | -   |
| Licenses and Fees .....   | 254,026                                  | 254,691              | 246,755               | 247,832   | 247,638   |
| Departmental Services .....   | 44,170                                   | 47,326               | 47,503                | 47,160  | 45,068  |
| Investment/Interest Income <sup>(2)</sup> .....                       | 108,689                                  | 95,900               | 38,385                | 49,705  | 12,193  |
| Securities Lending Income <sup>(3)</sup> .....                        | 10,063                                   | 9,197                | 940                   | -   | -   |
| All Other Revenues.....   | 284,756                                  | 320,652              | 299,463               | 416,944   | 414,935   |
| <b>NET REVENUES.....</b>  | <b>\$ 16,248,159</b>                     | <b>\$ 16,600,864</b> | <b>\$ 15,153,318</b>  | <b>\$ 15,161,703</b>                                      | <b>\$ 14,412,991</b>                                      |
| <b>EXPENDITURES:</b>  |  |                      |                       |   |   |
| <b>Current:</b>   |  |                      |                       |   |   |
| Public Safety and Corrections .....                                   | \$ 540,999                               | \$ 578,464           | \$ 601,299            | \$ 599,152  | \$ 544,784  |
| Transportation .....  | 230,195                                  | 252,390              | 237,131               | 235,646   | 249,197   |
| Agricultural, Environmental and Energy Resources <sup>(4)</sup> ..... | 177,342                                  | 216,220              | 234,886               | 222,537   | 190,831   |
| Economic and Workforce Development <sup>(4) (5)</sup> .....           | 128,870                                  | 203,457              | 111,869               | 71,874  | 61,127  |
| General Education <sup>(6) (10)</sup> .....                           | 6,614,672                                | 6,969,053            | 7,076,624             | 7,018,831   | 5,429,412   |
| Higher Education <sup>(7)</sup> .....                                 | 784,191                                  | 870,322              | 830,789               | 848,178   | 844,423   |
| Health and Human Services .....                                       | 4,377,724                                | 4,713,362            | 4,551,788             | 4,429,400   | 4,035,666   |
| General Government <sup>(8)</sup> .....                               | 641,915                                  | 710,433              | 692,936               | 759,965   | 658,686   |
| Intergovernment Aid <sup>(9)</sup> .....                              | 1,489,229                                | 1,511,504            | 1,435,675             | 1,433,072   | 1,562,530   |
| Securities Lending Rebates and Fees <sup>(3)</sup> .....              | 9,956                                    | 8,793                | 568                   | -   | -   |
| <b>Total Current Expenditures</b>                                     | <b>\$ 14,995,093</b>                     | <b>\$ 16,033,998</b> | <b>\$ 15,773,565</b>  | <b>\$ 15,618,655</b>                                      | <b>\$ 13,576,656</b>                                      |
| Capital Outlay .....  | 4,783                                    | 15,587               | 8,067                 | -   | -   |
| Debt Service .....  | 36,059                                   | 36,965               | 32,149                | 19,071  | 22,051  |
| <b>TOTAL EXPENDITURES .....</b>                                       | <b>\$ 15,035,935</b>                     | <b>\$ 16,086,550</b> | <b>\$ 15,813,781</b>  | <b>\$ 15,637,726</b>                                      | <b>\$ 13,598,707</b>                                      |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES .....</b>             | <b>\$ 1,212,224</b>                      | <b>\$ 514,314</b>    | <b>\$ (660,463)</b>   | <b>\$ (476,023)</b>                                       | <b>\$ 814,284</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>                                 |  |                      |                       |   |   |
| Transfer-In .....   | \$ 500,911                               | \$ 443,647           | \$ 555,696            | \$ 353,788  | \$ 122,849  |
| Transfer-Out .....  | (1,271,835)                              | (1,395,442)          | (1,379,167)           | (1,363,751)   | (1,343,526)   |
| <b>NET OTHER FINANCING SOURCES (USES) .....</b>                       | <b>\$ (770,924)</b>                      | <b>\$ (951,795)</b>  | <b>\$ (823,471)</b>   | <b>\$ (1,009,963)</b>                                     | <b>(1,220,677)</b>  |
| <b>NET CHANGE IN FUND BALANCES .....</b>                              | <b>\$ 441,300</b>                        | <b>\$ (437,481)</b>  | <b>\$ (1,483,934)</b> | <b>\$ (1,485,986)</b>                                     | <b>\$ (406,393)</b>                                       |

- (1) For fiscal years 2007, 2008 and 2009, the schedule of revenues and expenditures includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30. For the twelve-month periods ended June 30, 2009 and 2010, only current receipts and disbursements have been included.
- (2) For the twelve-month periods ended June 30, 2009 and 2010, Investment/Interest Income does not include changes in the fair market value of investments.
- (3) For the twelve-month periods ended June 30, 2009 and 2010, Securities Lending activity is included in Investment/Interest Income.
- (4) Beginning in fiscal year 2008, the Department of Commerce financial activity was moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.
- (5) During fiscal year 2008, Economic and Workforce Development function spending increased due to grants to businesses and residents of southeastern Minnesota for flooding damage.
- (6) During fiscal year 2008, General Education function spending increased due to a two percent increase in the per pupil grant formula, as well as increases in special education and one-time appropriations for school technology and deferred maintenance.
- (7) During fiscal year 2008, Higher Education function spending increased due to additional grants to the University of Minnesota.
- (8) During fiscal year 2008, General Government function spending increased due to a one-time settlement appropriation for claimants who died or were injured as a result of the I-35W bridge collapse.
- (9) Decrease in fiscal year 2009 resulted from decrease in grants to cities and counties.
- (10) General Education function spending decreased from the twelve-month period ending June 30, 2009, to the twelve-month period ending June 30, 2010, due to delays in making school aid payments and differences in pupil counts.

## BIENNIUM BUDGETS

The biennium that began on July 1, 2007 and ended on June 30, 2009, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2009 and will end on June 30, 2011 is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2011 and will end on June 30, 2013 is referred to herein as the "Next Biennium".

Forecast and projected revenues and expenditures are based on the legal requirements contained in Minnesota statutes and session laws as of the time of the forecast and projections.

### BUDGET — CURRENT BIENNIUM

#### November 2008 Forecast

MMB prepared forecasts of General Fund revenues and expenditures for the Current Biennium at the end of November 2008. This forecast was prepared before the actions to balance the budget for the Previous Biennium were taken. The November 2008 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

**CURRENT BIENNIUM  
GENERAL FUND  
NOVEMBER 2008 FORECAST  
(\$ in millions)**

**Resources**

|  |            |                  |
|--|------------|------------------|
| Unreserved Balance at June 30, 2009                    |            | \$79             |
| Non Dedicated Revenues                                 | 31,070     |                  |
| Dedicated Revenues, Transfers In and Other             | <u>796</u> |                  |
| Total Revenues and Transfers                           |            | <u>31,865</u>    |
| Total Resources  |            | <u>31,945</u>    |
| <b>Expenditures</b>                                    |            | <u>36,713</u>    |
| <b>Projected Unreserved Balance at June 30, 2011</b>   |            | <u>(4,768)</u>   |
| <b>Cash Flow Account</b>                               | 350        |                  |
| <b>Budget Reserve Account</b>                          | <u>155</u> |                  |
| <b>Total for Statutorily Mandated Accounts</b>         |            | <u>505</u>       |
| <b>Projected Unrestricted Balance at June 30, 2011</b> |            | <u>\$(5,273)</u> |

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## February 2009 Forecast

MMB prepared revised forecasts of General Fund revenues and expenditures for the Current Biennium at the end of February 2009. The February 2009 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

### CURRENT BIENNIUM GENERAL FUND FEBRUARY 2009 FORECAST (\$ in millions)

|   |            |                  |
|---|------------|------------------|
| <b>Resources</b>                                |            |                  |
| Unreserved Balance at June 30, 2009             |            | \$586            |
| Non Dedicated Revenues                          | 29,905     |                  |
| Dedicated Revenues, Transfers In and Other      | <u>795</u> |                  |
| Total Revenues and Transfers                    |            | <u>\$30,700</u>  |
| Total Resources                                 |            | <u>\$31,286</u>  |
| <b>Expenditures</b>                             |            |                  |
| Projected Unreserved Balance at June 30, 2011   |            | <u>(4,220)</u>   |
| Cash Flow Account                               | 350        |                  |
| Budget Reserve Account                          | <u>0</u>   |                  |
| Total for Statutorily Mandated Accounts         |            | <u>\$350</u>     |
| Projected Unrestricted Balance at June 30, 2011 |            | <u>\$(4,570)</u> |

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**CURRENT BIENNIUM  
FEBRUARY 2009 FORECAST  
CHANGES FROM NOVEMBER 2008 FORECAST  
(\$ in millions)**

|   | <b>Nov 2008<br/>Forecast</b> | <b>Feb 2009<br/>Forecast</b> | <b>Change</b>    |
|---|------------------------------|------------------------------|------------------|
| Balance Forward From Prior Year           | \$79                         | \$586                        | \$507            |
| Current Resources:                        |                              |                              |                  |
| Income tax receipts                       | 15,611                       | 14,909                       | (702)            |
| Corporate tax receipts                    | 1,406                        | 1,175                        | (229)            |
| Sales tax receipts                        | 8,687                        | 8,485                        | (202)            |
| Motor vehicle sales tax receipts          | 98                           | 92                           | (6)              |
| Statewide property tax receipts           | 1,559                        | 1,551                        | (8)              |
| Other taxes                               | 2,228                        | 2,263                        | 35               |
| Miscellaneous non-tax revenues, transfers | 2,277                        | 2,225                        | (52)             |
| <b>Total Current Resources</b>            | <b>\$31,866</b>              | <b>\$30,700</b>              | <b>\$(1,166)</b> |
| <b>Total Resources</b>                    | <b>\$31,945</b>              | <b>\$31,286</b>              | <b>\$(658)</b>   |
| Expenditures:                             |                              |                              |                  |
| K-12 Education                            | 13,903                       | 13,894                       | (9)              |
| Higher Education                          | 3,158                        | 3,157                        | (1)              |
| Property Tax Aids & Credits               | 3,419                        | 3,435                        | 16               |
| Health & Human Services                   | 11,407                       | 10,192                       | (1,214)          |
| Public Safety                             | 1,697                        | 1,697                        | 0                |
| All Other spending                        | 3,129                        | 3,131                        | 2                |
| <b>Total Spending</b>                     | <b>\$36,713</b>              | <b>\$35,506</b>              | <b>\$(1,207)</b> |
| Cash Flow Account                         | 350                          | 350                          | 0                |
| Budget Reserve                            | 155                          | 0                            | (155)            |
| <b>Projected balance at June 30, 2011</b> | <b>\$(5,273)</b>             | <b>\$(4,570)</b>             | <b>\$703</b>     |

The shortfall for the Current Biennium was projected to be \$4.570 billion. This was an improvement of \$703 million from the \$5.273 billion shortfall projected in November 2008. However, the improvement was largely due to the projected balance in FY 2009 that carried forward into the Current Biennium. A reduction in health and human services spending of \$1.359 billion due to the federal stimulus bill was almost completely offset by other underlying forecast changes.

Forecast General Fund revenues were expected to be \$1.166 billion less than projected in November 2008. The forecasts for all three major taxes were reduced. Forecast spending increased \$152 million primarily due to increased caseloads in the health and human services area.

ARRA was signed into law on February 17, 2009 by President Obama. ARRA is a \$787 billion package, providing tax relief, fiscal stabilization for states and additional spending for infrastructure and other federal programs. The State is expected to receive a total of \$4.6 billion in ARRA funds. Of this amount, \$2.6 billion was used to offset General Fund spending in the Current Biennium. The additional \$2.0 billion in ARRA funds to be received is for competitive or formula grants for a variety of infrastructure and program categories including transportation and energy projects. The following table shows the effect of the federal stimulus package, which includes both the State Fiscal Stabilization Fund and the enhanced matching funds for the Federal Medical Assistance Program ("FMAP").

The following table shows the anticipated impact of ARRA Stabilization funds as of February 2009.

### Impact of ARRA Stabilization Funds and FMAP Funds

(\$ in millions)

|                                 | <b>FY 2009</b> | <b>FY 2010</b> | <b>FY 2011</b> | <b>Total</b>   |
|---------------------------------|----------------|----------------|----------------|----------------|
| K-12 Education                  | \$0            | \$500          | \$0            | \$500          |
| Higher Education:               |                |                |                |                |
| University of MN                | 15             | 74             | 0              | 89             |
| MNSCU                           | 15             | 64             | 0              | 79             |
| Health & Human Services:        |                |                |                |                |
| Medical Assistance              | 464            | 862            | 497            | 1,822          |
| Other Human Services            | 0              | 110            | 0              | 110            |
| Corrections                     | 0              | 38             | 0              | 38             |
| <b>Total – Federal Stimulus</b> | <b>\$494</b>   | <b>\$1,648</b> | <b>\$497</b>   | <b>\$2,639</b> |

#### 2009 Legislative Session

During the 2009 legislative session, the Legislature enacted a number of revenue and appropriations measures in the General Fund and non-general funds for the Current Biennium.

The 2009 legislative session ended on the constitutional deadline of May 18, 2009 without balancing the budget for the Current Biennium.

The end of 2009 legislative session estimates of resources, expenditures, and fund balances are detailed below.

#### CURRENT BIENNIUM GENERAL FUND END OF 2009 LEGISLATIVE SESSION (\$ in millions)

##### Resources

|  |        |                  |
|--|--------|------------------|
| Unreserved Balance at June 30, 2009                    |        | \$538            |
| Non-Dedicated Revenues                                 | 30,101 |                  |
| Dedicated Revenues, Transfers In and Out               | 824    |                  |
| Total Revenues and Transfers                           |        | 30,925           |
| Total Resources  |        | \$31,463         |
| <b>Expenditures</b>                                    |        | <b>\$33,789</b>  |
| <b>Projected Unreserved Balance at June 30, 2011</b>   |        | <b>(\$2,326)</b> |
| <b>Cash Flow Account</b>                               | 350    |                  |
| <b>Budget Reserve Account</b>                          | 0      |                  |
| <b>Total for Statutorily Mandated Accounts</b>         |        | <b>\$350</b>     |
| <b>Projected Unrestricted Balance at June 30, 2011</b> |        | <b>(\$2,676)</b> |

### *Revenues in the Enacted Budget*

The approved budget reflects little change in General Fund revenues from the February 2009 forecast for the Current Biennium. The legislature proposed tax increases and fee adjustments that would increase revenues by \$1 billion. The Governor and Legislature failed to agree on an omnibus tax bill, resulting in a gubernatorial veto. Without these proposed changes, forecast revenues for the biennium increased by \$225 million from forecast levels, primarily reflecting increases in non-tax revenues and transfers.

Giving effect to enacted legislative changes, general fund resources were then expected to total \$31.463 billion. Current Biennium revenues, excluding the balance brought forward from the Previous Biennium, were estimated to be \$30.925 billion, \$1.29 billion less than the Previous Biennium. General fund expenditures after session actions were forecasted to be \$33.789 billion, \$133 million less than the Previous Biennium. Budgeted revenues and expenditures were expected to leave an estimated General Fund deficit of \$ 2.676 billion, including a Cash Flow Account of \$350 million.

### **Executive Branch Actions to Balance Budget**

Since the Current Biennium budget was not balanced at the end of the 2009 legislative session, the Governor announced that he would direct the Commissioner to use his statutory powers to balance the budget for the Current Biennium.

On June 16, 2009, the Commissioner submitted to the Governor a preliminary proposal of unallotment and administrative actions that could be used to balance the Current Biennium budget. On June 18, the Commissioner convened the Legislative Advisory Commission to consult on potential unallotments as required by statute. Following this consultation, the Commissioner issued a revised unallotment and executive branch action plan on June 29. The actions necessary to implement the executive branch action plan were completed on August 7, 2009. Following is a summary of the action plan:

### **Current Biennium Summary of Executive Branch Actions (\$ in millions)**

|   |                         |
|---|-------------------------|
| <b>Current Biennium Shortfall End-of Session Forecast</b> | <b><u>(\$2,676)</u></b> |
| <b>Unallotments</b>                                       | <b>\$695</b>            |
| Local Aids and Credits                                    | 300                     |
| Health and Human Services                                 | 210                     |
| Higher Education  | 100                     |
| Agency Operating Budgets                                  | 23                      |
| Political Contribution Refunds                            | 10                      |
| Other Refunds and Payments                                | 51                      |
| <b>Deferrals</b>  | <b>\$1,771</b>          |
| Property Tax Shift  | 601                     |
| Aid Payments Shift  | 1,170                   |
| <b>Administrative Authority</b>                           | <b>\$211</b>            |
| Modified WI Tax Reciprocity                               | 106                     |
| Delay Capital Equipment Refunds                           | 63                      |
| Delay Corporate Franchise Refunds                         | <u>42</u>               |
| <b>Total:</b>   | <b>\$2,676</b>          |

## 2009 Unallotment Challenges

A request for a Political Contribution Refund for a contribution made on or after July 1, 2009 was submitted to the Department of Revenue, and a putative class action was filed against the State (*Carney v. State*) demanding injunctive relief and refunds of any contributions.

On October 29, 2009, six named plaintiffs who receive Minnesota Supplemental Aid ("MSA") Special Diet funding, three of whom also regularly apply for and receive a renters' property tax refund, challenged unallotment of approximately \$5.33 million in funding for the MSA Special Diet program effective November 1, 2009 through June 30, 2011, and the unallotment of approximately \$50.8 million for the 2009 renters' property tax refunds, payable starting July 2010, by reducing the portion of the rent used to calculate the 2009 refund from 19% to 15% (*Brayton, et al. v. Pawlenty, et al.*). See "LITIGATION" and "2010 Unallotment Decision" herein.

## November 2009-February 2010 Forecasts

MMB prepared revised forecasts of General Fund revenues and expenditures for the Current Biennium at the end of November 2009 and at the end of February 2010. The November 2009 forecast projected a \$1.203 billion budget deficit. The February 2010 forecast showed a modest improvement with a projected deficit of \$994 million. The February 2010 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

**CURRENT BIENNIUM  
GENERAL FUND  
FEBRUARY 2010 FORECAST  
(\$ in millions)**

|   |               |                |
|---|---------------|----------------|
| <b>Resources</b>                                |               |                |
| Unreserved Balance at June 30, 2009             |               | \$447          |
| Non-Dedicated Revenues                          | 29,323        |                |
| Dedicated Revenues, Transfers In and Other      | 688           |                |
| Total Revenues and Transfers                    | <u>30,011</u> |                |
| Total Resources                                 |               | \$30,458       |
| <b>Expenditures</b>                             |               |                |
| Projected Unreserved Balance at June 30, 2011   |               | <u>\$(644)</u> |
| Cash Flow Account                               | 350           |                |
| Budget Reserve Account                          | <u>0</u>      |                |
| Total for Statutorily Mandated Accounts         |               | \$350          |
| Projected Unrestricted Balance at June 30, 2011 |               | <u>\$(994)</u> |

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The following table, based on the February 2010 forecast, displays the projected General Fund revenues and expenditures for the Current Biennium. Information is provided by major revenue and expenditure categories based on the February 2010 forecast. This was the last official forecast prepared during the 2010 legislative session.

**CURRENT BIENNIUM  
FEBRUARY 2010 FORECAST  
CHANGES FROM 2009 LEGISLATIVE SESSION AND EXECUTIVE ACTIONS  
(\$ in millions)**

|   | <b>End of<br/>Session</b> | <b>Feb 2010<br/>Forecast</b> | <b>Change</b>    |
|---|---------------------------|------------------------------|------------------|
| Balance Forward From Prior Year           | \$538                     | \$447                        | \$(91)           |
| Current Resources:                        |                           |                              |                  |
| Income Tax Receipts                       | 14,927                    | 14,052                       | (874)            |
| Corporate Tax Receipts                    | 1,219                     | 1,400                        | 181              |
| Sales Tax Receipts                        | 8,548                     | 8,536                        | (12)             |
| Motor Vehicle Sales Tax Receipts          | 92                        | 105                          | 13               |
| Statewide Property Tax Receipts           | 1,551                     | 1,522                        | (29)             |
| Other Taxes                               | 2,409                     | 2,232                        | (177)            |
| Miscellaneous Non-Tax Revenues, Transfers | 2,396                     | 2,164                        | (232)            |
| <b>Total Current Resources</b>            | <b>\$31,142</b>           | <b>\$30,011</b>              | <b>\$(1,131)</b> |
| <b>Total Resources</b>                    | <b>\$31,680</b>           | <b>\$30,458</b>              | <b>\$(1,222)</b> |
| Expenditures:                             |                           |                              |                  |
| K-12 Education                            | \$11,633                  | \$11,607                     | \$(26)           |
| Higher Education                          | 2,856                     | 2,858                        | 2                |
| Property Tax Aids & Credits               | 3,062                     | 3,082                        | 20               |
| Health & Human Services                   | 9,057                     | 9,016                        | (41)             |
| Public Safety                             | 1,814                     | 1,819                        | 5                |
| All Other Spending                        | 2,908                     | 2,720                        | (188)            |
| <b>Total Spending</b>                     | <b>\$31,330</b>           | <b>\$31,102</b>              | <b>\$(228)</b>   |
| Cash Flow Account                         | 350                       | 350                          | 0                |
| Budget Reserve                            | 0                         | 0                            | 0                |
| <b>Projected Balance at June 30, 2010</b> | <b>\$0</b>                | <b>\$(994)</b>               | <b>\$(994)</b>   |

Forecast revenues were expected to be less than at the end of the 2009 legislative session including executive actions. Changes in individual income taxes showed the largest decrease. Corporate income taxes were projected to be slightly higher than estimates at the end of session. All other resources were lower than previous estimates with income tax reciprocity contributing to the decline.

Projected spending for the Current Biennium was \$228 million lower than estimates made at the end of the 2009 legislative session. Total spending was projected to be \$31.102 billion. K-12 education, health and human services and all other spending were all forecast to be lower than earlier estimates. All other spending included a decrease of \$122 million in debt service estimates.

The Cash Flow Account remained at \$350 million, and the budget reserve account remained at zero.



## 2010 Unallotment Decisions

On January 11, 2010 the district court in *Carney v. State* rejected the claim that unallotment for Political Contribution Refund was outside the authority in Minnesota Statutes 16A.152 and granted the State's motion to dismiss. An appeal is pending.

On December 30, 2009, the district court in *Brayton, et al. v. Pawlenty, et al.* granted Plaintiffs' motion for a temporary restraining order with respect to the unallotment of \$5.33 million in funding this biennium for the Minnesota Supplemental Aid-Special Diet Program. The district court concluded the unallotment does not comport with Minnesota Statutes, Section 16A.152. On January 12, 2010, the State filed an appeal. On May 5, 2010, the Minnesota Supreme Court affirmed the district court's conclusion that the unallotment of the Minnesota Supplemental Aid-Special Diet Program funds was unlawful and void. See "LITIGATION," "2009 Unallotment Challenges" and "2010 Legislative Sessions" herein.

## 2010 Legislative Sessions

The 2010 regular legislative session convened February 5, 2010. The Current Biennium deficit was forecast to be \$994 million. However this amount, based on the February 2010 forecast, included the Governor's spending reductions achieved through the use of the executive unallotment authority in July 2009. As noted above, the Minnesota Supreme Court ruled in *Brayton, et al. v. Pawlenty, et al.* that the Governor's use of unallotment following the 2009 legislative session exceeded his authority. The effect of this ruling was to void \$1.742 billion of K-12 education payment deferrals and \$689 million of spending reductions made by the Governor. As a result, the size of the General Fund deficit increased from \$994 million to \$3.425 billion.

**CURRENT BIENNIUM  
IMPACT OF COURT DECISION REVERSING UNALLOTMENTS  
CHANGES FROM FEBRUARY 2010 FORECAST  
(\$ in millions)**

|   | Feb 2010<br>Forecast | Updated<br>Court Action | Change    |
|---|----------------------|-------------------------|-----------|
| Balance Forward From Prior Year           | \$447                | \$447                   | \$0       |
| Current Resources:                        |                      |                         |           |
| Income Tax Receipts                       | 14,052               | 14,055                  | 3         |
| Corporate Tax Receipts                    | 1,400                | 1,400                   | 0         |
| Sales Tax Receipts                        | 8,536                | 8,536                   | 0         |
| Motor Vehicle Sales Tax Receipts          | 105                  | 105                     | 0         |
| Statewide Property Tax Receipts           | 1,522                | 1,522                   | 0         |
| Other Taxes                               | 2,232                | 2,232                   | 0         |
| Miscellaneous Non-Tax Revenues, Transfers | 2,164                | 2,154                   | (10)      |
| Total Current Resources                   | \$30,011             | \$30,004                | \$(7)     |
| Total Resources                           | \$30,458             | \$30,451                | \$(7)     |
| Expenditures:                             |                      |                         |           |
| K-12 Education                            | \$11,607             | \$13,338                | \$1,731   |
| Higher Education                          | 2,858                | 2,959                   | 101       |
| Property Tax Aids & Credits               | 3,082                | 3,458                   | 376       |
| Health & Human Services                   | 9,016                | 9,217                   | 201       |
| Public Safety                             | 1,819                | 1,819                   | 0         |
| All Other Spending                        | 2,720                | 2,735                   | 15        |
| Total Spending                            | \$31,102             | \$33,526                | \$2,424   |
| Cash Flow Account                         | 350                  | 350                     | 0         |
| Budget Reserve                            | 0                    | 0                       | 0         |
| Projected Balance at June 30, 2011        | \$(994)              | \$(3,425)               | \$(2,431) |

Legislative action concluded in a one day special session following the end of the regular session. Special Session Chapter 1 provisions eliminated the \$3.425 billion deficit, leaving a general fund balance of \$5.6 million projected for the end of the Current Biennium. Most of the Governor's \$2.4 billion of voided unallotments were ratified and enacted into law. An additional \$1 billion of revenue and expenditure changes were adopted to eliminate the remaining deficit.

**CURRENT BIENNIUM  
2010 LEGISLATIVE SESSIONS  
CHANGES FROM FEBRUARY 2010 FORECAST UPDATED FOR COURT DECISIONS  
(\$ in millions)**

|   | <b>Updated<br/>Forecast</b> | <b>Enacted</b>    | <b>Change</b>         |
|---|-----------------------------|-------------------|-----------------------|
| Balance Forward From Prior Year           | \$447                       | \$447             | \$0                   |
| Current Resources:                        |                             |                   |                       |
| Income Tax Receipts                       | 14,055                      | 14,062            | 7                     |
| Corporate Tax Receipts                    | 1,400                       | 1,431             | 31                    |
| Sales Tax Receipts                        | 8,536                       | 8,647             | 111                   |
| Motor Vehicle Sales Tax Receipts          | 105                         | 105               | 0                     |
| Statewide Property Tax Receipts           | 1,522                       | 1,523             | 1                     |
| Other Taxes                               | 2,232                       | 2,258             | 26                    |
| Miscellaneous Non-Tax Revenues, Transfers | 2,154                       | 2,512             | 358                   |
| Total Current Resources                   | <u>\$30,004</u>             | <u>\$30,538</u>   | <u>\$534</u>          |
| Total Resources                           | \$30,451                    | \$30,985          | \$534                 |
| Expenditures:                             |                             |                   |                       |
| K-12 Education                            | \$13,338                    | \$11,388          | \$(1,950)             |
| Higher Education                          | 2,959                       | 2,812             | (147)                 |
| Property Tax Aids & Credits               | 3,458                       | 2,976             | (482)                 |
| Health & Human Services                   | 9,217                       | 9,083             | (134)                 |
| Public Safety                             | 1,819                       | 1,800             | (19)                  |
| All Other Spending                        | 2,735                       | 2,654             | (81)                  |
| Total Spending                            | <u>\$33,526</u>             | <u>\$30,713</u>   | <u>\$(2,813)</u>      |
| Cash Flow Account                         | 350                         | 266               | (84)                  |
| Budget Reserve                            | 0                           | 0                 | 0                     |
| Projected Balance at June 30, 2010        | <u><u>\$(3,425)</u></u>     | <u><u>\$6</u></u> | <u><u>\$3,431</u></u> |

The end of 2010 legislative session estimates of resources, expenditures, and fund balances is detailed below.

**CURRENT BIENNIUM  
GENERAL FUND  
END OF 2010 LEGISLATIVE SESSIONS  
(\$ in millions)**

|  |        |              |
|--|--------|--------------|
| <b>Resources</b>                                       |        |              |
| Unreserved Balance at June 30, 2009                    |        | \$447        |
| Non-Dedicated Revenues                                 | 29,624 |              |
| Dedicated Revenues, Transfers In and Out               | 914    |              |
| Total Revenues and Transfers                           |        | 30,538       |
| Total Resources  |        | \$30,985     |
| <b>Expenditures</b>                                    |        |              |
| <b>Projected Unreserved Balance at June 30, 2011</b>   |        | <b>\$272</b> |
| <b>Cash Flow Account</b>                               | 266    |              |
| <b>Budget Reserve Account</b>                          | 0      |              |
| <b>Total for Statutorily Mandated Accounts</b>         |        | <b>\$266</b> |
| <b>Projected Unrestricted Balance at June 30, 2011</b> |        | <b>\$6</b>   |

*Resources:*

Actions affecting State revenues were limited. Legislatively enacted changes reflect a \$534 million increase in general fund resources that included a \$357 million increase in transfers from other funds and non-tax revenue sources. There were no significant changes to State taxes; however, \$152 million of sales and corporate franchise tax refunds forecast to be paid in FY 2011 is required by law to be delayed until FY 2012.

*Expenditures:*

Beyond reductions ratifying the \$2.4 billion in previously proposed Governor's unallotments, additional spending reductions of \$380 million were enacted. Of this amount, \$219 million reflected savings in FY 2011 K-12 education payment shifts. Additional reductions to property tax aids and credits and higher education totaled \$152 million, and reductions to all other spending areas yielded \$18 million.

*Reserves:*

The General Fund Cash Flow Account was reduced \$84 million, from \$350 million to \$266 million. Statutory provisions remain in place directing that any future forecast General Fund balances must be allocated first to restoring the Cash Flow Account to \$350 million and, second, to restoring the Budget Reserve Account to \$653 million.

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 the 2010 legislative sessions. Authorized expenditures are presented by function.

**CURRENT BIENNIUM**  
**GENERAL FUND- ESTIMATES OF REVENUES AND EXPENDITURES**  
**END OF 2010 LEGISLATIVE SESSIONS**  
**(\$ in thousands)**

|  | Fiscal Year<br>2010  | Fiscal Year<br>2011  | Current<br>Biennium  |
|--|----------------------|----------------------|----------------------|
| <b>Forecast Resources</b>                        |                      |                      |                      |
| Prior Year Ending Balance <sup>(1)</sup>         | \$ 446,921           | \$ 341,961           | \$ 446,921           |
| Net Non-dedicated Revenues                       | 14,248,077           | 15,376,019           | 29,624,096           |
| Dedicated Revenues                               | 34,539               | 25,686               | 60,225               |
| Transfers From Other Funds                       | 362,185              | 417,332              | 779,517              |
| Prior Year Adjustments                           | 48,866               | 25,000               | 73,866               |
| Subtotal Current Resources                       | <u>\$ 14,693,667</u> | <u>\$ 15,844,037</u> | <u>\$ 30,537,704</u> |
| Total Revenues Plus Prior Year<br>Ending Balance | <u>\$ 15,140,588</u> | <u>\$ 16,185,998</u> | <u>\$ 30,984,625</u> |
| <b>Authorized Expenditures &amp; Transfers</b>   |                      |                      |                      |
| K-12 Education                                   | \$ 5,352,432         | \$ 6,036,003         | \$ 11,388,435        |
| Higher Education                                 | 1,429,139            | 1,382,416            | 2,811,555            |
| Property Tax Aids & Credits                      | 1,590,718            | 1,385,284            | 2,976,002            |
| Health & Human Services                          | 4,223,143            | 4,859,393            | 9,082,536            |
| Public Safety                                    | 887,764              | 912,553              | 1,800,317            |
| Transportation                                   | 98,310               | 69,598               | 167,908              |
| Environment, Energy & Natural Resources          | 180,529              | 170,530              | 351,059              |
| Agriculture & Veterans                           | 126,464              | 119,649              | 246,113              |
| Economic Development                             | 138,283              | 127,001              | 265,284              |
| State Government                                 | 318,166              | 314,880              | 633,046              |
| Debt Service                                     | 429,123              | 526,160              | 955,283              |
| Capital Projects                                 | 11,100               | 16,300               | 27,400               |
| Cancellation Adjustment                          | (6,000)              | (16,493)             | (22,493)             |
| Subtotal Expenditures & Transfers                | <u>\$ 14,779,171</u> | <u>\$ 15,903,274</u> | <u>\$ 30,682,445</u> |
| Dedicated Revenue Expenditures                   | <u>19,456</u>        | <u>11,168</u>        | <u>30,624</u>        |
| Total Expenditures and Transfers                 | <u>\$ 14,798,627</u> | <u>\$ 15,914,442</u> | <u>\$ 30,713,069</u> |
| Balance Before Reserves                          | 341,961              | 271,556              | 271,556              |
| Cash Flow Account                                | 266,000              | 266,000              | 266,000              |
| Budget Reserve                                   | -                    | -                    | -                    |
| Budgetary Balance                                | <u>\$ 75,961</u>     | <u>\$ 5,556</u>      | <u>\$ 5,556</u>      |

(1) On a budgetary basis, Fiscal Year 2009 ended with an Unrestricted General Fund balance of \$447 million and an Unreserved Accounting General Fund balance of \$52 million.

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  
END OF 2010 LEGISLATIVE SESSIONS  
(\$ in thousands)**

|  | <u>Fiscal Year<br/>2010</u> | <u>Fiscal Year<br/>2011</u> | <u>Current<br/>Biennium</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Net Nondedicated Revenues:             |                             |                             |                             |
| Income Tax - Individual                | \$ 6,720,020                | \$ 7,342,060                | \$ 14,062,080               |
| Income Tax - Corporate                 | 631,300                     | 799,435                     | 1,430,735                   |
| Sales Tax                              | 4,154,834                   | 4,491,675                   | 8,646,509                   |
| Motor Vehicle Sales Tax                | 73,515                      | 31,988                      | 105,503                     |
| Statewide Property Tax                 | 758,740                     | 764,879                     | 1,523,619                   |
| Estate Tax                             | 137,000                     | 140,000                     | 277,000                     |
| Liquor, Wine & Beer                    | 75,976                      | 77,613                      | 153,589                     |
| Cigarette & Tobacco                    | 179,868                     | 180,043                     | 359,911                     |
| Mining                                 | 665                         | 3,400                       | 4,065                       |
| Mortgage Registry Tax                  | 94,000                      | 67,700                      | 161,700                     |
| Deed Transfer Tax                      | 60,100                      | 59,800                      | 119,900                     |
| Gross Earnings Taxes                   | 277,350                     | 279,550                     | 556,900                     |
| Lawful Gambling Taxes                  | 39,800                      | 39,800                      | 79,600                      |
| Medical Assistance Surcharges          | 225,339                     | 225,011                     | 450,350                     |
| Income Tax Reciprocity                 | 66,932                      | 61,932                      | 128,864                     |
| Tobacco Settlements                    | 164,786                     | 163,259                     | 328,045                     |
| Investment Income                      | 7,700                       | 6,400                       | 14,100                      |
| DHS SOS Collections                    | 44,480                      | 51,650                      | 96,130                      |
| Lottery Revenue                        | 56,500                      | 59,497                      | 115,997                     |
| Departmental Earnings                  | 251,000                     | 247,313                     | 498,313                     |
| Fines & Surcharges                     | 95,000                      | 101,000                     | 196,000                     |
| All Other Nondedicated Revenue         | 186,602                     | 207,009                     | 393,611                     |
| Tax Compliance                         | -                           | 26,865                      | 26,865                      |
| Tax and Non-Tax Refunds                | (53,430)                    | (51,860)                    | (105,290)                   |
| <b>Total Net Nondedicated Revenues</b> | <b>\$ 14,248,077</b>        | <b>\$ 15,376,019</b>        | <b>\$ 29,624,096</b>        |

## HISTORICAL AND PROJECTED REVENUE AND EXPENDITURE GROWTH

The following tables display historical and projected General Fund revenue and expenditure growth by year for the General Fund for the Previous Biennium, and the Current Biennium. Information is provided by major revenue and expenditure categories based on end of 2010 legislative sessions.

### Historical and Projected Revenue Growth

End of 2010 Legislative Sessions

| (\$ in millions)                   | Actual<br>FY 2006 | Actual<br>FY 2007 | Actual<br>FY 2008 | Actual<br>FY 2009 | Estimated<br>FY 2010 | Estimated<br>FY 2011 | Average<br>Annual |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------------|----------------------|-------------------|
| <b>Individual Income Tax</b>       | \$6,863           | \$7,231           | \$7,759           | \$6,988           | \$6,720              | \$7,342              |                   |
| \$ change                          |                   | 368               | 528               | (771)             | (268)                | 622                  |                   |
| % change                           |                   | 5.4%              | 7.3%              | -9.9%             | -3.8%                | 9.3%                 | 1.4%              |
| <b>Sales Tax</b>                   | 4,464             | 4,506             | 4,571             | 4,344             | 4,155                | 4,492                |                   |
| \$ change                          |                   | 42                | 65                | (227)             | (189)                | 337                  |                   |
| % change                           |                   | 0.9%              | 1.4%              | -5.0%             | -4.4%                | 8.1%                 | 0.1%              |
| <b>Corporate Tax</b>               | 1,062             | 1,171             | 1,020             | 708               | 631                  | 799                  |                   |
| \$ change                          |                   | 109               | (151)             | (312)             | (77)                 | 168                  |                   |
| % change                           |                   | 10.3%             | -12.9%            | -30.6%            | -10.9%               | 26.6%                | -5.5%             |
| <b>Statewide Property Tax</b>      | 631               | 666               | 704               | 729               | 759                  | 765                  |                   |
| \$ change                          |                   | 34                | 38                | 25                | 30                   | 6                    |                   |
| % change                           |                   | 5.5%              | 5.7%              | 3.6%              | 4.1%                 | 0.8%                 | 3.9%              |
| <b>Motor Vehicle Sales</b>         | 250               | 247               | 186               | 117               | 74                   | 32                   |                   |
| \$ change                          |                   | (2)               | (61)              | (69)              | (43)                 | (42)                 |                   |
| % change                           |                   | -1.0%             | -24.7%            | -37.1%            | -36.8%               | -56.8%               | -33.7%            |
| <b>Other Tax Revenue</b>           | 1,380             | 1,211             | 1,172             | 1,164             | 1,127                | 1,131                |                   |
| \$ change                          |                   | (169)             | (39)              | (8)               | (37)                 | 4                    |                   |
| % change                           |                   | -12.2%            | -3.2%             | -0.7%             | -3.2%                | 0.4%                 | -3.9%             |
| <b>Total Tax Revenue</b>           | \$14,649          | \$15,032          | \$15,412          | \$14,050          | \$13,466             | \$14,561             |                   |
| \$ change                          |                   | 383               | 380               | (1,362)           | (584)                | 1,095                |                   |
| % change                           |                   | 2.6%              | 2.5%              | -8.8%             | -4.2%                | 8.1%                 | -0.1%             |
| <b>Non-Tax Revenues</b>            | 861               | 876               | 824               | 762               | 782                  | 815                  |                   |
| \$ change                          |                   | 15                | (52)              | (62)              | 20                   | 33                   |                   |
| % change                           |                   | 1.7%              | -6.0%             | -7.5%             | 2.6%                 | 4.2%                 | -1.1%             |
| <b>Dedicated, Transfers, Other</b> | 452               | 471               | 444               | 576               | 446                  | 468                  |                   |
| \$ change                          |                   | 19                | (27)              | 132               | (130)                | 22                   |                   |
| % change                           |                   | 4.1%              | -5.7%             | 29.7%             | -22.6%               | 4.9%                 | 0.7%              |
| <b>Total Current Resources</b>     | \$15,962          | \$16,379          | \$16,680          | \$15,388          | \$14,694             | \$15,844             |                   |
| \$ change                          |                   | 417               | 301               | (1,292)           | (694)                | 1,150                |                   |
| % change                           |                   | 2.6%              | 1.8%              | -7.7%             | -4.5%                | 7.8%                 | -0.1%             |

**Historical and Projected Spending Growth**  
End of 2010 Legislative Sessions

| (\$ in millions)                    | Actual<br>FY 2006 | Actual<br>FY 2007 | Actual<br>FY 2008 | Actual<br>FY 2009 | Estimated<br>FY 2010 | Estimated<br>FY 2011 | Average<br>Annual |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------------|----------------------|-------------------|
| <b>K-12 Education</b>               | \$6,301           | \$6,438           | \$6,819           | \$6,938           | \$5,352              | \$6,036              |                   |
| \$ change                           |                   | 138               | 381               | 119               | (1,586)              | 684                  |                   |
| % change                            |                   | <b>2.2%</b>       | <b>5.9%</b>       | <b>1.7%</b>       | <b>-22.9%</b>        | <b>12.8%</b>         | <b>-0.9%</b>      |
| <b>Higher Education</b>             | 1,348             | 1,414             | 1,563             | 1,550             | 1,429                | 1,382                |                   |
| \$ change                           |                   | 66                | 149               | (13)              | (121)                | (47)                 |                   |
| % change                            |                   | <b>4.9%</b>       | <b>10.6%</b>      | <b>-0.8%</b>      | <b>-7.8%</b>         | <b>-3.3%</b>         | <b>0.5%</b>       |
| <b>Prop. Tax Aids &amp; Credits</b> | 1,464             | 1,559             | 1,581             | 1,489             | 1,591                | 1,385                |                   |
| \$ change                           |                   | 96                | 22                | (92)              | 102                  | (206)                |                   |
| % change                            |                   | <b>6.5%</b>       | <b>1.4%</b>       | <b>-5.8%</b>      | <b>6.9%</b>          | <b>-12.9%</b>        | <b>-1.1%</b>      |
| <b>Health &amp; Human Services</b>  | 3,910             | 4,311             | 4,630             | 4,460             | 4,223                | 4,859                |                   |
| \$ change                           |                   | 401               | 319               | (170)             | (237)                | 636                  |                   |
| % change                            |                   | <b>10.3%</b>      | <b>7.4%</b>       | <b>-3.7%</b>      | <b>-5.3%</b>         | <b>15.1%</b>         | <b>4.4%</b>       |
| <b>Public Safety</b>                | 812               | 895               | 909               | 957               | 888                  | 913                  |                   |
| \$ change                           |                   | 83                | 14                | 48                | (69)                 | 25                   |                   |
| % change                            |                   | <b>10.3%</b>      | <b>1.6%</b>       | <b>5.3%</b>       | <b>-7.2%</b>         | <b>2.8%</b>          | <b>2.4%</b>       |
| <b>Debt Service</b>                 | 352               | 400               | 409               | 453               | 429                  | 526                  |                   |
| \$ change                           |                   | 47                | 9                 | 44                | (24)                 | 97                   |                   |
| % change                            |                   | <b>13.4%</b>      | <b>2.3%</b>       | <b>10.8%</b>      | <b>-5.3%</b>         | <b>22.6%</b>         | <b>8.3%</b>       |
| <b>All Other</b>                    | 1,356             | 931               | 1,094             | 1,014             | 887                  | 813                  |                   |
| \$ change                           |                   | (426)             | 163               | (80)              | (127)                | (74)                 |                   |
| % change                            |                   | <b>-31.4%</b>     | <b>17.6%</b>      | <b>-7.3%</b>      | <b>-12.5%</b>        | <b>-8.3%</b>         | <b>-9.7%</b>      |
| <b>Total Spending</b>               | \$15,542          | \$15,947          | \$17,005          | \$16,861          | \$14,799             | \$15,914             |                   |
| \$ change                           |                   | 405               | 1,058             | (144)             | (2,062)              | 1,115                |                   |
| % change                            |                   | <b>2.6%</b>       | <b>6.6%</b>       | <b>-0.8%</b>      | <b>-12.2%</b>        | <b>7.5%</b>          | <b>0.5%</b>       |

**NEXT BIENNIUM BUDGET PLANNING ESTIMATES**

MMB prepares budget planning estimates for the Next Biennium, based on the most recent forecast adjusted for legislative action. The February 2010 forecast budget planning estimates incorporating the actions of the 2010 legislative sessions indicate a shortfall of \$5.8 billion for FY 2012-13, meaning that projected total revenues, excluding any balances carried forward, would be lower than projected total expenditures. Revenues for FY 2012-13 are projected to be \$2.4 billion more than FY 2010-11 and expenditures are projected to be \$8.0 billion more than the Current Biennium.

Budget planning estimates are based on current law and a variety of assumptions and State law limitations. Of the projected shortfall, \$1.4 billion reflects required spending to return the school aid payment shift. Additionally, it is assumed that one-time ARRA State Fiscal Stabilization Fund and

Federal Medical Assistance Program funds that offset \$2.2 billion of general fund spending in the Current Biennium will not continue into the Next Biennium. Also one-time spending reductions of \$670 million enacted in the Current Biennium are not assumed to be reenacted into law in the Next Biennium. Furthermore, the State has assumed that early Medicaid expansion occurs in the Next Biennium and a cost increase of \$360 million is reflected in the planning estimates.

While wage and price inflation is included in revenue planning estimates for the Next Biennium, State law prohibits including a general inflation adjustment for projected expenditures. A general inflation adjustment of 2.1 percent in FY 2012 and 1.9 percent in FY 2013, applied to total projected spending, would add \$1.2 billion to expenditures for the Next Biennium.

A new administration will submit a new budget for the Next Biennium by February 15, 2011.

## 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 is set forth below.

**Income Tax:** The income tax rate schedules for 2010 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 \$347. 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. A refundable low income motor fuels credit applied for Tax Year 2009, but was repealed effective for tax year 2010.

#### SINGLE FILER

| Taxable Income                                 | Tax          |
|--|--------------|
| on the first \$22,730                          | 5.35 percent |
| on all over \$22,770,<br>but not over \$74,780 | 7.05 percent |
| on all over \$74,780                           | 7.85 percent |

#### MARRIED FILING JOINTLY

| Taxable Income                                 | Tax          |
|--|--------------|
| on the first \$33,280                          | 5.35 percent |
| on all over \$33,280<br>but not over \$132,220 | 7.05 percent |
| on all over \$132,220                          | 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

| Taxable Income                                 | Tax          |
|--|--------------|
| on the first \$28,030                          | 5.35 percent |
| on all over \$28,030<br>but not over \$112,620 | 7.05 percent |
| on all over \$112,620                          | 7.85 percent |

**Sales and Use Tax:** The sales tax rate of 6.875 percent is applicable to most retail sales of goods with the exception of food, clothing, and drugs. Purchases made by non-profit organizations and the federal government and school districts are exempt. In November 2008, Minnesota voters voted to amend the constitution to raise the sales tax rate beginning on July 1 2009 by 3/8 of 1 percentage point. The proceeds from the incremental increase are dedicated to funds other than the general fund for the purpose of protecting the environment and preserving Minnesota’s arts and cultural heritage. The new general statewide rate is 6.875%. The 3/8 of 1 percentage point increment will be in place through 2034.

**Statewide Property Tax:** A State general property tax is 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.

**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 in Tax Year 2009 gives an 87% weight to sales, an 6.5% weight to payroll and a 6.5% weight to property. Laws enacted in 2005 called for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in began 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.

Beginning in Tax Year 2002, Minnesota required 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:

| Fee Basis                | Amount of Fee |
|--------------------------|---------------|
| 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:

- 1.5% Life insurance
- 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% Surcharge on homeowners insurance, commercial fire and commercial nonliability insurance premiums.
- 2.0% Surcharge on fire premiums for property located in cities of the first class.
- 1.0% Health Maintenance Organizations.

**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. For fiscal year 2010, 83.75% of the collections are dedicated to transportation related funds. Under a constitutional amendment adopted by the voters in 2006, all of the collections will be dedicated to transportation related funds beginning in fiscal year 2012.

**Liquor, Wine and Fermented Malt Beverages Tax:** 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.

A tax of 2.5% is imposed on alcoholic beverages sold at retail; this is in addition to the 6.875% sales tax on alcoholic beverages.

**Cigarette and Tobacco Products Tax:** 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 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. The rate from 7/31/2009 to 8/1/2010 is 33 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 .0033% per \$500 or \$1.65 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 Tax:** The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. Beginning in tax year 2006, the rate of the tax was 2.45%. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

**Health Care Provider Tax:** A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a \$2,815 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.

## **TRUNK HIGHWAY SYSTEM**

The State trunk highway system consists of 11,883 miles of highways, 3,585 bridges over 20 feet long, and 1,049 maintenance, enforcement, service, and administrative buildings at 390 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 over 141,000 miles.

The State trunk highway system is constructed and maintained by the Minnesota Department of Transportation ("MnDOT"). Construction work is contracted to private construction contractors on a competitive basis, while maintenance is performed by MnDOT employees. 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 1998 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, 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. The following table shows the motor fuel tax rate changes passed by the 2008 Legislature:

**2008 LEGISLATIVE MOTOR FUEL TAX RATE CHANGES**  
**Base Rate: Twenty Cents/Gallon**

| <b>Fiscal Year</b> | <b>Effective Date</b> | <b>Increase<br/>Cents/Gallon</b> | <b>New Effective<br/>Rate</b> |
|--------------------|-----------------------|----------------------------------|-------------------------------|
| 2008               | Apr-08                | 2.0                              | 22.0                          |
| 2009               | Aug-08                | 0.5                              | 22.5                          |
| 2009               | Oct-08                | 3.0                              | 25.5                          |
| 2010               | Jul-09                | 1.6                              | 27.1                          |
| 2011               | Jul-10                | 0.4                              | 27.5                          |
| 2012               | Jul-11                | 0.5                              | 28.0                          |
| 2013               | Jul-12                | 0.5                              | 28.5                          |

For some special fuels the rate is different than gasoline and diesel and is based on the equivalent energy content of the fuel compared to gasoline.

Revenue from motor fuels taxes was \$723 million to the Highway User Tax Distribution Fund in Fiscal Year 2009, 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, \$426 million was transferred to the Trunk Highway Fund. MnDOT forecasts collections of \$823 million, after refunds, in Fiscal Year 2010 to the Highway User Tax Distribution Fund, with a resulting transfer of \$472 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 a declining percentage of the original value of the vehicle based upon registration year. For vehicles newly registered in 2009 or later, the new statutory schedule is automatically applied, which contains no tax caps. For vehicles previously registered before 2009, the new tax schedule is only applied if the amount calculated is less than the vehicle registration amount paid in the previous year; otherwise the registration amount is equal to the previous year's registration tax. 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 nine 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 \$490 million in Fiscal Year 2009, after refunds and collection costs, of which \$289 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be \$521 million in Fiscal Year 2010 to the Highway User Tax Distribution Fund, with a resulting transfer of \$302 million to the Trunk Highway Fund.

The State of Minnesota levies a sales tax of 6.5% on motor vehicles ("MVST"). In November 2006, voters approved a constitutional amendment phasing in dedication of all MVST for

transportation purposes over five years, starting July 1, 2007 (FY 2008). The 2009 Legislature modified the percent of motor vehicle sales tax distribution for the Current Biennium. The following table shows percent and forecast amount, if available, to each of the recipient funds for this revenue source.

**MOTOR VEHICLE SALES TAX DEDICATION  
END OF LEGISLATIVE SESSIONS  
(\$ in millions)**

| Year | Highway User Tax<br>Distribution Fund |                      | General Fund |                      | Transit Assistance Fund |                      |
|------|---------------------------------------|----------------------|--------------|----------------------|-------------------------|----------------------|
|      | Percent                               | Forecasted<br>Amount | Percent      | Forecasted<br>Amount | Percent                 | Forecasted<br>Amount |
| 2008 | 38.25%                                | \$196.1*             | 36.25%       | \$176.5*             | 25.50%                  | \$130.7*             |
| 2009 | 44.25%                                | 195.5*               | 26.25%       | 116.8*               | 29.50%                  | 130.3*               |
| 2010 | 47.50%                                | 216.3**              | 16.25%       | 73.5**               | 36.25%                  | 162.6**              |
| 2011 | 54.50%                                | 280.0                | 6.25%        | 32.0                 | 39.25%                  | 200.0                |
| 2012 | 60.00%                                | 363.7                | 0.00%        | 0                    | 40.00%                  | 242.4                |
| 2013 | 60.00%                                | 366.0                | 0.00%        | 0                    | 40.00%                  | 244.0                |

\* Actual

\*\* Preliminary

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

**STATE OF MINNESOTA  
TRUNK HIGHWAY FUND  
ESTIMATED REVENUES AND EXPENDITURES  
(\$ in thousands)**

|                                   | Fiscal Year<br>Ended<br>June 30, 2010 | Fiscal Year<br>Ended<br>June 30, 2011 | Biennium          |
|-----------------------------------|---------------------------------------|---------------------------------------|-------------------|
| <b><u>Estimated Resources</u></b> |                                       |                                       |                   |
| Balance Forward from Prior Year   | \$ 93,487                             | \$ 16,875                             | \$ 93,487         |
| Revenues                          |                                       |                                       |                   |
| Federal Grants                    | \$ 507,316                            | \$ 541,900                            | \$ 1,049,216      |
| Departmental Earnings             | 10,224                                | 10,253                                | 20,477            |
| Investment Income                 | 2,800                                 | 4,600                                 | 7,400             |
| Other Income                      | <u>58,933</u>                         | <u>58,453</u>                         | <u>117,386</u>    |
| Total Receipts                    | \$ 579,273                            | \$ 615,206                            | \$ 1,194,479      |
| Transfers from Other Funds        |                                       |                                       |                   |
| General Fund Reimbursement        | \$ 3,824                              | \$ 3,824                              | \$ 7,648          |
| HUTD Reimbursement                | 610                                   | 610                                   | 1,220             |
| Hwy Users Tax Distribution Fund   | 901,337                               | 958,075                               | 1,859,412         |
| Plant Management Fund             | 1,304                                 | 1,304                                 | 2,608             |
| Special Revenue Fund              | <u>-</u>                              | <u>-</u>                              | <u>-</u>          |
| Total Transfers                   | \$ 907,075                            | \$ 963,813                            | \$ 1,870,888      |
| Total Resources Available         | \$ 1,579,835                          | \$ 1,595,894                          | \$ 3,158,854      |
| <b><u>Estimated Uses</u></b>      |                                       |                                       |                   |
| Expenditures                      |                                       |                                       |                   |
| Transportation                    |                                       |                                       |                   |
| MnDOT                             | \$ 1,403,588                          | \$ 1,296,867                          | \$ 2,700,455      |
| Public Safety                     | 88,030                                | 87,639                                | 175,669           |
| MMB Contingent Account            | <u>200</u>                            | <u>200</u>                            | <u>400</u>        |
| Subtotal-Transportation           | \$ 1,491,818                          | \$ 1,384,706                          | \$ 2,876,524      |
| State Government                  |                                       |                                       |                   |
| Tort Claims                       | <u>600</u>                            | <u>600</u>                            | <u>1,200</u>      |
| Subtotal-State Government         | \$ 600                                | \$ 600                                | \$ 1,200          |
| Total Expenditures                | \$ 1,492,418                          | \$ 1,385,306                          | \$ 2,877,724      |
| Transfers to Other Funds          |                                       |                                       |                   |
| Debt Service Fund                 | <u>\$ 70,542</u>                      | <u>\$ 96,120</u>                      | <u>\$ 166,662</u> |
| Total Uses                        | \$ 1,562,960                          | \$ 1,481,426                          | \$ 3,044,386      |
| Undesignated Fund Balance         | <u>\$ 16,875</u>                      | <u>\$ 114,468</u>                     | <u>\$ 114,468</u> |

The estimated expenditures for State road construction for the Previous 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 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, construction expenditures and program delivery 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 receipts of bond proceeds 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 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 a 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.

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The following table shows the most recent legislative bond authorizations for trunk highway improvements. See also the table of "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED" on page C-2 in Appendix C.

| <b>Legislature</b> | <b>Authorizations<br/>(\$ in millions)</b> | <b>Purpose</b>   |
|--------------------|--|--|
| 2007               | \$20.0                                     | Highway Flood Damage   |
| 2008               | 1,800.0                                    | Trunk Highway Improvements   |
| 2009               | 40.0                                       | Trunk Highway Interchanges   |
| 2009               | 2.7  | Reconstruction and Repair of Trunk Highways and Bridges in Flood Areas |
| 2010               | 100.1                                      | Trunk Highway Construction and Interchanges                            |
| 2010               | 26.4                                       | Trunk Highway Capitol Improvements                                     |
| <b>Total:</b>      | <b>\$ 1,989.2</b>                          |  |

The table below depicts the commitments for highway construction and related purposes associated with the appropriations made by the Legislature for the Current Biennium. 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 MnDOT's budget.

**CURRENT BIENNIUM  
TRUNK HIGHWAY IMPROVEMENT PROGRAM  
ANTICIPATED ENCUMBRANCES  
(\$ in millions)**

| <b>Improvement Category</b>           | <b>Trunk Highway<br/>and Federal Funds</b> | <b>Bond<br/>Funds</b> | <b>Total</b>      |
|---------------------------------------|--|-----------------------|-------------------|
| Major Construction <sup>(1)</sup>     | \$ 1,178.9                                 | \$ 387.4              | \$ 1,566.3        |
| Safety                                | 102.2                                      | -                     | 102.2             |
| Traffic Management                    | 27.1                                       | -                     | 27.1              |
| Municipal Agreements                  | 25.6                                       | -                     | 25.6              |
| Right of Way                          | 145.2                                      | -                     | 145.2             |
| Miscellaneous Agreement               | 51.3                                       | -                     | 51.3              |
| Capital Construction and Improvements | -  | 26.4                  | 26.4              |
| Program Delivery                      | -  | 38.7                  | 38.7              |
| <b>Total <sup>(2)</sup></b>           | <b>\$ 1,530.3</b>                          | <b>\$ 452.5</b>       | <b>\$ 1,982.8</b> |

<sup>(1)</sup> The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

<sup>(2)</sup> The total expenditures, excluding the amount provided by bond funds, consist of \$540.4 million of State highway revenues and \$989.99 million of federal funds.



**CURRENT BIENNIUM  
TRUNK HIGHWAY AND TRUNK HIGHWAY BOND FUND  
CASH EXPENDITURES FORECAST  
(\$ in millions)**

| <b>Category</b>                       | <b>Trunk Highway<br/>Fund</b> | <b>Trunk Highway<br/>Bond Fund</b> | <b>Total</b>      |
|---------------------------------------|-------------------------------|------------------------------------|-------------------|
| Major Construction                    | \$ 1,224.7                    | \$ 387.8                           | \$ 1,612.5        |
| Safety                                | 84.2                          | 3.5                                | 87.7              |
| Traffic Management                    | 15.1                          | .4                                 | 15.5              |
| Agreements and Miscellaneous          | 199.4                         | -                                  | 199.4             |
| Right of Way                          | 59.3                          | -                                  | 59.3              |
| Capital Construction and Improvements | -                             | 18.0                               | 18.0              |
| Program Delivery                      | -                             | 39.2                               | 39.2              |
| <b>Total</b>                          | <b>\$ 1,582.7</b>             | <b>\$ 448.9</b>                    | <b>\$ 2,031.6</b> |

**HISTORIC REVENUES AND EXPENDITURES**

The following table sets forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2007 through 2009, and for the additional time periods shown. For the Fiscal Years ended June 30, 2007 through 2009 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, 2009 and June 30, 2010, such revenues and expenditures include only cash receipts and disbursements allocable to such periods, 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 table on the following are presented by object of expenditure.

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**STATE OF MINNESOTA  
TRUNK HIGHWAY FUND  
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES  
(\$ in thousands)  
UNAUDITED**

|   | Fiscal Year Ended June 30 <sup>(1)</sup> |                            |                            | July 1, 2008<br>through<br>June 30, 2009 <sup>(2)</sup> | July 1, 2009<br>through<br>June 30, 2010 <sup>(2)</sup> |
|---|--|----------------------------|----------------------------|---|---|
|   | 2007                                     | 2008                       | 2009                       |   |   |
| <b>REVENUES:</b>                                    |  |                            |                            |   |   |
| Taxes: <sup>(3)</sup>                               |  |                            |                            |   |   |
| Motor Fuel.....                                     | \$ 387,617                               | \$ 390,897                 | \$ 449,955                 | \$ 445,421  | \$ 485,270  |
| Motor Vehicle.....                                  | 301,068                                  | 295,375                    | 308,572                    | 302,550   | 318,022   |
| Motor Vehicle Sales Tax.....                        | 94,053                                   | 115,505                    | 115,150                    | 103,211   | 113,929   |
| Less: Revenue Refunds.....                          | (38,531)                                 | (37,657)                   | (38,885)                   | (38,034)  | (30,856)  |
| Net Taxes.....                                      | <u>\$ 744,207</u>                        | <u>\$ 764,120</u>          | <u>\$ 834,791</u>          | <u>\$ 813,147</u>                                       | <u>\$ 886,364</u>                                       |
| Federal Grant Agreements.....                       | \$ 543,025                               | \$ 423,724                 | \$ 583,370                 | \$ 592,554  | \$ 536,110  |
| Drivers License <sup>(4)</sup> .....                | 1,523                                    | 1,565                      | 1,825                      | 1,825   | -   |
| Penalties & Fines.....                              | 7,006                                    | 6,874                      | 7,535                      | 3,738   | 4,123   |
| Investment Income.....                              | 11,517                                   | 9,883                      | 8,066                      | 7,891   | 2,249   |
| Local Government Contracts.....                     | 16,874                                   | 39,822                     | 18,898                     | 27,883  | 18,574  |
| Other Revenue.....                                  | 29,121                                   | 21,579                     | 42,173                     | 44,725  | 17,896  |
| TH Revenue Refunds.....                             | (70)                                     | -                          | -                          | -   | -   |
| <b>TOTAL REVENUES.....</b>                          | <u><b>\$ 1,353,203</b></u>               | <u><b>\$ 1,267,567</b></u> | <u><b>\$ 1,496,658</b></u> | <u><b>\$ 1,491,763</b></u>                              | <u><b>\$ 1,465,316</b></u>                              |
| <b>EXPENDITURES:</b>                                |  |                            |                            |   |   |
| Personal Services.....                              | \$ 360,902                               | \$ 381,344                 | \$ 407,975                 | \$ 381,708  | \$ 395,629  |
| Purchased Services.....                             | 106,094                                  | 89,162                     | 103,285                    | 88,546  | 81,303  |
| Materials and Supplies.....                         | 66,914                                   | 63,891                     | 88,025                     | 76,123  | 66,177  |
| Capital Outlay:                                     |  |                            |                            |   |   |
| Equipment.....                                      | 30,777                                   | 15,076                     | 42,836                     | 31,061  | 16,250  |
| Capital Outlay & Real Property <sup>(5)</sup> ..... | 798,672                                  | 647,776                    | 839,314                    | 305,922   | 215,784   |
| Grants and Subsidies:                               |  |                            |                            |   |   |
| Individuals.....                                    | 20                                       | 10                         | -                          | 33  | 15  |
| Counties.....                                       | 135                                      | 151                        | 132                        | 67  | 63  |
| School Districts.....                               | -  | 50                         | -                          | -   | 10  |
| Private Organizations.....                          | -  | -                          | -                          | -   | -   |
| Other Grants.....                                   | 2,377                                    | 794                        | 846                        | 795   | 797   |
| All Other.....                                      | 13,280                                   | 6,840                      | 27,698                     | 9,290   | 21,744  |
| <b>TOTAL EXPENDITURES.....</b>                      | <u><b>\$ 1,379,171</b></u>               | <u><b>\$ 1,205,094</b></u> | <u><b>\$ 1,510,111</b></u> | <u><b>\$ 893,545</b></u>                                | <u><b>\$ 797,772</b></u>                                |
| <b>TRANSFERS:</b>                                   |  |                            |                            |   |   |
| Debt Service.....                                   | \$ 53,752                                | \$ 52,170                  | \$ 59,542                  | \$ 59,542   | \$ 70,542   |
| Other Transfers <sup>(6)</sup> .....                | (15,639)                                 | (34,231)                   | (18,697)                   | (5,335)   | (9,644)   |
| <b>NET TRANSFERS.....</b>                           | <u><b>\$ 38,113</b></u>                  | <u><b>\$ 17,939</b></u>    | <u><b>\$ 40,845</b></u>    | <u><b>\$ 54,207</b></u>                                 | <u><b>\$ 60,898</b></u>                                 |
| <b>TOTAL EXPENDITURES AND</b>                       |  |                            |                            |   |   |
| <b>NET TRANSFERS OUT.....</b>                       | <u><b>\$ 1,417,284</b></u>               | <u><b>\$ 1,223,033</b></u> | <u><b>\$ 1,550,956</b></u> | <u><b>\$ 947,752</b></u>                                | <u><b>\$ 858,670</b></u>                                |

(1) For Fiscal Years 2007-2009, the schedule of revenues and expenditures includes all revenues and expenditures for the fiscal year, and encumbrances for the Fiscal Year, including accruals at June 30.

(2) For the periods ended June 30, 2009, and June 30, 2010 only current year receipts have been included.

(3) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration, and Motor Vehicle Sales Taxes from the Highway User Tax Distribution Fund.

(4) The 2005 Legislature transferred responsibility for revenues and corresponding collection expenses relating to driver's license from the Trunk Highway Fund to the Department of Public Safety Driver's Services Account in the Special Revenue Fund. This legislation required the amounts shown in Fiscal Years 2007-2009 to be transferred to the Trunk Highway Fund in lieu of lost license revenue.

(5) 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 Years 2007-2009, encumbrances have been included in Capital Outlay and Real Property totals.

(6) Net of all transfers in from State General Fund, County State Aid Highway Fund, Plant Management Fund, and Special Revenue Fund.

## 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 2008 Legislature created a loan from the Health Care Access Fund to the General Fund in the amount of \$50 million. When the Commissioner of Health determines that accumulated savings to State-administered health care programs from enacted health care reform reach \$50 million, the Commissioner of Management and Budget must transfer a like amount back from the General Fund to the Health Care Access Fund.

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

### Previous Biennium MINNESOTACARE® Health Care Access Fund (\$ in Millions)

|  |              |
|--|--------------|
| <b>Resources</b>                                       |              |
| Unreserved Balance at June 30, 2007                    | \$167        |
| Revenues   | 1,067        |
| Total Resources  | 1,234        |
| <b>Expenditures</b>                                    |              |
| <b>Projected Unreserved Balance at June 30, 2009</b>   | <b>\$437</b> |
| Transfer to Special/General Fund                       | 157          |
| <b>Projected Unrestricted Balance at June 30, 2009</b> | <b>\$280</b> |

### Current Biennium MINNESOTACARE® Health Care Access Fund (\$ in Millions)

|  |              |
|--|--------------|
| <b>Resources</b>                                       |              |
| Unreserved Balance at June 30, 2009                    | \$292        |
| Revenues   | 1,150        |
| Total Resources  | 1,442        |
| <b>Expenditures</b>                                    |              |
| <b>Projected Unreserved Balance at June 30, 2011</b>   | <b>\$408</b> |
| Transfers to General Fund                              | 367          |
| <b>Projected Unrestricted Balance at June 30, 2011</b> | <b>\$41</b>  |

The Health Care Access Fund balance as of June 30, 2011 incorporates the fiscal effects of an early expansion of Medicaid coverage to single adults without children under seventy-five percent of the federal poverty guideline. The federal Patient Protection and Affordable Care Act, Public Law 111-148, and the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 allow Minnesota to receive federal matching funds associated with covering adults without children, a newly-eligible group under the federal health care reform. The Minnesota Legislature and Governor

Pawlenty agreed to a compromise in the 2010 legislative session, which would allow either the current governor or his successor to opt into the early expansion any time prior to January 15, 2011. On June 22, 2010 Governor Pawlenty announced that his administration elected not to participate in the early Medicaid enrollment contained in the new federal health care law. The Governor's decision was required by a new State law enacted during the 2010 legislative session. The health care access fund balance reflects the fiscal impact of an early Medicaid expansion. MinnesotaCare appropriations were reduced in the health care access fund to reflect the movement of qualifying individuals to Medicaid. In addition, those savings were transferred from the health care access fund to the general fund to help cover the additional expenditures associated with the expanded Medicaid population. If no executive action is taken prior to January 15, 2011, the fiscal effects of the early Medicaid expansion will be removed from the health care access fund balance and reflected in the February 2011 forecast.

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## 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 end-of-session fund balance estimates anticipated revenues and expenditures resulting from the final enacted budget. Based on current law, the end-of-session revisions represent the State's official forecast of its financial position until new revenue and expenditure forecasts are prepared in November of each year.

While the official State forecast does not change until the November update, continual monitoring of estimated vs. actual revenues and expenditures is required to ensure adequate cash flow. There are 43 funds within the Statutory General Fund. MMB manages short-term intra-fund borrowing within the Statutory General Fund, balancing the cash needs of various programs with actual daily receipts and disbursements.

The State may, subject to certain limitations, issue certificates in anticipation of the collection of taxes levied for and other revenue appropriated to the Statutory General Fund for expenditure during the biennium. Minnesota Statutes, Section 16A.671, authorizes the Commissioner to sell certificates of indebtedness in the following manners:

- advertising for competitive bids;
- negotiating contracts with banks in or out of state to establish lines of credit;
- negotiating contracts with firms of underwriters that will purchase or act as agents in the placement of certificates of indebtedness;
- entering into contracts with banks in or out of state to authenticate, issue, pay principal and interest on, cancel, and otherwise deal as fiscal agents of the State with certificates of indebtedness issued as outlined above; and
- selling certificates of indebtedness to the State Board of Investment without advertising for bids.

The State intends to secure a line of credit in the maximum amount of \$600 million in the third quarter of 2010 to increase liquidity and assist in managing the fluctuations of forecasted state receipts and disbursements. Concurrently, the State intends to continue to utilize a variety of

administrative tools to manage Statutory General Fund cash flow on a daily basis. Those tools may consist of, and are not limited to, statutorily permitted delays in certain payments to school districts, higher education institutions, and health care providers, as well as delays in remittance of certain corporate and sales tax refunds.

The extent to which the line of credit is actually utilized to meet cash flow needs will be determined by the variance between estimated and actual receipts and the timing of major payments during any given month.

The Legislature reduced the Cash Flow Account from \$350 million to \$266 million for the Current Biennium in the 2010 legislative sessions.

The State currently has no short-term debt outstanding.

The tables on the following two pages show the actual monthly Statutory General Fund cash flows for FY 2010 and projections for FY 2011 based on the May 2010 end of session, including the one-day special session, respectively.

For FY 2011, the State's actual Statutory General Fund cash flow receipts for the first month of the fiscal year (July 2010) were approximately \$113 million greater than projected and disbursements were approximately \$76 million less than projected. Thus actual July 2010, end of month cash balances were \$189 million more than projected and the minimum Statutory General Fund cash balance for the month was \$66 million more than projected. Monthly cash flow results are subject to a high level of variability and no conclusions should be drawn based on these results.

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STATUTORY GENERAL FUND  
MONTHLY CASH FLOW ANALYSIS  
FY 2010 ACTUAL  
Fiscal Year Ending June 30, 2010  
(Dollars in Thousands)

|  | Jul-09              | Aug-09              | Sep-09              | Oct-09              | Nov-09              | Dec-09              | Jan-10              | Feb-10              | Mar-10              | Apr-10              | May-10              | Jun-10              | TOTAL                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| BEGINNING CASH BALANCE                       | \$ 2,475,390        | \$ 1,847,504        | \$ 1,104,850        | \$ 1,048,731        | \$ 1,040,168        | \$ 833,484          | \$ 1,055,575        | \$ 1,702,971        | \$ 1,167,894        | \$ 1,139,391        | \$ 1,587,694        | \$ 1,073,738        |                      |
| REVENUE                                      |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                      |
| Individual Income Tax                        | \$ 549,345          | \$ 460,970          | \$ 664,245          | \$ 499,635          | \$ 435,503          | \$ 659,249          | \$ 784,883          | \$ 103,187          | \$ 340,944          | \$ 885,466          | \$ 458,825          | \$ 655,971          | \$ 6,498,223         |
| Sales and Use Taxes                          | 152,923             | 401,403             | 347,810             | 380,547             | 358,715             | 307,673             | 440,092             | 318,647             | 254,121             | 351,773             | 367,925             | 573,231             | 4,254,861            |
| Corporate & Bank Excise                      | (18,356)            | 18,996              | 128,670             | 28,176              | 35,517              | 40,689              | 5,026               | 30,002              | 178,434             | 39,300              | 32,457              | 133,815             | 652,726              |
| Statewide Property Tax                       | 25,207              | -                   | -                   | 164                 | 2,450               | 353,663             | 5,830               | 59                  | -                   | -                   | -                   | 394,874             | 782,247              |
| Motor Vehicle Taxes                          | 8,936               | 11,644              | 8,389               | (2,505)             | (1,042)             | 14,057              | (800)               | 1,544               | 16,168              | 13,386              | 1,854               | 9,844               | 81,475               |
| Tobacco Product Taxes                        | (423)               | 38,643              | 1,838               | 35,202              | 2,439               | 15,147              | 19,641              | 16,100              | (5,472)             | 20,051              | 24,169              | 51,559              | 218,895              |
| Insurance Taxes                              | 2,204               | 4,203               | 75,232              | 4,442               | 2,422               | 77,649              | 2,538               | 11,384              | 87,435              | 1,280               | 1,813               | 72,598              | 343,199              |
| Other Excise Taxes                           | 125,700             | 107,378             | 68,703              | 138,749             | 76,824              | 143,356             | 150,684             | 80,674              | 77,152              | 137,200             | 75,663              | 87,427              | 1,269,509            |
| Investment Earnings                          | 3,266               | 2,573               | 1,873               | 1,429               | 1,073               | 1,058               | 1,065               | 992                 | 752                 | 431                 | 708                 | 7,049               | 22,269               |
| Tobacco Settlement                           | -                   | -                   | -                   | -                   | -                   | -                   | 164,684             | -                   | -                   | -                   | -                   | -                   | 164,684              |
| Inter-governmental Grants                    | 9,196               | 11,799              | 15,972              | 10,951              | 11,385              | 11,477              | 9,434               | 10,429              | 9,226               | 30,020              | 9,185               | 30,263              | 169,338              |
| Other Sources                                | 512,763             | 474,804             | 436,685             | 243,173             | 371,926             | 334,457             | 538,744             | 309,173             | 307,879             | 310,725             | 324,369             | 589,178             | 4,753,876            |
| <b>TOTAL REVENUE</b>                         | <b>\$ 1,370,762</b> | <b>\$ 1,532,411</b> | <b>\$ 1,749,416</b> | <b>\$ 1,339,964</b> | <b>\$ 1,297,211</b> | <b>\$ 1,958,476</b> | <b>\$ 2,121,821</b> | <b>\$ 882,191</b>   | <b>\$ 1,266,640</b> | <b>\$ 1,789,631</b> | <b>\$ 1,296,968</b> | <b>\$ 2,605,809</b> | <b>\$ 19,211,302</b> |
| <b>TOTAL RESOURCES</b>                       | <b>\$ 3,846,152</b> | <b>\$ 3,379,915</b> | <b>\$ 2,854,266</b> | <b>\$ 2,388,695</b> | <b>\$ 2,337,379</b> | <b>\$ 2,791,960</b> | <b>\$ 3,177,396</b> | <b>\$ 2,585,162</b> | <b>\$ 2,434,534</b> | <b>\$ 2,929,022</b> | <b>\$ 2,884,663</b> | <b>\$ 3,679,547</b> |                      |
| EXPENDITURES                                 |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                      |
| State Payroll                                | \$ 349,900          | \$ 226,630          | \$ 237,718          | \$ 237,030          | \$ 233,463          | \$ 331,868          | \$ 229,114          | \$ 239,674          | \$ 231,622          | \$ 238,136          | \$ 239,695          | \$ 223,570          | \$ 3,018,420         |
| Agency Operations                            | 196,185             | 135,941             | 117,578             | 113,477             | 104,205             | 119,146             | 101,478             | 97,238              | 104,244             | 113,222             | 103,729             | 119,590             | 1,426,032            |
| Aid to School Districts                      | 115,350             | 790,680             | 570,535             | 336,207             | 115,637             | 364,260             | 525,142             | 511,616             | 278,713             | 541,418             | 914,869             | 233,307             | 5,297,734            |
| Aid to Cities                                | 262,891             | 9,450               | 71,243              | 44,442              | 7,672               | 292,426             | 8,992               | 3,471               | 6,233               | 5,310               | 4,997               | 5,873               | 722,999              |
| Aid to Counties                              | 105,805             | 178,083             | 33,832              | 88,807              | 39,208              | 197,463             | 22,388              | 27,038              | 42,071              | 31,157              | 25,470              | 12,902              | 804,223              |
| Aid to Higher Education Institutions         | 60,438              | 97,188              | 144,141             | 73,504              | 67,299              | 88,066              | 114,310             | 72,570              | 8,285               | 64,002              | 71,914              | 115,868             | 977,583              |
| Aid to Non-Govt Organizations                | 32,316              | 28,882              | 33,642              | 22,304              | 21,864              | 18,990              | 27,159              | 22,774              | 15,423              | 23,516              | 18,120              | 17,237              | 282,228              |
| Aid to Special Districts                     | 17,537              | (956)               | 12,482              | 17,508              | 13,539              | 14,641              | 8,135               | 12,909              | 9,207               | 10,346              | 8,680               | 12,679              | 136,704              |
| Payments to Individuals                      | 565,740             | 696,003             | 549,669             | 348,415             | 367,777             | 244,566             | 355,206             | 359,562             | 532,527             | 235,973             | 336,551             | 213,747             | 4,805,735            |
| Other  | 292,487             | 113,165             | 34,695              | 66,834              | 103,232             | 64,961              | 82,499              | 70,416              | 66,819              | 78,250              | 86,900              | 296,981             | 1,357,238            |
| Debt Service                                 | -                   | -                   | -                   | -                   | 430,000             | -                   | -                   | -                   | -                   | -                   | -                   | -                   | 430,000              |
| <b>TOTAL EXPENDITURES</b>                    | <b>\$ 1,998,648</b> | <b>\$ 2,275,066</b> | <b>\$ 1,805,535</b> | <b>\$ 1,348,527</b> | <b>\$ 1,503,895</b> | <b>\$ 1,736,386</b> | <b>\$ 1,474,425</b> | <b>\$ 1,417,268</b> | <b>\$ 1,295,144</b> | <b>\$ 1,341,328</b> | <b>\$ 1,810,925</b> | <b>\$ 1,251,752</b> | <b>\$ 19,258,897</b> |
| <b>ENDING CASH BALANCE</b>                   | <b>\$ 1,847,504</b> | <b>\$ 1,104,850</b> | <b>\$ 1,048,731</b> | <b>\$ 1,040,168</b> | <b>\$ 833,484</b>   | <b>\$ 1,055,575</b> | <b>\$ 1,702,971</b> | <b>\$ 1,167,894</b> | <b>\$ 1,139,391</b> | <b>\$ 1,587,694</b> | <b>\$ 1,073,738</b> | <b>\$ 2,427,796</b> |                      |
| MINIMUM STATUTORY CASH BALANCE FOR THE MONTH | \$ 1,847,504        | \$ 1,078,503        | \$ 1,011,771        | \$ 841,282          | \$ 833,486          | \$ 832,079          | \$ 1,062,749        | \$ 1,154,719        | \$ 929,987          | \$ 993,825          | \$ 1,017,969        | \$ 980,781          |                      |

STATUTORY GENERAL FUND  
MONTHLY CASH FLOW ANALYSIS  
END OF 2010 SESSION  
Fiscal Year Ending June 30, 2011  
(Dollars in Thousands)

|  | Jul-10              | Aug-10              | Sep-10              | Oct-10              | Nov-10              | Dec-10              | Jan-11              | Feb-11              | Mar-11              | Apr-11              | May-11              | Jun-11              | TOTAL                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| BEGINNING CASH BALANCE                       | \$ 2,427,796        | \$ 1,550,844        | \$ 727,772          | \$ 385,903          | \$ 48,370           | \$ 574,111          | \$ 157,001          | \$ 614,551          | \$ 137,703          | \$ (196,598)        | \$ 343,295          | \$ 576,386          |                      |
| <b>REVENUE</b>                               |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                      |
| Individual Income Tax                        | \$ 460,155          | \$ 496,564          | \$ 724,891          | \$ 472,536          | \$ 461,360          | \$ 643,594          | \$ 841,774          | \$ 215,179          | \$ 450,563          | \$ 1,087,887        | \$ 527,548          | \$ 793,780          | \$ 7,175,830         |
| Corporate & Bank Excise                      | 27,049              | 15,513              | 179,443             | (8,080)             | (29,607)            | 127,594             | 34,886              | 26,743              | 237,229             | 48,291              | 35,619              | 116,722             | 811,400              |
| Sales and Use Taxes                          | 157,936             | 412,624             | 374,455             | 400,708             | 361,016             | 345,566             | 441,385             | 340,833             | 310,638             | 369,031             | 365,544             | 648,865             | 4,528,601            |
| Statewide Property Tax                       | 110                 | -                   | -                   | -                   | 302,024             | 36,921              | 4,539               | -                   | -                   | -                   | -                   | 420,465             | 764,059              |
| Motor Vehicle Taxes                          | 2,576               | 2,886               | 2,718               | 2,686               | 2,173               | 2,409               | 2,295               | 1,989               | 2,541               | 3,177               | 3,075               | 3,461               | 31,987               |
| Tobacco Product Taxes                        | 3,186               | 25,433              | 13,269              | 15,559              | 14,609              | 14,324              | 15,810              | 13,970              | 13,793              | 13,230              | 14,148              | 22,812              | 180,141              |
| Insurance Taxes                              | 1,858               | 9,505               | 71,858              | 1,920               | 1,843               | 77,848              | 1,041               | 16,520              | 88,912              | 2,134               | 2,023               | 79,943              | 355,404              |
| Other Excise Taxes                           | 133,828             | 85,895              | 66,074              | 129,534             | 72,541              | 128,537             | 137,852             | 84,815              | 67,156              | 135,168             | 90,410              | 94,177              | 1,225,987            |
| Investment Earnings                          | 3,301               | 531                 | 3,286               | 668                 | 2,095               | 1,889               | 2,053               | 2,096               | 1,949               | 1,874               | 1,939               | 1,716               | 23,397               |
| Tobacco Settlement                           | -                   | -                   | -                   | -                   | -                   | 163,159             | -                   | -                   | -                   | -                   | -                   | -                   | 163,159              |
| Inter-governmental Grants                    | 4,206               | 8,053               | 3,573               | 3,233               | 4,563               | 5,257               | 4,926               | 2,857               | 3,467               | 4,090               | 2,461               | 3,313               | 50,000               |
| Other Sources                                | 508,694             | 473,385             | 438,747             | 321,296             | 325,478             | 318,515             | 551,482             | 324,083             | 325,375             | 453,785             | 346,514             | 417,229             | 4,804,583            |
| <b>TOTAL REVENUE</b>                         | <b>\$ 1,302,899</b> | <b>\$ 1,530,388</b> | <b>\$ 1,878,313</b> | <b>\$ 1,340,059</b> | <b>\$ 1,518,094</b> | <b>\$ 1,865,614</b> | <b>\$ 2,038,044</b> | <b>\$ 1,029,083</b> | <b>\$ 1,501,624</b> | <b>\$ 2,118,666</b> | <b>\$ 1,389,280</b> | <b>\$ 2,602,483</b> | <b>\$ 20,114,546</b> |
| <b>TOTAL RESOURCES</b>                       | <b>\$ 3,730,695</b> | <b>\$ 3,081,232</b> | <b>\$ 2,606,085</b> | <b>\$ 1,725,962</b> | <b>\$ 1,566,464</b> | <b>\$ 2,439,725</b> | <b>\$ 2,195,045</b> | <b>\$ 1,643,635</b> | <b>\$ 1,639,326</b> | <b>\$ 1,922,068</b> | <b>\$ 1,732,574</b> | <b>\$ 3,178,869</b> |                      |
| <b>EXPENDITURES</b>                          |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                      |
| State Payroll                                | \$ 346,680          | \$ 204,374          | \$ 236,054          | \$ 232,612          | \$ 234,361          | \$ 350,029          | \$ 238,812          | \$ 224,965          | \$ 241,995          | \$ 243,664          | \$ 265,073          | \$ 233,639          | \$ 3,052,258         |
| Agency Operations                            | 173,810             | 153,079             | 121,729             | 117,575             | 124,451             | 116,196             | 115,354             | 104,969             | 128,036             | 109,846             | 126,913             | 128,798             | 1,520,755            |
| Aid to School Districts                      | 124,522             | 1,125,586           | 992,882             | 623,422             | 81,931              | 351,541             | 611,136             | 552,151             | 667,851             | 614,311             | 189,865             | 70,229              | 6,005,429            |
| Aid to Cities                                | 222,884             | 9,222               | 8,992               | 85,829              | 10,590              | 237,109             | 12,318              | 9,061               | 3,646               | 2,560               | 14,297              | 7,846               | 624,354              |
| Aid to Counties                              | 173,919             | 34,487              | 40,766              | 95,012              | 22,077              | 166,061             | 49,542              | 25,857              | 46,472              | 19,090              | 32,300              | 31,041              | 736,623              |
| Aid to Higher Education Institutions         | 61,603              | 64,178              | 75,579              | 54,886              | 64,547              | 105,970             | 81,520              | 59,054              | 56,289              | 54,563              | 52,690              | 50,050              | 780,927              |
| Aid to Non-Govt Organizations                | 19,747              | 28,246              | 15,531              | 33,209              | 19,299              | 45,551              | 26,388              | 23,323              | 15,273              | 15,694              | 18,217              | 14,828              | 275,305              |
| Aid to Special Districts                     | 19,184              | 14,222              | 24,763              | 19,410              | 12,950              | 20,220              | 14,371              | 17,586              | 18,414              | 10,585              | 16,068              | 18,205              | 205,980              |
| Payments to Individuals                      | 567,083             | 606,363             | 606,242             | 350,265             | 335,340             | 291,372             | 371,459             | 413,881             | 598,361             | 438,524             | 343,137             | 248,886             | 5,170,914            |
| Other  | 470,419             | 113,702             | 97,645              | 65,372              | 86,806              | 72,516              | 59,593              | 75,084              | 59,587              | 69,937              | 97,628              | 92,448              | 1,360,736            |
| Debt Service                                 | -                   | -                   | -                   | -                   | -                   | 526,160             | -                   | -                   | -                   | -                   | -                   | -                   | 526,160              |
| <b>TOTAL EXPENDITURES</b>                    | <b>\$ 2,179,851</b> | <b>\$ 2,353,460</b> | <b>\$ 2,220,182</b> | <b>\$ 1,677,592</b> | <b>\$ 992,352</b>   | <b>\$ 2,282,724</b> | <b>\$ 1,580,494</b> | <b>\$ 1,505,932</b> | <b>\$ 1,835,924</b> | <b>\$ 1,578,773</b> | <b>\$ 1,156,188</b> | <b>\$ 895,969</b>   | <b>\$ 20,259,441</b> |
| <b>ENDING CASH BALANCE</b>                   | <b>\$ 1,550,844</b> | <b>\$ 727,772</b>   | <b>\$ 385,903</b>   | <b>\$ 48,370</b>    | <b>\$ 574,111</b>   | <b>\$ 157,001</b>   | <b>\$ 614,551</b>   | <b>\$ 137,703</b>   | <b>\$ (196,598)</b> | <b>\$ 343,295</b>   | <b>\$ 576,386</b>   | <b>\$ 2,282,901</b> |                      |
| MINIMUM STATUTORY CASH BALANCE FOR THE MONTH | \$ 1,549,596        | \$ 727,773          | \$ 385,903          | \$ 23,443           | \$ 8,525            | (\$ 277,251)        | \$ 73,555           | \$ 137,704          | (\$ 387,506)        | (\$ 396,724)        | \$ 145,159          | \$ 572,771          |                      |



## MINNESOTA DEFINED BENEFIT RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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 appropriations. Estimates of direct General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in the table on B-40. Additionally, the table on B-39 presents summary data on the financial condition of the plans. Information in this table 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.

The Minnesota State Retirement System, the State Teachers' Retirement Association and the Public Employees Retirement Association have each published a Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009, which contains detailed financial and actuarial information. The public web sites for Minnesota State Retirement System, the State Teachers' Retirement Association and the Public Employees Retirement Association are <http://www.msrs.state.mn.us/>, <http://www.tra.state.mn.us/>, and <http://www.mnpera.org/>, respectively.

The 2010 legislature passed significant pension legislation into law that increased employee and employer contribution rates, changed post-retirement benefit adjustments, changed interest on refunds, and made other changes to reduce the funding deficiencies of Minnesota's defined benefit plans. Changes were not uniform across all plans.

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 ("MSRS"); State Teachers' Retirement Association ("TRA"); Public Employees' Retirement Association ("PERA"); and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute.

2. *Local police and fire amortization aid.* This aid program is specified in statute. As originally designed, it funded a State's share of amortizing unfunded liabilities of local police or fire relief associations that were being merged into a centralized fund (PERA). In more recent years, part of the money has been redirected to the Minneapolis, St Paul, and Duluth teacher retirement plans. The State's contribution will remain at the level of the Fiscal Year 1992 appropriation, or less, until St. Paul Teachers' Plan becomes fully funded.

3. *Minneapolis Employees' Retirement Fund ("MERF").* This fund was closed to new members. In July 2008 the MERF Board of Trustees voted to transfer the management of their assets to the Minnesota State Board of Investment. On July 1, 2010, the administration of MERF is transferred to the Public Employees Retirement Fund (PERA). All assets, service credit, benefits liabilities transfer to a separate MERF division account administered by PERA on July 1, 2010. The annual General Fund obligation is specified in statute as: the actuarially determined financial requirements of the MERF account less the employer and employee contribution of 9.75% of covered payroll, less the additional employer contribution of 2.68% of covered payroll, and less \$3,900,000. The total State contribution cannot exceed \$9,000,000 per year plus \$13,750,000 on September 15, 2011,

\$13,750,000 on September 15, 2012, and \$15,000,000 thereafter, until June 30 2031. After June 30, 2012, the annual additional employer supplemental contribution will be a minimum of \$27,000,000 and a maximum of \$34,000,000.

4. *Legislators' Retirement Plan.* General Fund appropriations are transferred to this account on a current disbursement basis as retirement benefits are paid.

5. *Judges' Retirement Plan.* This plan is funded through employer/employee contributions as a fixed percentage of salary, as defined in statute.

6. *Constitutional Officers' Plan.* General Fund appropriations are transferred to this account on a current disbursements basis as retirement benefits are paid.

**Condition of Defined Benefit Pension Plans to Which  
Minnesota Provides General Fund Resources, June 30, 2009  
(\$ in millions)<sup>1</sup>**

|  | <b>Current<br/>Assets</b> | <b>Accrued<br/>Benefit<br/>Liability</b> | <b>Funding<br/>Ratio</b> | <b>Active<br/>Members</b> | <b>Other<br/>Members</b> |
|--|---------------------------|--|--------------------------|---------------------------|--------------------------|
| <i>1. Funds For Which the State Has Custodial Responsibility</i> |                           |  |                          |                           |                          |
| Minnesota State Retirement System:                               |                           |  |                          |                           |                          |
| — State Employees Fund   | \$9,030                   | \$10,513                                 | 85.90%                   | 48,989                    | 49,465                   |
| — Correctional Employees Fund                                    | 590                       | 821                                      | 71.88%                   | 4,403                     | 3,284                    |
| — State Patrol Retirement Fund                                   | 584                       | 725                                      | 80.58%                   | 876                       | 960                      |
| — Judges Retirement Fund   | 147                       | 242                                      | 60.84%                   | 312                       | 305                      |
| — Legislators Retirement Fund <sup>(2)</sup>                     | 28                        | 90                                       | 31.70%                   | 48                        | 455                      |
| — Elective State Officers Fund <sup>(2)</sup>                    | .2                        | 4  | 5.49%                    | 0                         | 16                       |
| Public Employees Retirement Association:                         |                           |  |                          |                           |                          |
| — Public Employees Fund  | 13,158                    | 18,799                                   | 69.99%                   | 143,353                   | 230,882                  |
| — PERA Police & Fire Fund  | 5,240                     | 6,296                                    | 83.22%                   | 11,035                    | 9,553                    |
| — Local Correctional Service Fund                                | 218                       | 229                                      | 94.85%                   | 3,715                     | 3,594                    |
| Teachers' Retirement Association                                 | 17,882                    | 23,115                                   | 77.36%                   | 77,162                    | 85,771                   |
| <i>2. Other Funds to Which the State Contributes</i>             |                           |  |                          |                           |                          |
| Mpls Employees Retirement Fund                                   | 880                       | 1,551                                    | 55.88%                   | 174                       | 4,613                    |
| Local Police & Fire Associations <sup>(3)</sup>                  | 633                       | 871                                      | 72.68%                   | 170                       | 1,595                    |
| St. Paul Teachers' Retirement Fund                               | 1,050                     | 1,454                                    | 72.13%                   | 3,940                     | 6,207                    |
| Duluth Teachers' Retirement Fund                                 | 279                       | 365                                      | 76.60%                   | 1,016                     | 2,362                    |

(1) The information provided in this table reflects the condition of all funds as of June 30, 2009 and does not include any provisions passed into law during the 2010 legislative session.

(2) The pre-1997 Legislators and Elective State 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 Elective State Officers first elected after July 1, 1997 are members of the State's defined contribution plan.

(3) Information for local police and fire associations reflects values as of December 21, 2009 for Bloomington Police, Minneapolis Fire and Virginia Fire and December 31, 2008 for Minneapolis Police and Fairmont Police.

**Minnesota Retirement Plans  
Estimated General Fund Appropriation  
May 2010 End of Session Estimates  
(\$ in thousands)**

|  | Previous<br>Biennium | Current<br>Biennium | Next<br>Biennium |
|--|----------------------|---------------------|------------------|
| <b>State Employees</b>                                     |                      |                     |                  |
| Constitutional Officers Retirement                         | \$875                | \$925               | \$972            |
| Legislators Retirement Plan <sup>(1)</sup>                 | 4,508                | 3,826               | 4,020            |
| <b>City &amp; County Employees</b>                         |                      |                     |                  |
| Minneapolis Employees Retirement Fund <sup>(2)</sup>       | 17,873               | 18,000              | 45,500           |
| Basic Local Police & Fire Association <sup>(3)</sup>       | 166,984              | 164,064             | 177,518          |
| Local Police or Fire Associations Amortization             | 6,485                | 7,030               | 7,030            |
| Public Employees Retirement Association Aid                | 29,054               | 28,780              | 28,780           |
| Volunteer Firefighter Relief                               | 1,180                | 1,218               | 1,218            |
| <b>Local School Districts</b>                              |                      |                     |                  |
| Teachers' Retirement Association (for Mpls) <sup>(4)</sup> | 31,255               | 30,908              | 30,908           |
| St. Paul Teachers' Retirement Association <sup>(5)</sup>   | 5,794                | 5,654               | 5,654            |
| Duluth Teachers' Retirement Association <sup>(5)</sup>     | 346                  | 692                 | 692              |
| Redistributed P&F Amortization Aid                         | 4,555                | 1,880               | 1,880            |
| <b>TOTAL</b>   | <b>\$268,909</b>     | <b>\$262,977</b>    | <b>\$304,172</b> |

(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. In FY 2012 and 2013 the annual State contribution will increase to \$22.75 million and then to \$24 million each year thereafter through FY 2031. Any requirements beyond the capped aid are the exclusive obligation of the employer units. At the beginning of FY 2011, MERF will become an administrative division within PERA however the funds will remain separate.

(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) The Minneapolis Teachers' Retirement Fund Association merged with the State Teachers Retirement Association ("TRA") on July 1, 2006. Appropriations to aid the Minneapolis Teacher's Retirement Fund for FY07 and later years will be redirected to the State TRA.

(5) 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.

## **Recent Pension Legislation and Litigation**

- The 2010 pension bill provides numerous financial stability provisions intended to reduce future unfunded liabilities for the Minnesota State Retirement System (MSRS), the Teachers' Retirement Association (TRA), the Public Employees Retirement Association (PERA), the St. Paul Teachers' Retirement Fund Association (SPTRFA) and the Duluth Teachers Retirement Fund Association (DTRFA). Provisions include a change in future retirement benefit increases for all MSRS, all PERA, TRA, DTRFA and SPTRFA plans. The MSRS State patrol plan, PERA general, the PERA police and fire, TRA, DTRFA and SPTRFA plans also include both employer and employee contribution rate increases. Various other provisions including a change in refund interest rate, change in deferred annuities augmentation rate and increased vesting periods are included for some plans as a means to reduce future unfunded liabilities.
- The legislation provides for the administrative consolidation of the closed Minneapolis Employee Retirement Fund (MERF) and the Public Employees Retirement Association (PERA). MERF assets and liabilities are to remain separate from PERA until fiscal year end market value of assets of the MERF account equals or exceeds 80 percent of the actuarial accrued liability of the MERF account. The legislation also increases the annual State contribution to the MERF account from \$9,000,000 annually to \$22,750,000 in each FY 2012 and 2013 and \$24,000,000 each year thereafter through FY 2031. Beginning in FY 2013 the annual additional employer supplemental contribution will be a minimum of \$27,000,000 and a maximum of \$34,000,000.
- The 2010 legislature passed into law an early retirement incentive for eligible State employees. The incentive includes up to 24 months of health insurance payments in to a health care savings account for an employee who is granted the incentive. This provision is at the discretion of both the employee's agency and the Commissioner of Management and Budget. This proposal is expected to either have zero cost or generate budgetary savings.
- The 2010 legislation extends the amortization date for MSRS State Employees Fund from 2020 to 2040.
- A class action lawsuit was filed in May 2010, against the State's pension funds challenging 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. See "Litigation" herein.

## **Postemployment benefits other than pensions**

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. The employees involved are primarily conservation officers, correctional counselors at State correctional facilities, and highway patrol officers. 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. As of July 1, 2008, the most recent actuarial valuation, the unfunded actuarial accrued liability was \$757 million, and is being amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2009 is \$74 million.

# APPENDIX C

## State Debt

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## STATE DEBT

### STATE GENERAL OBLIGATION LONG-TERM DEBT (Unaudited, in thousands)

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of the date of issuance of the Bonds.

| <u>Category</u> | <u>Type</u>   | <u>Principal<br/>Amount</u> |                  |
|-----------------|---|-----------------------------|------------------|
| 1               | Building  | 62,740                      |                  |
|                 | Transportation  | 239,003                     |                  |
|                 | Pollution Control   | 4,660                       |                  |
|                 | Waste Management  | 145                         |                  |
|                 | Refunding Bonds   | 981,900                     |                  |
|                 | Infrastructure Development Bonds  | 102,215                     |                  |
|                 | Various Purpose   | <u>3,262,032</u>            |                  |
|                 | Total Category 1  |                             | 4,652,695        |
| 2               | School Loan   | 52,975                      |                  |
|                 | School Loan Refunding   | 6,070                       |                  |
|                 | Municipal Energy Building   | 60                          |                  |
|                 | Rural Farm Authority  | <u>67,500</u>               |                  |
|                 | Total Category 2  |                             | 126,605          |
| 3               | Trunk Highway   | <u>860,430</u>              |                  |
|                 | Total Category 3  |                             | <u>860,430</u>   |
|                 | Total Outstanding September 2, 2010                                       |                             | <u>5,639,730</u> |
| 1               | Plus Series 2010D Bonds   | 687,115                     |                  |
| 3               | Plus Series 2010E Bonds   | 220,670                     |                  |
| 1               | Less Various Purpose Refunded Bonds                                       | (631,850)                   |                  |
| 3               | Less Trunk Highway Refunded Bonds   | <u>(201,820)</u>            |                  |
|                 | Total Outstanding as of the Date of the<br>Bonds - Including These Issues |                             | 5,713,845        |

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 Category 1 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 Category 2 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 Category 3,

Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 58.9 percent of the net proceeds of the State fuel, motor vehicle registration taxes, and a portion of the motor vehicle sales tax, pursuant to the State Constitution and related statutory provisions.

**GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED**

**September 2, 2010**

(\$ in Thousands)

| <u>Purpose of Issue</u> | <u>Law Authorizing</u>       | <u>Total</u><br><u>Authorization</u><br><u>(1)(2)</u> | <u>Previously</u><br><u>Issued</u> | <u>Remaining</u><br><u>Authorization</u> |
|-------------------------|------------------------------|---|------------------------------------|--|
| Building                | 1990, Ch. 610                | \$270,129.1   | \$270,126.0                        | \$3.1                                    |
| Building                | 1994, Ch. 643                | 523,874.5   | 523,849.0                          | \$25.5                                   |
| Building                | X1997, Ch. 2                 | 37,432.0  | 37,335.0                           | \$97.0                                   |
| Building                | 1999, Ch. 240                | 439,437.0   | 438,865.0                          | \$572.0                                  |
| Various Purpose         | 2000, Ch. 492                | 527,684.6   | 519,170.0                          | \$8,514.6                                |
| Various Purpose         | X2001, Ch. 12                | 116,758.7   | 115,446.0                          | \$1,312.7                                |
| Various Purpose         | 2002, Ch. 374                | 74,017.0  | 74,017.0                           | \$0.0                                    |
| Various Purpose         | 2002, Ch. 393                | 600,831.8   | 598,605.0                          | \$2,226.8                                |
| Various Purpose         | X2002, Ch. 1                 | 15,273.0  | 15,055.0                           | \$218.0                                  |
| Trunk Highway           | X2003, Ch. 19, Art.3         | 400,191.4   | 399,990.0                          | \$201.4                                  |
| Trunk Highway           | X2003, Ch. 19, Art.4         | 106,026.5   | 105,700.0                          | \$326.5                                  |
| Various Purpose         | 2005, Ch. 20                 | 941,297.4   | 920,079.0                          | \$21,218.4                               |
| Various Purpose         | 2006, Ch. 258                | 1,002,855.2   | 958,975.0                          | \$43,880.2                               |
| Various Purpose         | X2007, Ch. 2                 | 53,971.7  | 35,845.0                           | \$18,126.7                               |
| Trunk Highway           | X2007, Ch. 2                 | 20,020.0  | 19,085.0                           | \$935.0                                  |
| Trunk Highway           | 2008, Ch. 152                | 1,783,300.0   | 393,975.0                          | \$1,389,325.0                            |
| Transportation          | 2008, Ch. 152                | 60,060.0  | 52,500.0                           | \$7,560.0                                |
| Various Purpose         | 2008, Ch. 179                | 800,869.3   | 698,947.0                          | \$101,922.3                              |
| Various Purpose         | 2008, Ch. 365                | 105,500.0   | 91,730.0                           | \$13,770.0                               |
| Trunk Highway           | 2009, Ch. 36                 | 40,000.0  | 5,000.0                            | \$35,000.0                               |
| Various Purpose         | 2009, Ch. 93                 | 258,865.0   | 187,500.0                          | \$71,365.0                               |
| Trunk Highway           | 2009, Ch. 93                 | 2,705.0   | 2,700.0                            | \$5.0                                    |
| Various Purpose         | 2010, Ch. 189 <sup>(3)</sup> | 1,074,865.0   | 315,000.0                          | \$759,865.0                              |
| Trunk Highway           | 2010, Ch. 189 <sup>(3)</sup> | 32,945.0  | 12,000.0                           | \$20,945.0                               |
| Trunk Highway           | 2010, Ch. 388                | <u>100,100.0</u>                                      | <u>0.0</u>                         | <u>100,100.0</u>                         |
| Totals                  |                              | \$9,389,009.4   | \$6,791,494.0                      | \$2,597,515.4                            |

(1) Amount as shown reflects any amendments by subsequent session laws.

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner 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.

(3) The Governor vetoed \$361,460,000 of appropriations for various purpose capital projects and \$6,500,000 for Trunk Highway projects to be funded from Laws 2010, Chapter 189. The Governor will request that the bond authorization be reduced to match the appropriations in the 2011 Legislative Session.

X indicates Special Session Laws.



**Total State General Obligation Bonds Outstanding by Series  
as of September 2, 2010 (not including the Bonds)  
(\$ in thousands)**

| Bond Issue                                | Original Principal |               | Final Maturity | Interest Rate Range Outstanding | Outstanding Principal 06/30/2010 |               | Outstanding Principal 9/02/2010 |               |
|---|--------------------|---------------|----------------|---------------------------------|----------------------------------|---------------|---------------------------------|---------------|
|   | Various Purpose    | Trunk Highway |                |                                 | Various Purpose                  | Trunk Highway | Various Purpose                 | Trunk Highway |
| Series Dated November 1, 2000             | \$ 255,000         | \$ 30,000     | 2010           | 5.50%                           | \$ 14,675                        | \$ 1,500      | \$ 14,675                       | \$ 1,500      |
| Series Dated October 1, 2001              | 330,000            | 25,000        | 2011           | 5.00%                           | 32,700                           | 2,500         | 32,700                          | 2,500         |
| Series Dated October 1, 2001 (Taxable)    | 4,000              | -             | 2011           | 5.60%                           | 2,000                            | -             | 2,000                           | -             |
| Series Dated June 1, 2002                 | 277,405            | 30,000        | 2021           | 5.00%                           | 119,300                          | 18,900        | 105,700                         | 17,325        |
| Series Dated November 1, 2002             | 267,000            | 13,000        | 2022           | 5.00% - 5.25%                   | 83,550                           | 8,450         | 83,550                          | 8,450         |
| Series Dated June 1, 2003 (Refunding)     | 391,680            | -             | 2013           | 4.00% - 5.00%                   | 80,050                           | -             | 50,000                          | -             |
| Series Dated August 1, 2003               | 296,645            | 142,500       | 2023           | 5.00%                           | 196,145                          | 99,750        | 181,445                         | 92,625        |
| Series Dated August 1, 2003 (Refunding)   | 20,855             | -             | 2012           | 5.00%                           | 7,545                            | -             | 4,995                           | -             |
| Series Dated August 1, 2004               | 219,900            | 80,100        | 2024           | 5.00%                           | 162,300                          | 60,075        | 151,480                         | 56,070        |
| Series Dated November 1, 2004             | 180,000            | 40,000        | 2024           | 5.00%                           | 131,625                          | 30,000        | 131,625                         | 30,000        |
| Series Dated November 1, 2004 (Refunding) | 171,880            | -             | 2024           | 5.00%                           | 100,830                          | -             | 100,830                         | -             |
| Series Dated October 3, 2005              | 285,400            | 111,600       | 2025           | 5.00%                           | 220,820                          | 89,280        | 220,820                         | 89,280        |
| Series Dated October 3, 2005 (Refunding)  | 160,960            | -             | 2025           | 5.00%                           | 108,645                          | -             | 108,645                         | -             |
| Series Dated February 1, 2006 (Taxable)   | 3,000              | -             | 2013           | 3.50%                           | 3,000                            | -             | 3,000                           | -             |
| Series Dated August 1, 2006               | 289,450            | 55,550        | 2026           | 5.00%                           | 220,010                          | 42,200        | 220,010                         | 42,200        |
| Series Dated November 1, 2006             | 327,000            | 73,000        | 2026           | 5.00%                           | 266,325                          | 59,320        | 266,325                         | 59,320        |
| Series Dated August 1, 2006 (Taxable)     | 3,500              | -             | 2013           | 5.00%                           | 3,500                            | -             | 3,500                           | -             |
| Series Dated April 25, 2007               | 264,050            | -             | 2018           | 5.00%                           | 227,505                          | -             | 199,440                         | -             |
| Series Dated August 14, 2007              | 656,000            | 14,000        | 2027           | 5.00%                           | 582,230                          | 12,420        | 545,345                         | 11,630        |
| Series Dated August 14, 2007 (Taxable)    | 8,000              | -             | 2012           | 5.00% - 5.25%                   | 8,000                            | -             | 4,000                           | -             |
| Series 2008A August 5, 2008               | 275,000            | -             | 2028           | 4.625% - 5.00%                  | 239,050                          | -             | 239,050                         | -             |
| Series 2008B August 5, 2008               | -                  | 33,500        | 2028           | 3.25% - 5.00%                   | -                                | 29,070        | -                               | 29,070        |
| Series 2008C August 5, 2008 (Refunding)   | 155,415            | -             | 2019           | 5.00%                           | 145,450                          | -             | 128,465                         | -             |
| Series 2009A January 29, 2009             | 325,000            | -             | 2028           | 3.00% - 5.00%                   | 308,275                          | -             | 308,275                         | -             |
| Series 2009B January 29, 2009             | -                  | 70,000        | 2028           | 3.00% - 4.375%                  | -                                | 66,100        | -                               | 66,100        |
| Series 2009C January 29, 2009 (Taxable)   | 5,000              | -             | 2013           | 3.25%                           | 5,000                            | -             | 5,000                           | -             |
| Series 2009D August 26, 2009              | 192,275            | -             | 2029           | 2.00% - 5.00%                   | 192,275                          | -             | 182,830                         | -             |
| Series 2009E August 26, 2009              | -                  | 80,000        | 2029           | 4.00% - 5.00%                   | -                                | 80,000        | -                               | 76,000        |
| Series 2009F August 26, 2009 (Refunding)  | 297,750            | -             | 2021           | 4.00% - 5.00%                   | 297,750                          | -             | 295,200                         | -             |
| Series 2009G August 26, 2009 (Refunding)  | -                  | 28,360        | 2021           | 2.00% - 5.00%                   | -                                | 28,360        | -                               | 28,360        |
| Series 2009H November 5, 2009             | 443,000            | -             | 2029           | 2.00% - 5.00%                   | 443,000                          | -             | 443,000                         | -             |
| Series 2009I November 5, 2009             | -                  | 25,000        | 2029           | 2.00% - 5.00%                   | -                                | 25,000        | -                               | 25,000        |
| Series 2009J November 5, 2009 (Taxable)   | 7,000              | -             | 2014           | 3.125%                          | 7,000                            | -             | 7,000                           | -             |
| Series 2009K November 5, 2009 (Refunding) | 100,395            | -             | 2022           | 2.00% - 5.00%                   | 100,395                          | -             | 100,395                         | -             |
| Series 2010A August 19, 2010              | 635,000            | -             | 2030           | 3.00% - 5.00%                   | -                                | -             | 635,000                         | -             |
| Series 2010B August 19, 2010              | -                  | 225,000       | 2030           | 4.00% - 5.00%                   | -                                | -             | -                               | 225,000       |
| Series 2010C August 19, 2010 (Taxable)    | 5,000              | -             | 2015           | 3.00%                           | -                                | -             | 5,000                           | -             |
| Totals for Date:                          |                    |               |                |                                 | \$ 4,308,950                     | \$ 652,925    | \$ 4,779,300                    | \$ 860,430    |

The following table shows all debt service payments for outstanding general obligation bonds as of September 2, 2010, not including the Bonds.

**DEBT SERVICE PAYMENTS ON GENERAL OBLIGATION BONDS**  
**as of September 2, 2010**  
**(\$ in thousands)**

| Fiscal<br>Year | General Fund        |                     |                     | Trunk Highway Fund |                   |                     |
|----------------|---------------------|---------------------|---------------------|--------------------|-------------------|---------------------|
|                | Principal           | Interest            | Total               | Principal          | Interest          | Total               |
| 2011           | \$ 206,240          | \$ 165,016          | \$ 371,256          | \$ 26,670          | \$ 26,854         | \$ 53,524           |
| 2012           | 400,735             | 212,439             | 613,174             | 54,685             | 37,073            | 91,758              |
| 2013           | 408,770             | 193,454             | 602,224             | 54,220             | 34,627            | 88,847              |
| 2014           | 378,105             | 174,174             | 552,279             | 53,520             | 32,222            | 85,742              |
| 2015           | 367,665             | 156,262             | 523,927             | 53,270             | 29,773            | 83,043              |
| 2016           | 338,480             | 139,280             | 477,760             | 53,195             | 27,279            | 80,474              |
| 2017           | 306,050             | 123,608             | 429,658             | 52,750             | 24,759            | 77,509              |
| 2018           | 295,440             | 108,932             | 404,372             | 52,235             | 22,292            | 74,527              |
| 2019           | 271,135             | 95,047              | 366,182             | 51,850             | 19,849            | 71,699              |
| 2020           | 261,075             | 82,092              | 343,167             | 51,275             | 17,408            | 68,683              |
| 2021           | 232,345             | 69,917              | 302,262             | 50,775             | 14,952            | 65,727              |
| 2022           | 220,165             | 58,609              | 278,774             | 49,280             | 12,544            | 61,824              |
| 2023           | 197,350             | 48,171              | 245,521             | 46,450             | 10,294            | 56,744              |
| 2024           | 183,610             | 38,714              | 222,324             | 45,800             | 8,188             | 53,988              |
| 2025           | 170,015             | 30,106              | 200,121             | 38,675             | 6,256             | 44,931              |
| 2026           | 150,420             | 22,374              | 172,794             | 32,670             | 4,646             | 37,316              |
| 2027           | 125,095             | 15,446              | 140,541             | 24,685             | 3,337             | 28,022              |
| 2028           | 111,020             | 9,780               | 120,800             | 21,490             | 2,374             | 23,864              |
| 2029           | 69,800              | 5,197               | 74,997              | 19,435             | 1,495             | 20,930              |
| 2030           | 54,260              | 2,400               | 56,660              | 16,250             | 775               | 17,025              |
| 2031           | 31,525              | 631                 | 32,156              | 11,250             | 225               | 11,475              |
|                | <u>\$ 4,779,300</u> | <u>\$ 1,751,647</u> | <u>\$ 6,530,947</u> | <u>\$ 860,430</u>  | <u>\$ 337,222</u> | <u>\$ 1,197,652</u> |

For additional information on General Obligation bonds and other long term liabilities of the State, refer to the State Financial Statements in Appendix F.

- Footnote 10 – Long-Term Commitments (see pages F-80 through F-81)
- Footnote 11 – Operating Lease Agreements (see page F-81 through F-82)
- Footnote 12 – Long-term Liabilities (see pages F-83 through F-92).

The following table shows the net debt service transfer amounts for the last eleven fiscal years.

**Net Amount Transferred to Debt Service Fund  
for General Obligation Bonds Debt Service  
(\$ in thousands)**

| In Fiscal<br>Year | General<br>Fund | Trunk<br>Highway<br>Fund | All<br>Other<br>Funds* | Transfer<br>Total |
|-------------------|-----------------|--------------------------|------------------------|-------------------|
| 1999              | \$286,495       | \$5,149                  | \$15,296               | \$306,940         |
| 2000              | 255,037         | 3,744                    | 12,500                 | 271,281           |
| 2001              | 304,994         | 6,352                    | 11,963                 | 323,309           |
| 2002              | 285,553         | 7,449                    | 11,989                 | 304,991           |
| 2003              | 295,441         | 8,823                    | 35,135                 | 339,399           |
| 2004              | 265,706         | 16,289                   | 57,676                 | 339,671           |
| 2005              | 323,453         | 27,207                   | 43,561                 | 393,921           |
| 2006              | 352,337         | 36,347                   | 40,566                 | 429,250           |
| 2007              | 399,651         | 53,752                   | 42,696                 | 496,099           |
| 2008              | 409,276         | 52,170                   | 41,524                 | 502,970           |
| 2009              | 452,762         | 59,542                   | 47,375                 | 559,679           |
| 2010              | 429,098         | 70,542                   | 50,783                 | 550,423           |

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\*The major portion of the All Other Funds category is made up of the debt service funding requirement paid by the higher education systems of the University of Minnesota and the Minnesota State Colleges and Universities.

The Net Transfer amount is net of investment earnings in the Debt Service Fund and the Bond Proceeds Fund and bond premiums received from new bond issuances which are also appropriated to pay debt service on State general obligation bonds.

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## **CAPITAL INVESTMENT GUIDELINES**

Minnesota Statutes Section 16A.105 requires the Commissioner of Minnesota Management and Budget to prepare a debt capacity forecast to be delivered to the governor and legislature in November of each year.

On December 22, 2009, Minnesota Management and Budget adopted new Capital Investment Guidelines. These new guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations<sup>(1)</sup> are recognized; and
- Continue Minnesota's conservative financial management practices.

The new capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25% or less of total State personal income.
2. Total amount of principal (both issued, and authorized but unissued) for State general obligations, State moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of State personal income.
3. 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and market conditions.

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<sup>1</sup> Tax-supported debt obligations includes all of the State's general obligation bonds and the obligations summarized under "CONTINGENT LIABILITIES," in the descriptions titled "State Standing Appropriations," "Lease Purchase Financing for Equipment," and "Lease Purchase Financing for Real Estate" in this Appendix C.

## 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 2010 valuation, was estimated by the Commissioner of Revenue to be \$564,808,000,000. 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)

| Year of<br>Assessment | Real<br>Property | Personal<br>Property | Total<br>Market Value | Percentage<br>Increase<br>from Prior Year |
|-----------------------|------------------|----------------------|-----------------------|---|
| 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                  | 459,506,046      | 4,807,666            | 464,313,712           | 12.74                                     |
| 2006                  | 513,771,733      | 4,965,234            | 518,736,967           | 11.72                                     |
| 2007                  | 556,559,833      | 5,051,289            | 561,611,123           | 8.27                                      |
| 2008                  | 576,128,000      | 5,259,000            | 581,387,000           | 3.52                                      |
| 2009                  | 577,698,000      | 5,511,000            | 583,209,000           | 0.71                                      |
| 2010                  | 558,244,000      | 5,564,000            | 564,808,000           | -3.16                                     |

## 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 September 2, 2010, is set forth below.

*Minnesota Housing Finance Agency (MHFA).* The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. Its enabling legislation authorizes the MHFA to issue bonds and notes for any of its authorized purposes but the aggregate principal amount outstanding at any instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to \$5.0 billion. The proceeds of 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 acquisition, construction and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds may be general or limited 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, and the Governor must include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized, *but is not legally obligated*, to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. The MHFA has never needed to certify a deficiency to the Governor.

The following table lists the principal amounts of indebtedness which were outstanding as of September 2, 2010:

**Minnesota Housing Finance Agency  
Debt Outstanding as of September 2, 2010**

|                                   | Number<br>of Series | Final Maturity | Original Principal<br>Amount<br>(in thousands) | Outstanding<br>Principal<br>Amount<br>(in thousands) |
|-----------------------------------|---------------------|----------------|--|--|
| <i>General Obligation Bonds:</i>  |                     |                |  |  |
| Rental Housing.....               | 23                  | 2047           | \$473,770                                      | \$145,720  |
| Residential Housing Finance ..... | 64                  | 2048           | 2,191,280                                      | 1,700,645  |
| Single Family Mortgage.....       | 24                  | 2035           | 505,215  | 105,380  |
| General Obligation Subtotals      | 111                 |                | \$3,170,265                                    | \$1,951,745  |
| <i>Limited Debt Obligations:</i>  |                     |                |  |  |
| Homeownership Finance Bonds* ..   | 1                   | 2041           | \$276,490                                      | \$276,490  |
| Multifamily Housing Bonds.....    | 1                   | 2051           | 15,000   | 15,000   |
| Limited Obligation Notes.....     | 1                   | 2010           | 332,255  | \$332,355  |
| Conduit Multifamily Revenue Bonds | 1                   | 2036           | 33,250   | 31,360   |
| Other Debt Obligation Subtotals   | 4                   |                | \$657,095                                      | \$655,205  |
| MHFA Total Debt Outstanding       | 115                 |                | \$3,827,360                                    | \$2,606,950  |

\* MHFA has authorized the issuance of an additional series of Homeownership Finance Bonds in an aggregate principal amount up to \$80 million and expects to issue the bonds on October 21, 2010.

The general obligation bonds are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above. The other debt obligations are general or limited obligations of the MHFA and subject to the MHFA's \$5 billion debt limit, but are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation. See "Contingent Liabilities- State Standing Appropriation" for additional information concerning other debt issued by MHFA.

*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 September 2, 2010 will be \$870,621,938. 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. See "Contingent Liabilities- State Standing Appropriation" for additional information concerning other debt issued by the University of Minnesota.

*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 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 September 2, 2010, MOHE will have \$590,100,000 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 September 2, 2010, the MnSCU will have \$155,545,000 tax exempt bonds and \$19,185,000 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 \$3,419,381 and the other for \$12,820,000. 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, as amended, authorizes 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 \$1,300,000,000. As of September 2, 2010, the MHEFA will have \$952,693,612 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. Each issue is payable solely from and secured by any reserve funds and a loan repayments obligation 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 September 2, 2010, the MSABC will have \$3,350,000 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 Rural Finance Authority (RFA).* In 1986 the Legislature created the Minnesota Rural Finance Authority 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 September 2, 2010, the RFA has no revenue bonds outstanding for these programs.

The Commissioner is authorized to issue up to \$171.1 million in State general obligation bonds to finance certain programs of the RFA and has issued \$167.6 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 September 2, 2010, the RFA had issued \$34,910,000 of revenue bonds for these programs.

*Minnesota Public Facilities Authority (MPFA).* The MPFA was established in 1987 and is governed by Minnesota Statutes, Chapter 446A which authorizes it to make loans to local government units. As of September 2, 2010, the MPFA will have \$776,810,000 Water Pollution Control Revenue Bonds outstanding, \$146,280,000 Drinking Water Revenue Bonds outstanding, and \$22,415,000 Transportation Revenue Bonds outstanding, for a total outstanding principal amount of \$945,505,000. 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 \$1,500,000,000, excluding bonds issued under Minnesota Statutes, Section 446.087.

*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 September 2, 2010, MAEDB will have outstanding \$6,565,000 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 \$459,439,745 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 (IRR).* The IRR 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 IRR is authorized to issue revenue bonds to accomplish the promotion of economic development. As of September 2, 2010, the IRR will have \$10,485,000 of bonds outstanding to finance the Giant's Ridge Recreation Area.

*Minnesota Department of Management and Budget.* 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 sold \$29,000,000 of the revenue bonds in June 2000. As of September 2, 2010, there will be \$24,275,000 of Minnesota State Retirement System bonds outstanding.



The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to \$62.5 million of State revenue bonds. These revenue bonds are to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The 2007 Legislature authorized an additional \$186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner sold \$35,000,000 of the revenue bonds in November 2006, an additional \$42,205,000 of revenue bonds in November 2008 and an additional \$60,510,000 of revenue bonds in October, 2009. It is expected that as of September 2, 2010 there will be \$116,385,000 of the 911 Revenue Bonds outstanding.

## **CONTINGENT LIABILITIES**

### **State Standing Appropriations**

Below is a description of standing appropriations from the General Fund. Pursuant to Minnesota law, each of these standing appropriations may be reduced or repealed entirely by a majority vote of the legislature and is subject to unallotment under Minnesota Statutes, Section 16A.152.

*Minnesota Department of Management and Budget.* The 2009 Minnesota Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State certificates of participation ("COP's"). These COP's were issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system; (ii) the acquisition, development and implementation of an integrated tax software project and (iii) the payment of all fees and expenses incurred in connection to the issuance of the COP's. As of September 2, 2010, there will be \$73,980,000 of the COP's outstanding.

*University of Minnesota.* The Minnesota Legislature has approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the "U of M"). In 2006, the legislature appropriated from the General Fund \$10.25 million in each of not more than 25 years, beginning in 2008, to the U of M for the payment of revenue bonds issued by the U of M to finance the stadium. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M.

The Minnesota Legislature has approved State financial assistance for up to four Biomedical Science Research Facilities for the U of M. In 2008, the Legislature appropriated from the General Fund amounts ranging from \$850,000 to \$15.55 million in each year beginning in 2010, for up to 25 years after certification of the last facility, to the U of M for the payment of revenue bonds issued by the U of M to finance the facilities. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. U of M anticipates issuing \$147,200,000 in bonds for the Biomedical Science Research Facilities on September 29, 2010.

*Minnesota Housing Finance Agency (MHFA).* The Minnesota Legislature created a program to finance the construction, acquisition, preservation, and rehabilitation of permanent supportive housing for individuals and families who are homeless or at risk of homelessness. In 2008, the legislature appropriated from the General Fund up to \$2.4 million per year in each of 20 years, beginning in 2009, to MHFA for the payment of qualified 501(c)(3) bonds issued by MHFA for affordable housing. MHFA issued \$13,260,000 in bonds to finance this program on October 8, 2009.

### **Lease Purchase Financing For Equipment**

The Commissioner 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, 2010, principal in the amount of \$17,167,384 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 moneys are appropriated from time to time for this purpose.

Various State agencies, with the Commissioner'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 September 2, 2010, principal in the amount of \$3,846,198 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.

### **Lease Purchase Financing For Real Estate**

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 \$8,275,000 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. In September 2008 the city of Bemidji issued refunding bonds for this project. As of August 1, 2009, \$6,395,000 of the bonds will remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The savings on the debt service due to the refunding bond issue will reduce the State's annual rent payments. The State's obligation to make rent payments is not a general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent moneys are appropriated from time to time for this purpose. The legislature has appropriated from the General Fund up to \$700,000 per year in each of 20 years, beginning in 2002.

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, of which \$157,055,000 will be outstanding, on September 2, 2010. In August 2008 the amount of \$3,210,000 was defeased thereby reducing the State's liability. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The legislature appropriates an annual rental payment from the General Fund up to \$13.5 million per year in each of 20 years, beginning in 2004.

### **School District Credit Enhancement Program**

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner, 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 and intermediate school district certificates of indebtedness issued under Minnesota Statutes, Section 126C.52, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40 Subdivision 6, and school district and intermediate school district general obligation bonds, in the event that the school district or intermediate 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 or intermediate school district are required to be repaid by it with interest, by a reduction in State aid payable to the school district or intermediate school district or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education. Furthermore, the State is subrogated to the rights of a school district or intermediate school district in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the district in full.

Under Minnesota Statutes, Section 126C.52, school districts and intermediate 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 June 30, 2010, there were approximately \$212 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 and intermediate 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 and intermediate 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 ten years, and are payable from school district and intermediate 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 such school districts, but are payable from taxes levied annually in amounts necessary to pay the amounts due thereunder.

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate 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 June 30, 2010 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 \$12.0 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 outstanding as of June 30, 2010 is about \$1.8 billion, with the maximum amount of principal and interest payable in any one month being \$564 million.

The State has not had to make any debt service payments on behalf of school districts or intermediate 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 and intermediate school districts.

Minnesota Laws 2005, Chapter 152, Article 1, Section 39, as amended by Minnesota Laws 2006, Chapter 259, Article 12, Section 15, provides that the Commissioner of Iron Range Resources shall issue revenue bonds payable from certain taconite production tax revenues in a total principal amount of \$15,000,000, plus costs of issuance relating thereto, for the purpose of making grants to school districts located in the taconite relief area or taconite assistance area, as statutorily defined, to be used by such school districts for health, safety, and maintenance improvements. Bonds issued under this program are debt obligations subject to the school district credit enhancement program,

provided that advances made by the State are not subject to the provisions of the school district credit enhancement program requiring the levy of an ad valorem tax by affected school districts in order to repay the State. The Commissioner of the Iron Range Resources issued \$15,145,000 of the bonds in July, 2006 and as of September 2, 2010 there will be \$12,900,000 of the bonds outstanding.

### **City and County Credit Enhancement Program**

Minnesota Statutes, Section 446A.086 (formerly Section 373.45), establishes a city and county bond credit enhancement program. The law authorizes and directs the Commissioner, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Minnesota Public Facilities Authority ("MPFA") to pay debt service coming due on: (a) county general obligation bonds, bonds to which the general obligation of a county has been pledged, and certain lease obligations, to provide funds for the construction of (i) jails, (ii) correctional facilities, (iii) law enforcement facilities, (iv) social services and human services facilities; (v) solid waste facilities; or (vi) qualified housing development projects; or (b) city or county general obligation bonds to provide funds for the construction, improvement, or rehabilitation of (i) wastewater facilities, (ii) drinking water facilities, (iii) stormwater facilities, or (iv) any publicly owned building or infrastructure improvement that has received partial funding from grants awarded by the Commissioner of Employment and Economic Development related to redevelopment, contaminated site cleanup, bioscience, small cities development programs, and rural business infrastructure programs, for which bonds are issued by the MPFA under Minnesota Statutes, Section 446A.087. See "Minnesota Public Facilities Authority (MPFA)" in this Appendix C for more information on MPFA bonds that may be credit enhanced under this program

To be eligible for the program, a city or county must have entered into an agreement with the MPFA, which requires notifications to the MPFA by the city or county or paying agent when funds are not sufficient to timely pay all or a portion of debt service on obligations issued under the program. The MPFA must notify the Commissioner of potential defaults, and the Commissioner then must issue a warrant and authorize the MPFA to pay to the bondholders or paying agent the amount necessary to pay in full debt service on credit-enhanced bonds when due. The law appropriates annually from the General Fund to the MPFA the amounts needed to pay any warrants issued by the Commissioner for this purpose. The amount of debt outstanding under this program may not exceed \$1,000,000,000.

The amounts paid on behalf of any city or county are required to be repaid to the State 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 MPFA, or will be made mandatory by the MPFA if the State is not repaid in full by November 30 of the following calendar year. Furthermore, the State is subrogated to the rights of a city or county in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the city or county in full.

As of June 30, 2010, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2033, is approximately \$425.5 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 Fiscal Year the total amount of principal and interest outstanding as of June 30, 2010, is \$33.9 million with the maximum amount of principal and interest payable in any one month being \$16.3 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 on behalf of cities or counties 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 cities or counties.

## **APPENDIX D**

### **Bonds to be Refunded**

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## SCHEDULE OF BONDS BEING REFUNDED

### Various Purpose Refunding Bonds:

Proceeds of the Series 2010D Bonds will be used to refund the following bonds.

General Obligation State Various Purpose Bonds dated June 1, 2002, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2013 will be called for redemption and prepayment on August 1, 2012 at par plus accrued interest.

| Maturing | Principal Amount | Interest Rate | CUSIP*    |
|----------|------------------|---------------|-----------|
| 8/1/2011 | \$13,600,000     | 5.000%        | 6041283E6 |
| 8/1/2012 | 16,500,000       | 5.000%        | 6041283F3 |
| 8/1/2013 | 8,400,000        | 5.000%        | 6041283G1 |
| 8/1/2014 | 8,400,000        | 5.000%        | 6041283H9 |
| 8/1/2015 | 8,400,000        | 5.000%        | 6041283J5 |
| 8/1/2016 | 8,400,000        | 5.000%        | 6041283K2 |
| 8/1/2017 | 8,400,000        | 5.000%        | 6041283L0 |
| 8/1/2018 | 8,400,000        | 5.000%        | 6041283M8 |
| 8/1/2019 | 8,400,000        | 5.000%        | 6041283N6 |
| 8/1/2020 | 8,400,000        | 5.000%        | 6041283P1 |
| 8/1/2021 | 8,400,000        | 5.000%        | 6041283Q9 |
| Total    | \$105,700,000    |               |           |

\*The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Various Purpose Bonds dated November 1, 2002, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1 2013 will be called for redemption and prepayment on November 1, 2012 at par plus accrued interest.

| Maturing  | Principal Amount | Interest Rate | CUSIP*    |
|-----------|------------------|---------------|-----------|
| 11/1/2011 | \$13,175,000     | 5.250%        | 6041284E5 |
| 11/1/2012 | 17,675,000       | 5.250%        | 6041284F2 |
| 11/1/2013 | 13,175,000       | 5.250%        | 6041284G0 |
| 11/1/2014 | 13,175,000       | 5.250%        | 6041284H8 |
| 11/1/2015 | 13,175,000       | 5.250%        | 6041284J4 |
| Total     | \$70,375,000     |               |           |

\*The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Various Purpose Bonds dated August 1, 2003, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2014 will be called for redemption and prepayment on August 1, 2013 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 8/1/2011        | \$14,700,000            | 5.000%               | 6041285T1     |
| 8/1/2012        | 14,700,000              | 5.000%               | 6041285U8     |
| 8/1/2013        | 13,655,000              | 5.000%               | 6041285V6     |
| 8/1/2014        | 13,900,000              | 5.000%               | 6041285W4     |
| 8/1/2015        | 13,900,000              | 5.000%               | 6041285X2     |
| 8/1/2016        | 13,900,000              | 5.000%               | 6041285Y0     |
| 8/1/2017        | 13,900,000              | 5.000%               | 6041285Z7     |
| 8/1/2018        | 13,900,000              | 5.000%               | 6041286A1     |
| 8/1/2019        | 13,900,000              | 5.000%               | 6041286B9     |
| 8/1/2020        | 13,900,000              | 5.000%               | 6041286C7     |
| 8/1/2021        | 13,900,000              | 5.000%               | 6041286D5     |
| 8/1/2022        | 13,595,000              | 5.000%               | 6041286E3     |
| 8/1/2023        | 13,595,000              | 5.000%               | 6041286F0     |
| <b>Total</b>    | <b>\$181,445,000</b>    |                      |               |

\* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Various Purpose Bonds dated August 1, 2004, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2015 will be called for redemption and prepayment on August 1, 2014 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 8/1/2011        | \$10,820,000            | 5.000%               | 6041286X1     |
| 8/1/2012        | 10,820,000              | 5.000%               | 6041286Y9     |
| 8/1/2013        | 10,820,000              | 5.000%               | 6041286Z6     |
| 8/1/2014        | 10,820,000              | 5.000%               | 6041287A0     |
| 8/1/2015        | 10,820,000              | 5.000%               | 6041287B8     |
| 8/1/2016        | 10,820,000              | 5.000%               | 6041287C6     |
| 8/1/2017        | 10,820,000              | 5.000%               | 6041287D4     |
| 8/1/2018        | 10,820,000              | 5.000%               | 6041287E2     |
| 8/1/2019        | 10,820,000              | 5.000%               | 6041287F9     |
| 8/1/2020        | 10,820,000              | 5.000%               | 6041287G7     |
| 8/1/2021        | 10,820,000              | 5.000%               | 6041287H5     |
| 8/1/2022        | 10,820,000              | 5.000%               | 6041287J1     |
| 8/1/2023        | 10,820,000              | 5.000%               | 6041287K8     |
| 8/1/2024        | 10,820,000              | 5.000%               | 6041287L6     |
| <b>Total</b>    | <b>\$151,480,000</b>    |                      |               |

\* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.



General Obligation State Various Purpose Bonds dated November 1, 2004, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2015 will be called for redemption and prepayment on November 1, 2014 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 11/1/2011       | \$8,775,000             | 5.000%               | 6041287V4     |
| 11/1/2012       | 8,775,000               | 5.000%               | 6041287W2     |
| 11/1/2013       | 8,775,000               | 5.000%               | 6041287X0     |
| 11/1/2014       | 8,775,000               | 5.000%               | 6041287Y8     |
| 11/1/2015       | 8,775,000               | 5.000%               | 6041287Z5     |
| 11/1/2016       | 8,775,000               | 5.000%               | 6041288A9     |
| 11/1/2017       | 8,775,000               | 5.000%               | 6041288B7     |
| 11/1/2018       | 8,775,000               | 5.000%               | 6041288C5     |
| 11/1/2019       | 8,775,000               | 5.000%               | 6041288D3     |
| 11/1/2020       | 8,775,000               | 5.000%               | 6041288E1     |
| 11/1/2021       | 8,775,000               | 5.000%               | 6041288F8     |
| 11/1/2022       | 8,775,000               | 5.000%               | 6041288G6     |
| 11/1/2023       | 8,775,000               | 5.000%               | 6041288H4     |
| 11/1/2024       | 8,775,000               | 5.000%               | 6041288J0     |
| <b>Total</b>    | <b>\$122,850,000</b>    |                      |               |

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#### **Trunk Highway Refunding Bonds:**

Proceeds of the Series 2010E Bonds will be used to refund the following bonds.

General Obligation State Trunk Highway Bonds dated June 1, 2002, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2013 will be called for redemption and prepayment on August 1, 2012 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 8/1/2011        | \$1,575,000             | 5.000%               | 6041283E6     |
| 8/1/2012        | 1,575,000               | 5.000%               | 6041283F3     |
| 8/1/2013        | 1,575,000               | 5.000%               | 6041283G1     |
| 8/1/2014        | 1,575,000               | 5.000%               | 6041283H9     |
| 8/1/2015        | 1,575,000               | 5.000%               | 6041283J5     |
| 8/1/2016        | 1,575,000               | 5.000%               | 6041283K2     |
| 8/1/2017        | 1,575,000               | 5.000%               | 6041283L0     |
| 8/1/2018        | 1,575,000               | 5.000%               | 6041283M8     |
| 8/1/2019        | 1,575,000               | 5.000%               | 6041283N6     |
| 8/1/2020        | 1,575,000               | 5.000%               | 6041283P1     |
| 8/1/2021        | 1,575,000               | 5.000%               | 6041283Q9     |
| <b>Total</b>    | <b>\$17,325,000</b>     |                      |               |

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General Obligation State Trunk Highway Bonds dated November 1, 2002, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1 2013 will be called for redemption and prepayment on November 1, 2012 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 11/1/2011       | \$650,000               | 5.250%               | 6041284E5     |
| 11/1/2012       | 650,000                 | 5.250%               | 6041284F2     |
| 11/1/2013       | 650,000                 | 5.250%               | 6041284G0     |
| 11/1/2014       | 650,000                 | 5.250%               | 6041284H8     |
| 11/1/2015       | 650,000                 | 5.250%               | 6041284J4     |
| 11/1/2016       | 650,000                 | 5.250%               | 6041284K1     |
| 11/1/2017       | 650,000                 | 5.250%               | 6041284L9     |
| 11/1/2018       | 650,000                 | 5.250%               | 6041284M7     |
| 11/1/2019       | 650,000                 | 5.250%               | 6041284N5     |
| 11/1/2020       | 650,000                 | 5.250%               | 6041284P0     |
| 11/1/2021       | 650,000                 | 5.250%               | 6041284Q8     |
| 11/1/2022       | 650,000                 | 5.250%               | 6041284R6     |
| <b>Total</b>    | <b>\$7,800,000</b>      |                      |               |

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General Obligation State Trunk Highway Bonds dated August 1, 2003, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2014 will be called for redemption and prepayment on August 1, 2013 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 8/1/2011        | \$7,125,000             | 5.000%               | 6041285T1     |
| 8/1/2012        | 7,125,000               | 5.000%               | 6041285U8     |
| 8/1/2013        | 7,125,000               | 5.000%               | 6041285V6     |
| 8/1/2014        | 7,125,000               | 5.000%               | 6041285W4     |
| 8/1/2015        | 7,125,000               | 5.000%               | 6041285X2     |
| 8/1/2016        | 7,125,000               | 5.000%               | 6041285Y0     |
| 8/1/2017        | 7,125,000               | 5.000%               | 6041285Z7     |
| 8/1/2018        | 7,125,000               | 5.000%               | 6041286A1     |
| 8/1/2019        | 7,125,000               | 5.000%               | 6041286B9     |
| 8/1/2020        | 7,125,000               | 5.000%               | 6041286C7     |
| 8/1/2021        | 7,125,000               | 5.000%               | 6041286D5     |
| 8/1/2022        | 7,125,000               | 5.000%               | 6041286E3     |
| 8/1/2023        | 7,125,000               | 5.000%               | 6041286F0     |
| <b>Total</b>    | <b>\$92,625,000</b>     |                      |               |

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General Obligation State Trunk Highway Bonds dated August 1, 2004, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2015 will be called for redemption and prepayment on August 1, 2014 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 8/1/2011        | \$4,005,000             | 5.000%               | 6041286X1     |
| 8/1/2012        | 4,005,000               | 5.000%               | 6041286Y9     |
| 8/1/2013        | 4,005,000               | 5.000%               | 6041286Z6     |
| 8/1/2014        | 4,005,000               | 5.000%               | 6041287A0     |
| 8/1/2015        | 4,005,000               | 5.000%               | 6041287B8     |
| 8/1/2016        | 4,005,000               | 5.000%               | 6041287C6     |
| 8/1/2017        | 4,005,000               | 5.000%               | 6041287D4     |
| 8/1/2018        | 4,005,000               | 5.000%               | 6041287E2     |
| 8/1/2019        | 4,005,000               | 5.000%               | 6041287F9     |
| 8/1/2020        | 4,005,000               | 5.000%               | 6041287G7     |
| 8/1/2021        | 4,005,000               | 5.000%               | 6041287H5     |
| 8/1/2022        | 4,005,000               | 5.000%               | 6041287J1     |
| 8/1/2023        | 4,005,000               | 5.000%               | 6041287K8     |
| 8/1/2024        | 4,005,000               | 5.000%               | 6041287L6     |
| <b>Total</b>    | <b>\$56,070,000</b>     |                      |               |

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General Obligation State Trunk Highway Bonds dated November 1, 2004, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2015 will be called for redemption and prepayment on November 1, 2014 at par plus accrued interest.

| <b>Maturing</b> | <b>Principal Amount</b> | <b>Interest Rate</b> | <b>CUSIP*</b> |
|-----------------|-------------------------|----------------------|---------------|
| 11/1/2011       | \$2,000,000             | 5.000%               | 6041287V4     |
| 11/1/2012       | 2,000,000               | 5.000%               | 6041287W2     |
| 11/1/2013       | 2,000,000               | 5.000%               | 6041287X0     |
| 11/1/2014       | 2,000,000               | 5.000%               | 6041287Y8     |
| 11/1/2015       | 2,000,000               | 5.000%               | 6041287Z5     |
| 11/1/2016       | 2,000,000               | 5.000%               | 6041288A9     |
| 11/1/2017       | 2,000,000               | 5.000%               | 6041288B7     |
| 11/1/2018       | 2,000,000               | 5.000%               | 6041288C5     |
| 11/1/2019       | 2,000,000               | 5.000%               | 6041288D3     |
| 11/1/2020       | 2,000,000               | 5.000%               | 6041288E1     |
| 11/1/2021       | 2,000,000               | 5.000%               | 6041288F8     |
| 11/1/2022       | 2,000,000               | 5.000%               | 6041288G6     |
| 11/1/2023       | 2,000,000               | 5.000%               | 6041288H4     |
| 11/1/2024       | 2,000,000               | 5.000%               | 6041288J0     |
| <b>Total</b>    | <b>\$28,000,000</b>     |                      |               |

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## **APPENDIX E**

### **Selected Economic and Demographic Information**

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**RESIDENT POPULATION  
(Thousands of Persons)**

| <b>Year</b> | <b>U.S.</b> | <b>Minnesota</b> | <b>% Change<br/>U.S.</b> | <b>% Change<br/>Minnesota</b> |
|-------------|-------------|------------------|--------------------------|-------------------------------|
| 1999 .....  | 279,040     | 4,873            | 1.2                      | 1.2                           |
| 2000 .....  | 282,172     | 4,934            | 1.1                      | 1.3                           |
| 2001 .....  | 285,082     | 4,983            | 1.0                      | 1.0                           |
| 2002 .....  | 287,804     | 5,017            | 1.0                      | 0.7                           |
| 2003 .....  | 290,326     | 5,048            | 0.9                      | 0.6                           |
| 2004 .....  | 293,046     | 5,079            | 0.9                      | 0.6                           |
| 2005 .....  | 295,753     | 5,107            | 0.9                      | 0.6                           |
| 2006 .....  | 298,593     | 5,148            | 1.0                      | 0.8                           |
| 2007 .....  | 301,580     | 5,191            | 1.0                      | 0.8                           |
| 2008 .....  | 304,375     | 5,231            | 0.9                      | 0.8                           |
| 2009 .....  | 307,007     | 5,266            | 0.9                      | 0.7                           |

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, [www.census.gov/popest](http://www.census.gov/popest). Population data extracted June, 2010.

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**EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2009  
(Thousands of Jobs)**

| <b>Category</b>                              | <b>Minnesota</b> | <b>% of Total</b> | <b>U.S.</b>    | <b>% of Total</b> |
|--|------------------|-------------------|----------------|-------------------|
| Manufacturing Durables .....                 | 188.1            | 6.9               | 7,309          | 5.5               |
| Manufacturing Non-Durables .....             | 112.0            | 4.1               | 4,574          | 3.4               |
| Mining and Logging .....                     | 4.9              | 0.2               | 700            | 0.5               |
| Construction .....                           | 92.8             | 3.4               | 6,037          | 4.5               |
| Trade.....                                   | 406.5            | 15.0              | 20,153         | 15.2              |
| Transportation, Warehousing, Utilities ..... | 89.8             | 3.3               | 4,796          | 3.6               |
| Information .....                            | 54.9             | 2.0               | 2,807          | 2.1               |
| Financial Activities.....                    | 172.3            | 6.3               | 7,758          | 5.8               |
| Professional and Business Services .....     | 306.6            | 11.3              | 16,580         | 12.5              |
| Education and Health Services .....          | 453.0            | 16.8              | 19,191         | 14.4              |
| Leisure and Hospitality .....                | 237.3            | 8.7               | 13,102         | 9.8               |
| Other Services .....                         | 115.3            | 4.2               | 5,364          | 4.0               |
| Government .....                             | 416.6            | 15.4              | 22,549         | 17.1              |
| Agriculture .....                            | 65.3             | 2.4               | 2,103          | 1.6               |
| <b>Total .....</b>                           | <b>2,715.4</b>   | <b>100.0</b>      | <b>133,023</b> | <b>100.0</b>      |

Sources: U.S. Employment — IHS Global Insight (USA), Inc., U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov>

Minnesota Employment — Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/lmi](http://www.deed.state.mn.us/lmi).

Minnesota employment data benchmarked to March 2009.

U.S. employment data extracted June 2010.

Industry detail determined according to the North American Industry Classification System (NAICS).

Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Employment and Economic Development, based on the first four months of 2010 and the last eight months of 2009.

U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cps>.

Columns may not add due to rounding.

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**EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN  
UNITED STATES AND MINNESOTA FOR 2009  
(Thousands of Jobs)**

| <b>Durable Goods</b>                   | <b>Minnesota</b> | <b>% of Total</b> | <b>U.S.</b>  | <b>% of Total</b> |
|--|------------------|-------------------|--------------|-------------------|
| Wood Products.....                     | 11.2             | 6.0               | 361          | 4.9               |
| Fabricated Metal Products .....        | 37.4             | 19.9              | 1,318        | 18.0              |
| Machinery.....                         | 29.2             | 15.5              | 1,029        | 14.1              |
| Computers and Electronic Products..... | 47.2             | 25.1              | 1,136        | 15.5              |
| Transportation Equipment.....          | 9.8              | 5.2               | 1,353        | 18.5              |
| Furniture and Related .....            | 8.7              | 4.6               | 386          | 5.3               |
| Medical Equipment and Supplies .....   | 15.8             | 8.4               | 308          | 4.2               |
| Other Durables.....                    | 28.8             | 23.7              | 1,418        | 19.5              |
| <b>Total .....</b>                     | <b>188.1</b>     | <b>100.0</b>      | <b>7,309</b> | <b>100.0</b>      |

Sources: U.S. Employment — IHS Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota Employment — Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/lmi](http://www.deed.state.mn.us/lmi).

Minnesota employment data benchmarked to March 2009. U.S. data extracted June 3, 2009. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

**EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN  
UNITED STATES AND MINNESOTA FOR 2009  
(Thousands of Jobs)**

| <b>Non-Durable Goods</b>                | <b>Minnesota</b> | <b>% of Total</b> | <b>U.S.</b>  | <b>% of Total</b> |
|---|------------------|-------------------|--------------|-------------------|
| Food Manufacturing .....                | 43.0             | 38.4              | 1,459        | 31.9              |
| Paper Mfg., & Printing and Related..... | 37.2             | 33.2              | 931          | 20.4              |
| Other Non Durables .....                | 31.8             | 28.4              | 2,184        | 47.7              |
| <b>Total .....</b>                      | <b>112.0</b>     | <b>100.0</b>      | <b>4,574</b> | <b>100.0</b>      |

Sources: U.S. Employment — IHS Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota Employment — Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/lmi](http://www.deed.state.mn.us/lmi).

Minnesota data benchmarked to March 2009. U.S. data extracted June 2010. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.



**EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2009  
(Thousands of Jobs)**

| Category                           | Minnesota      |                |                |             |              | United States  |                |                |             |              |
|------------------------------------|----------------|----------------|----------------|-------------|--------------|----------------|----------------|----------------|-------------|--------------|
|                                    | 1990           | 2000           | 2009           | % Change    |              | 1990           | 2000           | 2009           | % Change    |              |
|                                    |                |                |                | 1990-2000   | 2000-2009    |                |                |                | 1990-2000   | 2000-2009    |
| Manufacturing Durables             | 217.2          | 255.4          | 188.1          | 17.6        | (26.4)       | 10,737         | 10,877         | 7,309          | 1.3         | (32.8)       |
| Manufacturing Non-Durables         | 124.2          | 141.1          | 112.0          | 13.6        | (20.6)       | 6,958          | 6,386          | 4,574          | (8.2)       | (28.4)       |
| Mining and Logging                 | 8.4            | 8.1            | 4.9            | (3.6)       | (39.5)       | 765            | 599            | 700            | (21.7)      | 16.9         |
| Construction                       | 77.9           | 118.8          | 92.8           | 52.5        | (21.9)       | 5,263          | 6,787          | 6,037          | 29.0        | (11.1)       |
| Trade                              | 362.4          | 436.1          | 406.5          | 20.3        | (6.8)        | 18,451         | 21,213         | 20,153         | 15.0        | (5.0)        |
| Transportation                     |                |                |                |             |              |                |                |                |             |              |
| Warehousing and Utilities          | 85.8           | 103.3          | 89.8           | 20.4        | (13.1)       | 4,216          | 5,012          | 4,796          | 18.9        | (4.3)        |
| Information                        | 54.3           | 69.2           | 54.9           | 27.4        | (20.7)       | 2,688          | 3,630          | 2,807          | 35.1        | (22.7)       |
| Financial                          |                |                |                |             |              |                |                |                |             |              |
| Activities                         | 129.3          | 164.8          | 172.3          | 27.5        | 4.6          | 6,614          | 7,687          | 7,758          | 16.2        | 0.9          |
| Professional and Business Services | 214.5          | 319.2          | 306.6          | 48.8        | (3.9)        | 10,848         | 16,666         | 16,580         | 53.6        | (0.5)        |
| Education and Health Services      | 241.8          | 324.5          | 453.0          | 34.2        | 39.6         | 10,984         | 15,108         | 19,191         | 37.6        | 27.0         |
| Leisure and Hospitality            | 180.5          | 221.6          | 237.3          | 22.4        | 7.1          | 9,288          | 11,862         | 13,102         | 27.7        | 10.5         |
| Other Services                     | 91.3           | 114.6          | 115.3          | 25.5        | 0.6          | 4,261          | 5,168          | 5,364          | 21.3        | 3.8          |
| Government                         | 347.9          | 407.6          | 416.6          | 17.2        | 2.2          | 18,415         | 20,790         | 22,549         | 12.9        | 8.5          |
| Agriculture                        | 103.1          | 73.4           | 65.3           | (28.8)      | (11.0)       | 3,223          | 2,464          | 2,103          | (23.5)      | (14.7)       |
| <b>Total</b>                       | <b>2,238.6</b> | <b>2,757.7</b> | <b>2,715.4</b> | <b>23.2</b> | <b>(1.5)</b> | <b>112,711</b> | <b>134,250</b> | <b>133,023</b> | <b>19.9</b> | <b>(0.9)</b> |

Sources: Minnesota 1990, 2000 and 2009 — Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/imi](http://www.deed.state.mn.us/imi).

U.S. 1990, 2000 and 2009, IHS Global Insight (USA), Inc., U.S. Central Data Bank, and U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota employment data benchmarked to March 2009. U.S. employment extracted June 2010. 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, <http://stats.bls.gov/cps/cpsaat1.pdf/>.

U.S. and Minnesota agricultural employment data for 2009 not necessarily comparable with earlier years because of changes in methodology.

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**MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME**

| <b>Year</b> | <b><u>Minnesota</u></b> | <b><u>U.S.</u></b> | <b><u>Minnesota<br/>as % of U.S.</u></b> |
|-------------|-------------------------|--------------------|--|
| 1999 .....  | 30,562                  | 28,333             | 107.9                                    |
| 2000 .....  | 32,597                  | 30,318             | 107.5                                    |
| 2001 .....  | 33,342                  | 31,145             | 107.1                                    |
| 2002 .....  | 34,071                  | 31,462             | 108.3                                    |
| 2003 .....  | 35,281                  | 32,271             | 109.3                                    |
| 2004 .....  | 37,069                  | 33,881             | 109.4                                    |
| 2005 .....  | 37,978                  | 35,424             | 107.2                                    |
| 2006 .....  | 39,975                  | 37,698             | 106.0                                    |
| 2007 .....  | 41,693                  | 39,392             | 105.8                                    |
| 2008 .....  | 42,953                  | 40,166             | 106.9                                    |
| 2009.....   | 41,552                  | 39,138             | 106.2                                    |

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, [www.bea.gov/regional/spi](http://www.bea.gov/regional/spi). Data extracted June 2010.

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**PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION  
1990-2000 and 2000-2009**

| State              | 1990<br>Personal<br>Income<br>(Millions) | 2000<br>Personal<br>Income<br>(Millions) | 1990-2000<br>Annual<br>Compound<br>Rate of<br>Increase<br>(%) | Regional<br>Rank<br>1990-<br>2000 | 2009<br>Personal<br>Income<br>(Millions) | 2000-2009<br>Annual<br>Compound<br>Rate of<br>Increase (%) | Regional<br>Rank<br>2000-2009 | 2000<br>Population<br>(Thousands) | 1990<br>Per<br>Capita<br>Personal<br>Income<br>(\$) | 1990<br>Regional<br>Rank | 2009<br>Population<br>(Thousands) | 2009<br>Per Capita<br>Personal<br>Income (\$) | 2009<br>Regional<br>Rank |
|--------------------|--|--|---|-----------------------------------|--|--|-------------------------------|-----------------------------------|---|--------------------------|-----------------------------------|---|--------------------------|
| Illinois .....     | 238,635                                  | 405,919                                  | 5.46  | 8                                 | 534,638                                  | 3.11   | 9                             | 12,438                            | 20,835  | 1                        | 12,910                            | 41,411  | 2                        |
| Ohio.....          | 202,486                                  | 326,075                                  | 4.88  | 12                                | 408,395                                  | 2.53   | 11                            | 11,364                            | 18,638  | 4                        | 11,543                            | 35,381  | 10                       |
| Michigan.....      | 174,296                                  | 292,606                                  | 5.32  | 9                                 | 339,219                                  | 1.66   | 12                            | 9,955                             | 18,719  | 3                        | 9,970                             | 34,025  | 11                       |
| Indiana .....      | 97,005                                   | 167,276                                  | 5.60  | 6                                 | 216,618                                  | 2.91   | 10                            | 6,092                             | 17,454  | 9                        | 6,423                             | 33,725  | 12                       |
| Minnesota.....     | 86,524                                   | 160,833                                  | 6.40  | 1                                 | 218,823                                  | 3.48   | 7                             | 4,934                             | 19,710  | 2                        | 5,266                             | 41,552  | 1                        |
| Missouri.....      | 90,177                                   | 156,359                                  | 5.66  | 4                                 | 213,610                                  | 3.53   | 6                             | 5,606                             | 17,582  | 8                        | 5,988                             | 35,676  | 9                        |
| Wisconsin.....     | 88,213                                   | 156,603                                  | 5.91  | 3                                 | 208,220                                  | 3.22   | 8                             | 5,374                             | 17,986  | 6                        | 5,655                             | 36,822  | 7                        |
| Iowa.....          | 48,250                                   | 79,920                                   | 5.18  | 10                                | 110,541                                  | 3.67   | 5                             | 2,928                             | 17,350  | 10                       | 3,008                             | 36,751  | 8                        |
| Kansas .....       | 44,750                                   | 76,684                                   | 5.53  | 7                                 | 106,875                                  | 3.76   | 4                             | 2,693                             | 18,034  | 5                        | 2,819                             | 37,916  | 5                        |
| Nebraska.....      | 28,388                                   | 48,998                                   | 5.61  | 5                                 | 68,417                                   | 3.78   | 3                             | 1,713                             | 17,948  | 7                        | 1,797                             | 38,081  | 4                        |
| South Dakota ..... | 11,206                                   | 19,970                                   | 5.95  | 3                                 | 30,006                                   | 4.63   | 2                             | 756                               | 16,075  | 11                       | 812                               | 36,935  | 6                        |
| North Dakota.....  | 10,117                                   | 16,430                                   | 4.97  | 11                                | 25,570                                   | 5.04   | 1                             | 641                               | 15,866  | 12                       | 647                               | 39,530  | 3                        |

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of the Census, [www.census.gov/popest/states/tables](http://www.census.gov/popest/states/tables), and U.S. Department of Commerce, Bureau of Economic Analysis, [www.bea.gov/regional/spi](http://www.bea.gov/regional/spi). Population data extracted June 2010. Income data extracted June 2010.

**GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION<sup>(1)</sup>  
2008-2009**

| <b>Rank</b> | <b>State</b>       | <b>Percent Growth</b> |
|-------------|--------------------|-----------------------|
| 1           | North Dakota ..... | 0.0                   |
| 2           | Ohio .....         | -1.3                  |
| 3           | Missouri .....     | -1.4                  |
| 4           | Iowa .....         | -1.6                  |
| 5           | Indiana .....      | -1.8                  |
| 5           | Kansas .....       | -1.8                  |
| 7           | Nebraska .....     | -2.0                  |
| 7           | Wisconsin .....    | -2.0                  |
| 9           | Illinois .....     | -2.1                  |
| 10          | Minnesota .....    | -2.6                  |
| 11          | Michigan .....     | -3.0                  |
| 12          | South Dakota ..... | -3.5                  |
|             | REGION .....       | -2.0                  |

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, [www.bea.gov/regional/spi](http://www.bea.gov/regional/spi). Data extracted June 2010.

<sup>(1)</sup> Refer to E-6 for Personal Income figures.

**NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION  
(Thousands of Jobs)**

| <b>State</b>       | <b>1990<br/>Employment</b> | <b>2000<br/>Employment</b> | <b>2009<br/>Employment</b> | <b>%<br/>Increase<br/>1990-2000</b> | <b>2000-<br/>2009</b> |
|--------------------|----------------------------|----------------------------|----------------------------|-------------------------------------|-----------------------|
| Illinois .....     | 5,287.6                    | 6,044.8                    | 5,657.6                    | 14.3                                | (6.4)                 |
| Ohio .....         | 4,882.3                    | 5,624.7                    | 5,073.6                    | 15.2                                | (9.8)                 |
| Michigan .....     | 3,946.5                    | 4,676.9                    | 3,876.1                    | 18.5                                | (17.1)                |
| Indiana .....      | 2,521.9                    | 3,000.0                    | 2,787.2                    | 19.0                                | (7.1)                 |
| Wisconsin .....    | 2,291.5                    | 2,833.8                    | 2,748.2                    | 23.7                                | (3.0)                 |
| Missouri .....     | 2,345.0                    | 2,748.7                    | 2,688.1                    | 17.2                                | (2.2)                 |
| MINNESOTA .....    | 2,135.9                    | 2,684.9                    | 2,650.1                    | 25.7                                | (1.3)                 |
| Iowa .....         | 1,226.3                    | 1,478.4                    | 1,478.2                    | 20.6                                | 0.0                   |
| Kansas .....       | 1,091.9                    | 1,346.1                    | 1,344.6                    | 23.3                                | (0.1)                 |
| Nebraska .....     | 730.9                      | 910.7                      | 944.4                      | 24.6                                | 3.7                   |
| South Dakota ..... | 288.5                      | 377.9                      | 403.7                      | 31.0                                | 6.8                   |
| North Dakota ..... | 265.8                      | 327.7                      | 366.3                      | 23.2                                | 11.8                  |
| Region .....       | 27,014.1                   | 32,054.6                   | 30,018.1                   | 18.7                                | (6.4)                 |

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, <http://bls.gov/sae/home.html>. Minnesota employment, Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/lmi/tools/ces](http://www.deed.state.mn.us/lmi/tools/ces). Data extracted June 2010.

**MINNESOTA AND U.S. UNEMPLOYMENT RATES NOT SEASONALLY ADJUSTED**

| <b>Year</b> | <b>Annual Average</b> |             |
|-------------|-----------------------|-------------|
|             | <b>Minnesota</b>      | <b>U.S.</b> |
| 2000.....   | 3.1%                  | 4.0%        |
| 2001.....   | 3.8%                  | 4.7%        |
| 2002.....   | 4.5%                  | 5.8%        |
| 2003.....   | 4.9%                  | 6.0%        |
| 2004.....   | 4.6%                  | 5.6%        |
| 2005.....   | 4.2%                  | 5.1%        |
| 2006.....   | 4.1%                  | 4.6%        |
| 2007.....   | 4.6%                  | 4.6%        |
| 2008.....   | 5.4%                  | 5.8%        |
| 2009.....   | 8.0%                  | 9.3%        |

| <b>Month</b>        | <b>Minnesota</b> | <b>U.S.</b> |
|---------------------|------------------|-------------|
| <b>2009</b>         |                  |             |
| January.....        | 8.3%             | 8.5%        |
| February.....       | 8.6%             | 8.9%        |
| March.....          | 8.9%             | 9.0%        |
| April.....          | 8.3%             | 8.6%        |
| May.....            | 8.0%             | 9.1%        |
| June.....           | 8.6%             | 9.7%        |
| July.....           | 8.0%             | 9.7%        |
| August.....         | 7.8%             | 9.6%        |
| September.....      | 7.6%             | 9.5%        |
| October.....        | 7.1%             | 9.5%        |
| November.....       | 7.0%             | 9.4%        |
| December.....       | 7.4%             | 9.7%        |
| Annual Average..... | 8.0%             | 9.3%        |
| <b>2010</b>         |                  |             |
| January.....        | 8.2%             | 10.6%       |
| February.....       | 8.0%             | 10.4%       |
| March.....          | 8.2%             | 10.2%       |
| April.....          | 6.9%             | 9.5%        |
| May.....            | 6.4%             | 9.3%        |
| June.....           | 6.8%             | 9.6%        |
| July.....           | 6.8%             | 9.7%        |

Source: Minnesota Department of Employment and Economic Development, [www.deed.state.mn.us/lmi/tools/laus](http://www.deed.state.mn.us/lmi/tools/laus).

**MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500**

| <u>Rank</u> |             | <u>Company</u>                   | <u>Revenues</u> | <u>Assets</u> | <u>Profits</u> | <u>Industry</u>                  | <u>Rank</u> |
|-------------|-------------|----------------------------------|-----------------|---------------|----------------|----------------------------------|-------------|
| <u>2009</u> | <u>2008</u> |                                  | <u>\$000</u>    | <u>\$000</u>  | <u>\$000</u>   | <u>Category</u>                  |             |
| 21          | 21          | UnitedHealth Group               | 87,138,000      | 59,045,000    | 3,822,000      | Health Care: Insurance and MC    | 1           |
| 30          | 28          | Target                           | 65,357,000      | 44,533,000    | 2,488,000      | General Merchandisers            | 2           |
| 45          | 56          | Best Buy                         | 45,015,000      | 15,826,000    | 1,003,000      | Specialty Retailers              | 4           |
| 47          | 51          | Supervalu                        | 44,564,000      | 17,604,000    | (2,855,000)    | Food and Drug Stores             | 4           |
| 91          | 72          | Cenex Harvest States             | 25,729,900      | 7,869,800     | 381,400        | Wholesalers: Food and Grocery    | 2           |
| 106         | 95          | Minnesota Mining & Mfg. (3M)     | 23,123,000      | 27,250,000    | 3,193,000      | Miscellaneous                    | 1           |
| 121         | 129         | U.S. Bancorp                     | 19,490,000      | 281,176,000   | 2,205,000      | Commercial Banks                 | 8           |
| 155         | 193         | General Mills                    | 14,691,300      | 17,874,800    | 1,304,400      | Food Consumer Products           | 3           |
| 160         | 196         | Medtronic                        | 14,599,000      | 23,661,000    | 2,169,000      | Medical Products & Equipment     | 1           |
| 226         | 224         | Land O'Lakes                     | 10,408,500      | 4,923,600     | 209,100        | Food Consumer Products           | 8           |
| 231         | 276         | Mosaic                           | 10,298,000      | 12,676,200    | 2,350,200      | Chemicals                        | 5           |
| 244         | 242         | Xcel Energy                      | 9,644,300       | 25,488,400    | 680,900        | Utilities: Gas & Electric        | 13          |
| 288         | 348         | Ameriprise Financial             | 7,946,000       | 113,774,000   | 722,000        | Diversified Financials           | 6           |
| 301         | 300         | C.H. Robinson Worldwide          | 7,577,200       | 1,834,200     | 360,800        | Transportation and Logistics     | 1           |
| 340         | 373         | Hormel Foods                     | 6,533,700       | 3,692,100     | 342,800        | Food Consumer Products           | 12          |
| 342         | 409         | Thrivent Financial for Lutherans | 6,514,800       | 57,752,300    | (48,400)       | Insurance: Life, Health (mutual) | 6           |
| 365         | 403         | Ecolab                           | 5,900,600       | 5,020,900     | 417,300        | Chemicals                        | 12          |
| 400         | 492         | Nash Finch                       | 5,212,700       | 999,500       | 2,800          | Wholesalers: Food and Grocery    | 3           |
| 445         | ---         | St. Jude Medical                 | 4,681,300       | 6,425,800     | 777,200        | Medical Products & Equipment     | 6           |
| 454         | ---         | Alliant Techsystems              | 4,583,200       | 3,593,200     | 155,100        | Aerospace and Defense            | 13          |
| 464         | 478         | PepsiAmericas                    | 4,421,300       | 5,092,700     | 181,200        | Beverages                        | 3           |

Source: Fortune Magazine, dated May 3, 2010.

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## **APPENDIX F**

### **State Financial Statements For the Fiscal Year Ended June 30, 2009**



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**APPENDIX F**  
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**BASIC FINANCIAL STATEMENTS**

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State of Minnesota

## 2009 Comprehensive Annual Financial Report Management's Discussion and Analysis

### 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, 2009, 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.

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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 public safety. 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 ten 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 seven 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
- ClearWay Minnesota
- National Sports Center Foundation
- Office of Higher Education
- 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 recognizes 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 27 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 type of proprietary fund, 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 8 nonmajor enterprise funds and the 7 internal service funds are combined into two separate aggregated columns. 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 19 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pools), 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 unit 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.

#### 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 and Other Postemployment Benefits 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, 2009, by \$11.8 billion (presented as *net assets*). Of this amount, a deficit of \$957 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 or the constitution. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

- The state's total net assets decreased by \$1.4 billion (10.5 percent) during fiscal year 2009. Net assets of governmental activities decreased by \$1.0 billion (9.5 percent), while net assets of the business-type activities showed a decrease of \$344 million (15.3 percent). For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

##### Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of \$3.5 billion, a decrease of \$1.6 billion compared to the prior year. This amount includes an unreserved fund balance of \$1.6 billion; however, included in this amount is a General Fund deficit of \$752 million. For discussion on the variances from prior year, see the State Funds Financial Analysis section.

##### Long-Term Debt

- The state's total long-term liabilities increased by \$432 million (6.7 percent) during the current fiscal year. The increase is partially due to the issuance of general obligation bonds for trunk highway projects and other various state purposes and revenue bonds for the Minnesota State Colleges and Universities and a statewide 911 emergency response communication system. The beginning balance has been restated due to the implementation of GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." As a result of implementing this statement, the state recognized a change in accounting principle of \$45.9 million, which restated the liability recognized for pollution remediation at the beginning of the 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 \$11.8 billion at the end of 2009, compared to \$13.2 billion at the end of the previous year.

|                            | Net Assets<br>June 30, 2009 and 2008<br>(In Thousands) |                      |                          |                     |                          |                      |
|----------------------------|--|----------------------|--------------------------|---------------------|--------------------------|----------------------|
|                            | Governmental Activities                                |                      | Business-type Activities |                     | Total Primary Government |                      |
|                            | 2009   | 2008                 | 2009                     | 2008                | 2009                     | 2008                 |
| <b>Current Assets</b>      | \$ 8,465,565   | \$ 9,679,864         | \$ 1,233,270             | \$ 1,588,517        | \$ 9,698,835             | \$ 11,268,381        |
| Noncurrent Assets:         |  |                      |                          |                     |                          |                      |
| Capital Assets             | 11,256,982   | 10,531,680           | 1,595,883                | 1,462,138           | 12,852,865               | 11,993,818           |
| Other Assets               | 753,474  | 781,787              | 168,620                  | 143,908             | 922,094                  | 925,695              |
| <b>Total Assets</b>        | <b>\$ 20,476,021</b>                                   | <b>\$ 20,993,331</b> | <b>\$ 2,997,773</b>      | <b>\$ 3,194,563</b> | <b>\$ 23,473,794</b>     | <b>\$ 24,187,894</b> |
| <b>Current Liabilities</b> | \$ 4,889,954   | \$ 4,702,255         | \$ 412,129               | \$ 349,690          | \$ 5,312,083             | \$ 5,051,945         |
| Noncurrent Liabilities     | 5,696,275  | 5,331,720            | 687,424                  | 602,567             | 6,343,699                | 5,934,287            |
| <b>Total Liabilities</b>   | <b>\$ 10,586,229</b>                                   | <b>\$ 10,033,975</b> | <b>\$ 1,099,553</b>      | <b>\$ 952,257</b>   | <b>\$ 11,655,782</b>     | <b>\$ 10,986,232</b> |
| <b>Net Assets:</b>         |  |                      |                          |                     |                          |                      |
| Invested in Capital Assets | \$ 8,285,028   | \$ 7,775,939         | \$ 1,199,727             | \$ 1,108,136        | \$ 9,484,755             | \$ 8,884,075         |
| Net of Related Debt        | 2,592,659  | 2,693,756            | 737,400                  | 1,140,070           | 3,290,059                | 3,833,826            |
| Restricted                 | (917,695)  | 489,661              | (38,907)                 | (5,900)             | (656,802)                | 483,761              |
| Unrestricted               | \$ 9,919,792   | \$ 10,959,336        | \$ 1,889,220             | \$ 2,242,306        | \$ 11,816,012            | \$ 13,201,662        |

The largest portion, \$9.5 billion of \$11.8 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 \$3.3 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 \$957 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 noncapital portion of net assets for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities decreased \$1.4 billion (10.5 percent) over the course of this fiscal year. This resulted from a \$1.0 billion (9 percent) decrease in net assets of governmental activities, and a \$344 million (15.3 percent) decrease in net assets of business-type activities.

|  | Changes in Net Assets<br>Fiscal Years Ended June 30, 2009 and 2008<br>(In Thousands) |                      |                          |                     |                          |                      |
|--|--|----------------------|--------------------------|---------------------|--------------------------|----------------------|
|  | Governmental Activities  |                      | Business-type Activities |                     | Total Primary Government |                      |
|  | 2009   | 2008                 | 2009                     | 2008                | 2009                     | 2008                 |
| <b>Revenues:</b>                                 |  |                      |                          |                     |                          |                      |
| Program Revenues:                                |  |                      |                          |                     |                          |                      |
| Charges for Services                             | \$ 1,189,748   | \$ 1,202,566         | \$ 2,343,895             | \$ 2,325,925        | \$ 3,533,643             | \$ 3,527,891         |
| Operating Grants and Contributions               | 7,754,996  | 6,677,323            | 872,484                  | 217,224             | 8,627,470                | 6,894,547            |
| Capital Grants                                   | 272,736  | 449,765              | 4,262                    | 1,142               | 276,998                  | 450,907              |
| General Revenues:                                |  |                      |                          |                     |                          |                      |
| Individual Income Taxes                          | 7,203,337  | 7,929,096            | -                        | -                   | 7,203,337                | 7,929,096            |
| Corporate Income Taxes                           | 741,049  | 1,039,843            | -                        | -                   | 741,049                  | 1,039,843            |
| Sales Taxes                                      | 4,337,748  | 4,474,576            | -                        | -                   | 4,337,748                | 4,474,576            |
| Property Taxes                                   | 733,899  | 703,972              | -                        | -                   | 733,899                  | 703,972              |
| Motor Vehicle Taxes                              | 957,785  | 1,011,494            | -                        | -                   | 957,785                  | 1,011,494            |
| Fuel Taxes                                       | 758,271  | 651,988              | -                        | -                   | 758,271                  | 651,988              |
| Other Taxes <sup>(1)</sup>                       | 2,208,648  | 2,149,162            | -                        | -                   | 2,208,648                | 2,149,162            |
| Tobacco Settlement                               | 176,140  | 186,425              | -                        | -                   | 176,140                  | 186,425              |
| Investment Interest Income                       | 57,790   | 121,638              | 32,306                   | 48,128              | 90,096                   | 169,864              |
| Other Revenues                                   | 95,316   | 103,416              | 630                      | 1,649               | 95,946                   | 105,065              |
| <b>Total Revenues</b>                            | <b>\$ 28,484,453</b>   | <b>\$ 28,701,264</b> | <b>\$ 3,253,877</b>      | <b>\$ 2,553,466</b> | <b>\$ 29,738,330</b>     | <b>\$ 29,249,730</b> |
| <b>Expenses:</b>                                 |  |                      |                          |                     |                          |                      |
| Public Safety and Corrections                    | \$ 944,400   | \$ 901,641           | \$ -                     | \$ -                | \$ 944,400               | \$ 901,641           |
| Transportation                                   | 2,088,880  | 2,047,500            | -                        | -                   | 2,088,880                | 2,047,500            |
| Agricultural, Environmental and Energy Resources | 834,458  | 825,842              | -                        | -                   | 834,458                  | 825,842              |
| Economic and Workforce Development               | 695,314  | 704,501              | -                        | -                   | 695,314                  | 704,501              |
| General Education                                | 7,811,723  | 7,675,567            | -                        | -                   | 7,811,723                | 7,675,567            |
| Higher Education                                 | 912,011  | 981,943              | -                        | -                   | 912,011                  | 981,943              |
| Health and Human Services                        | 11,248,700   | 10,296,359           | -                        | -                   | 11,248,700               | 10,296,359           |
| General Government                               | 800,123  | 816,111              | -                        | -                   | 800,123                  | 816,111              |
| Intergovernmental Aid                            | 1,435,897  | 1,511,715            | -                        | -                   | 1,435,897                | 1,511,715            |
| Interest   | 210,435  | 221,162              | -                        | -                   | 210,435                  | 221,162              |
| State Colleges and Universities                  | -  | 1,743,609            | 1,675,051                | -                   | 1,743,609                | 1,675,051            |
| Unemployment Insurance                           | -  | 1,865,939            | 828,857                  | -                   | 1,865,939                | 828,857              |
| Lottery  | -  | -                    | 363,832                  | 346,834             | 363,832                  | 346,834              |
| Other  | -  | -                    | 235,163                  | 228,361             | 235,163                  | 228,361              |
| <b>Total Expenses</b>                            | <b>\$ 26,961,941</b>   | <b>\$ 25,982,341</b> | <b>\$ 4,208,543</b>      | <b>\$ 3,079,103</b> | <b>\$ 31,170,484</b>     | <b>\$ 29,061,444</b> |
| Excess (Deficiency) Before Transfers             | \$ (477,488)   | \$ 718,923           | \$ (954,666)             | \$ (485,637)        | \$ (1,432,454)           | \$ 233,386           |
| Transfers  | (610,880)  | (654,359)            | 610,880                  | 654,359             | -                        | -                    |
| <b>Change in Net Assets</b>                      | <b>\$ (1,088,368)</b>  | <b>\$ 64,564</b>     | <b>\$ (344,086)</b>      | <b>\$ 188,722</b>   | <b>\$ (1,432,454)</b>    | <b>\$ 233,386</b>    |
| Net Assets, Beginning                            | \$ 10,959,336  | \$ 10,802,980        | \$ 2,242,306             | \$ 2,073,384        | \$ 13,201,662            | \$ 12,976,354        |
| Prior Period Adjustments                         | 94,658   | -                    | -                        | -                   | 94,658                   | -                    |
| Change in Accounting Principle                   | (45,854)   | 91,812               | -                        | -                   | (45,854)                 | 91,812               |
| Change in Fund Structure                         | -  | -                    | -                        | -                   | -                        | -                    |
| <b>Net Assets, Ending</b>                        | <b>\$ 9,919,792</b>  | <b>\$ 10,959,336</b> | <b>\$ 1,898,220</b>      | <b>\$ 2,242,306</b> | <b>\$ 11,816,012</b>     | <b>\$ 13,201,662</b> |

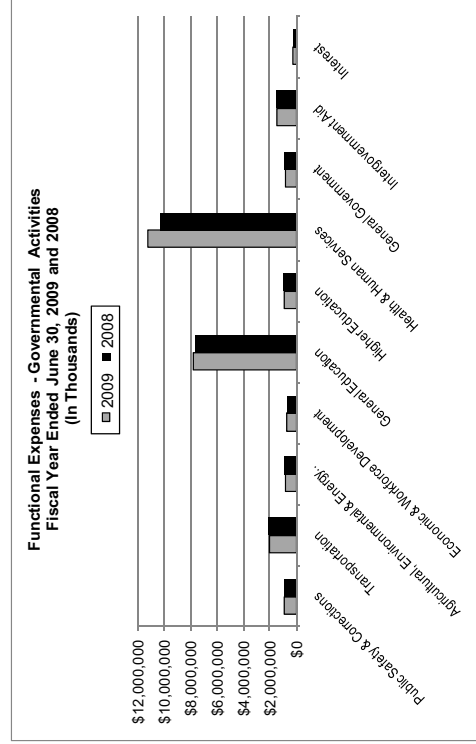
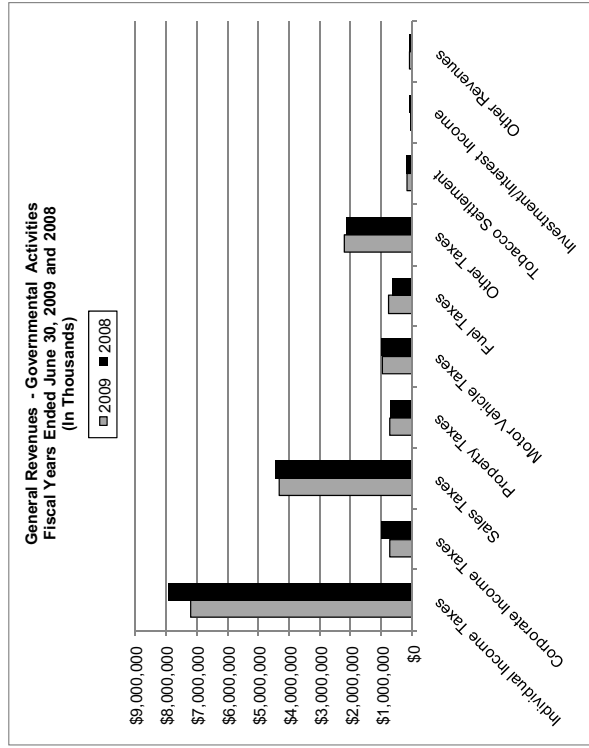
Approximately 57 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 30 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 12 percent of the total revenues. The remaining 1 percent came from other general revenues.

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

**Governmental Activities**

Governmental activities decreased the state's net assets by \$1.0 billion compared to an increase of \$156 million in the prior year.

The decrease in revenues was primarily attributable to decreases in individual income tax receipts, corporate income tax receipts, and sales tax revenue resulting from deterioration in the economy, which was partially offset by an increase in fuel tax receipts due to an additional surcharge imposed on fuel.

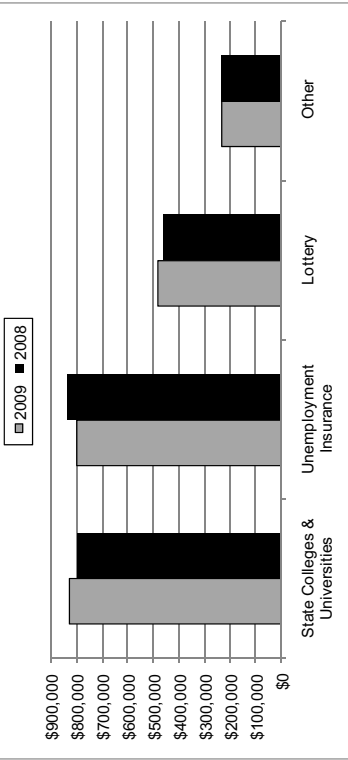


The increase in expenses primarily resulted from increases in Health and Human Services and General Education expenses, which were partially offset by decreases in Intergovernmental Aid and Higher Education expenses. Health and Human Services increased due to an increase in the number of participants eligible for health care services due to the weaker economy as well as an increase in health care costs. This increase was offset by an increase in operating grants from the federal government for health and human services programs. General Education's increase was partially due to a one-time general education aid increase of \$51 per pupil and a slight increase in the number of pupils. These increases were partially offset by decreases in grants to cities, counties and the University of Minnesota (component unit) due to the Governor's actions to balance the budget.

**Business-type Activities**

The state's proprietary funds net assets decreased by \$344 million during the current year. This primarily resulted from a \$414 million decrease in net assets in the Unemployment Insurance Fund. This decrease resulted from a significant increase in unemployment benefits due to an increase in the unemployment rate as a result of the economic downturn and extended benefit periods. These benefits were partially offset by an increase in nonoperating federal revenue provided by the American Recovery and Reinvestment Act (ARRA). ARRA was designed to provide federal spending to accelerate the nation's economic recovery and preserve and create jobs. The decrease in net assets of the Unemployment Insurance Fund was partially offset by a \$107 million increase in net assets in the State Colleges and Universities Fund, which is consistent with the increase in net assets during fiscal year 2008.

**Charges for Services - Business-type Activities**  
**Fiscal Years Ended June 30, 2009 and 2008**  
(In Thousands)



**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 financial condition. The unreserved fund balance serves 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 \$3.5 billion, a decrease of \$1.6 billion over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unreserved fund balance of the General Fund was a deficit of \$752 million, a decrease of \$1.5 billion compared to the prior year. This decrease primarily resulted from the continuing economic downturn, which resulted in revenues insufficient to cover expenditures.

Because the General Fund is the chief operating fund of the state, many of the same variances impacting Governmental Activities impacted the General Fund. General Education expenditures increased primarily due to a one-time general education aid increase of \$51 per pupil and a slight increase in the number of pupils, while Intergovernmental Aids and Higher Education expenditures decreased as a result of the Governor's unallocation of grants to cities, counties and the University of Minnesota (component unit).

Although Health and Human Services expenditures increased in the governmental activities due to the increase in the number of participants eligible for health care services and an increase in costs to provide services, the impact to the General Fund was minimal. These expenditures were shifted to the Federal Fund as ARRA provided an increase in the Federal Medical Assistance Percentage. Thus, the increased expenditures were mainly offset by a corresponding increase in federal revenue.

**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 decreased by \$344 million during the current year. This primarily resulted from a \$414 million decrease in net assets in the Unemployment Insurance Fund, which was slightly offset by an increase of \$107 million in net assets of the State Colleges and Universities Fund. For further discussion, see the Government-wide Financial Analysis – Business-type Activities section.

**General Fund Budgetary Highlights**

**General Fund Budgetary Highlights**

Several significant economic forecast and budget actions occurred prior to and during fiscal year 2009. These are material to understanding changes in General Fund balances that occurred in fiscal year 2009. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 16A.152, require that the budget be balanced for the biennium. The following includes actions taken by the Minnesota legislature and the Governor affecting fiscal year 2009.

**Actions Establishing the Fiscal Year 2009 Budget**

The budget for state fiscal year 2009 was initially adopted in June 2007. The enacted budget included anticipated General Fund resources of \$18.849 billion, spending of \$17.441 billion, and an undesignated balance of \$1.408 billion, which included budgetary reserves.

By February 2008, economic forecasts recognized the effect of the recession on the U.S. and Minnesota economies. Typical with the experience of other states, a decline in state employment and wages resulted in a general decline in forecast tax collections. As a result, a \$935 million General Fund budgetary deficit was forecast for fiscal year 2009.

During the 2008 legislative session, revenue and expenditure measures were enacted to re-balance the budget for the biennium. Actions included \$125 million in spending cuts, \$109.6 million transferred from other governmental funds, and \$205.7 million in revenue changes, primarily related to changes in the computation of taxes for foreign corporations and accelerated tax collections. In addition, General Fund reserves were reduced by \$500 million, to \$153 million.

The November 2008 Forecast continued to show additional declines in forecast revenues and an increase in spending for health and human services programs. This forecast projected a \$426 million General Fund budgetary deficit for fiscal year 2009 and an additional \$4.874 billion deficit for the 2010-2011 biennium.

**Budget Actions during Fiscal Year 2009**

Under the provisions of Minnesota Statutes, Section 16A.152, in December 2008, the Commissioner of Minnesota Management and Budget acted to reduce fiscal year 2009 state spending. As required by this statute, the remaining \$153 million balance was released from the budget reserve, reducing the forecast deficit to \$271 million. A reduction of \$271 million was made to unexpended allotments of appropriations from the General Fund. These unallotments primarily related to reductions in aids to counties and local governments, grants to the University of Minnesota, and health and human services programs. These reductions acted to balance revenues and expenditures, leaving a small fiscal year 2009 surplus. In addition, ARRA was projected to provide \$464 million in fiscal year 2009 and \$1.359 billion in additional federal revenue in the 2010-2011 biennium based on the February 2009 forecast. As noted previously, the majority of the revenue provided by ARRA for fiscal year 2009 related to a change in the increase in the Federal Medical Assistance Percentage. This resulted in a decrease in General Fund expenditures from the amount originally budgeted, as some expenditures were moved to the Federal Fund.



The February 2009 forecast projected 2010-2011 biennium revenues to decline \$1,166 billion below the previous forecast. This revenue decline was offset by a reduction in expenditures in the General Fund by \$1,359 billion as a result of ARRA, moving expenditures to the Federal Fund. As a result, the fiscal year 2010-2011 budget deficit decreased slightly to \$4,570 billion. During the 2009 legislative session, the budgetary deficit was further reduced, ending the session with a projected \$2,676 billion deficit. On July 1, 2009, the Governor acted to balance the budget through a combination of executive authorities, primarily by deferring \$1.7 billion in school aid payments and reducing \$300 million in local governmental aid payments.

#### Budget and GAAP Based Financial Outlook

On December 2, 2009, MMB released the forecast for the 2010-2011 biennium. Based on the forecast, the state's financial outlook has weakened since the end of the legislative session and a General Fund deficit of \$1,203 billion is projected in the absence of legislative or executive action. Both state statutes and the state constitution require a balanced budget for the biennium. However, it is likely that the state's General Fund will continue to show deficits on a GAAP basis over the 2010-2011 biennium.

### Capital Asset and Debt Administration

#### Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2009, was \$15.2 billion, less accumulated depreciation of \$2.4 billion, resulting in a net book value of \$12.8 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<br>June 30, 2009 and 2008<br>(in Thousands) |               |                          |              |                          |               |
|--|--|---------------|--------------------------|--------------|--------------------------|---------------|
|  | Governmental Activities                                    |               | Business-type Activities |              | Total Primary Government |               |
|  | 2009   | 2008          | 2009                     | 2008         | 2009                     | 2008          |
| <b>Capital Assets not Depreciated:</b> |  |               |                          |              |                          |               |
| Land                                   | \$ 2,073,170   | \$ 1,904,657  | \$ 81,879                | \$ 80,852    | \$ 2,155,049             | \$ 1,985,509  |
| Buildings, Structures, Improvements    | 52,789   | 28,040        | -                        | 52,799       | 28,040                   | 28,040        |
| Construction in Progress               | 251,943  | 261,251       | 154,867                  | 174,345      | 406,810                  | 435,596       |
| Infrastructure                         | 7,323,111  | 6,876,135     | -                        | -            | 7,323,111                | 6,876,135     |
| Art and Historical Treasures           | 1,989  | 1,989         | -                        | -            | 1,989                    | 1,989         |
| Total Capital Assets not Depreciated   | \$ 9,703,012   | \$ 9,072,072  | \$ 236,746               | \$ 255,197   | \$ 9,939,758             | \$ 9,327,269  |
| <b>Capital Assets Depreciated:</b>     |  |               |                          |              |                          |               |
| Buildings, Structures, Improvements    | \$ 2,142,686   | \$ 2,011,326  | \$ 2,286,086             | \$ 2,071,380 | \$ 4,428,772             | \$ 4,082,706  |
| Infrastructure                         | 92,789   | 69,216        | -                        | -            | 92,789                   | 69,216        |
| Library Collections                    | -  | -             | 48,526                   | 48,168       | 48,526                   | 48,168        |
| Equipment, Furniture, Fixtures         | 417,044  | 397,033       | 288,907                  | 288,172      | 705,951                  | 685,205       |
| Total Capital Assets Depreciated       | \$ 2,652,519   | \$ 2,477,575  | \$ 2,623,519             | \$ 2,407,720 | \$ 5,276,038             | \$ 4,885,295  |
| Less: Accumulated Depreciation         | 1,096,549  | 1,017,967     | 1,264,382                | 1,200,779    | 2,362,931                | 2,218,746     |
| Capital Assets Net of Depreciation     | \$ 1,555,970   | \$ 1,459,606  | \$ 1,359,137             | \$ 1,206,941 | \$ 2,913,107             | \$ 2,666,549  |
| Total                                  | \$ 11,258,982  | \$ 10,531,680 | \$ 1,995,883             | \$ 1,462,138 | \$ 12,852,865            | \$ 11,993,818 |

The state uses 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 3,000 bridges that are maintained by the Minnesota Department of Transportation (MnDOT).

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 2008, indicated that the average PQI for principal arterial pavement was 3.3 and 3.2 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 2008, indicated that 94 percent of principal arterial system bridges and 90 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

During the current year, the state received additional federal revenue as a result of the ARRA to fund transportation projects that were not included in the original budget. The additional revenue allowed the MnDOT to realign maintenance projects that were scheduled in future years to the current year. However, capitalized costs were less than the original budget primarily due to a slow start on two significant projects, the I-35W and Trunk Highway 62 interchange and the four lane highway project near Waseca.

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<br>June 30, 2009 and 2008<br>(In Thousands) |                         |              |                          |            |                          |
|---|-------------------------|--------------|--------------------------|------------|--------------------------|
|   | Governmental Activities |              | Business-type Activities |            | Total Primary Government |
|   | 2009                    | 2008         | 2009                     | 2008       | 2009                     |
| General Obligation  | \$ 4,667,902            | \$ 4,070,056 | \$ 241,946               | \$ 215,024 | \$ 4,909,848             |
| Revenue   | 13,715                  | 14,500       | 278,246                  | 206,585    | 291,961                  |
| Total   | \$ 4,681,617            | \$ 4,084,556 | \$ 520,192               | \$ 421,609 | \$ 5,201,809             |
|   |                         |              |                          |            | \$ 4,506,165             |

During fiscal year 2009, the state issued the following bonds:

- \$600 million in general obligation state various purpose bonds
- \$103.5 million in general obligation state trunk highway bonds
- \$5 million in general obligation Rural Finance Authority bonds
- \$155.4 million in state refunding bonds
- \$42.2 million in revenue bonds for a statewide 911 emergency response communication system
- \$35.8 million in revenue bonds for Minnesota State Colleges and Universities

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Liabilities – Primary Government 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 Minnesota Management and Budget, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

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STATE OF MINNESOTA

STATEMENT OF NET ASSETS (CONTINUED)  
JUNE 30, 2009  
(IN THOUSANDS)

|   | PRIMARY GOVERNMENT      |                          |               | COMPONENT UNITS |
|---|-------------------------|--------------------------|---------------|-----------------|
|   | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL         |                 |
| <b>ASSETS</b>                             |                         |                          |               |                 |
| <b>Current Assets:</b>                    |                         |                          |               |                 |
| Cash and Cash Equivalents.....            | \$ 4,292,917            | \$ 716,811               | \$ 4,910,028  | \$ 1,174,932    |
| Accounts Receivable.....                  | 983,165                 | 27,341                   | 990,506       | 861,892         |
| Due from Component Units.....             | 2,063,238               | 411,651                  | 2,474,889     | 427,476         |
| Accrued Investment Interest Income.....   | 21,827                  | -                        | 21,827        | -               |
| Federal Aid Receivable.....               | 21,350                  | 17                       | 21,367        | 17,599          |
| Loans and Notes Receivable.....           | 1,017,915               | 42,945                   | 1,060,860     | 40,726          |
| Internal Balances.....                    | 58,554                  | 6,222                    | 64,776        | 12,886          |
| Securities Lending Collateral.....        | (3,245)                 | 3,245                    | -             | 198,163         |
| Other Assets.....                         | 85,676                  | 358                      | 86,034        | 36,762          |
| Total Current Assets.....                 | \$ 8,465,665            | \$ 1,233,270             | \$ 9,698,935  | \$ 51,129       |
| <b>Noncurrent Assets:</b>                 |                         |                          |               |                 |
| Cash and Cash Equivalents-Restricted..... | -                       | \$ 140,446               | \$ 140,446    | \$ 312,255      |
| Accounts Receivable-Restricted.....       | -                       | -                        | -             | 627,218         |
| Due from Primary Government.....          | -                       | -                        | -             | 14,505          |
| Other Assets-Restricted.....              | -                       | 82                       | 82            | 42,598          |
| Investments-Component Units.....          | 103,957                 | -                        | 103,957       | 13,376          |
| Accounts Receivable.....                  | 362,176                 | -                        | 362,176       | 2,561,876       |
| Loans and Notes Receivable.....           | 247,725                 | -                        | 247,725       | 550,348         |
| Depreciable Capital Assets (Net).....     | 1,553,970               | 28,092                   | 1,582,062     | 4,724,003       |
| Nondepreciable Capital Assets.....        | 2,379,901               | 1,359,137                | 3,739,038     | 2,913,107       |
| Infrastructure (Not Depreciated).....     | 350,910                 | 236,746                  | 587,656       | 4,074,626       |
| Other Assets.....                         | 12,010,456              | -                        | 12,010,456    | 9,156,114       |
| Total Noncurrent Assets.....              | \$ 20,476,021           | \$ 2,997,773             | \$ 23,473,794 | \$ 10,885       |
| Total Assets.....                         | \$ 24,941,686           | \$ 4,231,043             | \$ 29,172,729 | \$ 13,847,246   |
| <b>LIABILITIES</b>                        |                         |                          |               |                 |
| <b>Current Liabilities:</b>               |                         |                          |               |                 |
| Accounts Payable.....                     | \$ 3,539,600            | \$ 283,564               | \$ 3,823,164  | \$ 325,212      |
| Due to Component Units.....               | 28,848                  | -                        | 28,848        | 24,641          |
| Unearned Revenue.....                     | 612,890                 | 59,716                   | 672,606       | 96,737          |
| Accrued Interest Payable.....             | 71,370                  | 418                      | 71,788        | 76,001          |
| Accounts Payable-Component Units.....     | 36,682                  | 17,656                   | 54,338        | 36,000          |
| Loans and Notes Payable.....              | 16,682                  | 929                      | 17,611        | 264,422         |
| Revenue Bonds Payable.....                | 815                     | 15,630                   | 16,445        | 503,749         |
| Claims Payable.....                       | 90,395                  | -                        | 90,395        | 93,885          |
| Compensated Absences Payable.....         | 31,419                  | 14,634                   | 46,053        | 183,873         |
| Workers' Compensation Liability.....      | 15,922                  | 2,065                    | 17,987        | -               |
| Capital Leases Payable.....               | 65,278                  | 2,853                    | 68,131        | 540             |
| Other Liabilities.....                    | 10,548                  | 15,495                   | 26,043        | 36,750          |
| Total Current Liabilities.....            | \$ 4,899,954            | \$ 412,129               | \$ 5,312,083  | \$ 23,449       |
| <b>Noncurrent Liabilities:</b>            |                         |                          |               |                 |
| Accounts Payable-Restricted.....          | -                       | -                        | -             | 98,554          |
| Unearned Revenue-Restricted.....          | -                       | -                        | -             | 55,591          |
| Accrued Interest Payable-Restricted.....  | -                       | -                        | -             | 10,763          |
| Due to Primary Government.....            | -                       | -                        | -             | 103,267         |
| General Revenue.....                      | 4,278,659               | 224,879                  | 4,503,538     | 3,982           |
| Revenue Bonds Payable.....                | 4,416,815               | 262,616                  | 4,679,431     | 1,349,853       |
| Claims Payable.....                       | 12,900                  | -                        | 12,900        | 3,746,390       |
| Compensated Absences Payable.....         | 674,592                 | 129,479                  | 804,071       | 625,741         |
| Workers' Compensation Liability.....      | 256,044                 | 3,099                    | 259,143       | 45,441          |
| Capital Leases Payable.....               | 79,250                  | 18,071                   | 97,321        | 11,995          |
| Funds Held in Trust.....                  | 15,718                  | -                        | 15,718        | 86,604          |
| Other Liabilities.....                    | 147,065                 | 44,627                   | 191,692       | 128,248         |
| Total Noncurrent Liabilities.....         | \$ 5,656,275            | \$ 687,424               | \$ 6,343,699  | \$ 6,271,086    |
| Total Liabilities.....                    | \$ 10,556,229           | \$ 1,099,553             | \$ 11,655,782 | \$ 8,200,836    |

STATE OF MINNESOTA

STATEMENT OF NET ASSETS (CONTINUED)  
JUNE 30, 2009  
(IN THOUSANDS)

|                                      | PRIMARY GOVERNMENT      |                          |               | COMPONENT UNITS |
|--------------------------------------|-------------------------|--------------------------|---------------|-----------------|
|                                      | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL         |                 |
| <b>NET ASSETS</b>                    |                         |                          |               |                 |
| Invested in Capital Assets.....      | \$ 8,285,028            | \$ 1,198,727             | \$ 9,484,755  | \$ 3,098,572    |
| Net of Related Debt.....             | -                       | -                        | -             | -               |
| Capital Projects.....                | 36,933                  | -                        | 36,933        | -               |
| Debt Service.....                    | 425,915                 | -                        | 425,915       | -               |
| Transportation.....                  | 792,534                 | -                        | 792,534       | -               |
| Environmental Resources.....         | 483,527                 | -                        | 483,527       | -               |
| Capital Development.....             | 6,058                   | -                        | 6,058         | -               |
| School Aid-Nonexpendable.....        | 624,361                 | -                        | 624,361       | -               |
| School Aid-Expendable.....           | 78,513                  | -                        | 78,513        | -               |
| Health & Human Services.....         | 16,506                  | -                        | 16,506        | -               |
| Unemployment Benefits.....           | 317,218                 | -                        | 317,218       | -               |
| State Colleges and Universities..... | 364,804                 | -                        | 364,804       | -               |
| Other Purposes.....                  | 32,814                  | -                        | 32,814        | -               |
| Component Units.....                 | -                       | -                        | -             | 4,998,096       |
| Total Restricted.....                | \$ 2,552,859            | \$ 737,400               | \$ 3,290,259  | \$ 4,998,096    |
| Unrestricted.....                    | (917,895)               | (88,907)                 | (1,006,802)   | 472,159         |
| Total Net Assets.....                | \$ 9,197,220            | \$ 1,898,220             | \$ 11,095,440 | \$ 6,588,827    |

The notes are an integral part of the financial statements.

**STATE OF MINNESOTA**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)**

| FUNCTIONS/PROGRAMS                                    | PROGRAM REVENUES     |                      |                                    |
|---|----------------------|----------------------|------------------------------------|
|   | EXPENSES             | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS |
| <b>Primary Government:</b>                            |                      |                      |                                    |
| Governmental Activities:                              |                      |                      |                                    |
| Public Safety and Corrections.....                    | \$ 944,400           | \$ 159,155           | \$ 135,246                         |
| Transportation.....                                   | 2,068,980            | 45,385               | 567,177                            |
| Agricultural, Environmental and Energy Resources..... | 834,458              | 339,523              | 144,300                            |
| Economic and Workforce Development.....               | 695,314              | 47,377               | 254,396                            |
| General Education.....                                | 7,811,723            | 42,192               | 615,651                            |
| Higher Education.....                                 | 912,011              | -                    | -                                  |
| Health and Human Services.....                        | 11,248,700           | 317,009              | 5,897,417                          |
| General Government.....                               | 300,153              | 239,107              | 40,799                             |
| Intergovernmental Aid.....                            | 1,453,687            | -                    | -                                  |
| Interest.....   | 210,435              | -                    | -                                  |
| <b>Total Governmental Activities.....</b>             | <b>\$ 26,961,941</b> | <b>\$ 1,189,748</b>  | <b>\$ 7,754,986</b>                |
| <b>Business-type Activities:</b>                      |                      |                      |                                    |
| State Colleges and Universities.....                  | \$ 1,743,009         | \$ 827,997           | \$ 238,327                         |
| Unemployment Insurance.....                           | 1,865,939            | 800,590              | 634,157                            |
| Lottery.....  | 363,632              | 482,738              | -                                  |
| Other.....  | 235,163              | 232,970              | -                                  |
| <b>Total Business-type Activities.....</b>            | <b>\$ 4,208,543</b>  | <b>\$ 2,343,895</b>  | <b>\$ 872,484</b>                  |
| <b>Total Primary Government.....</b>                  | <b>\$ 31,170,484</b> | <b>\$ 3,533,643</b>  | <b>\$ 8,627,470</b>                |
| <b>Component Units:</b>                               |                      |                      |                                    |
| University of Minnesota.....                          | \$ 3,234,259         | \$ 1,420,733         | \$ 793,783                         |
| Metropolitan Council.....                             | 853,745              | 949,281              | 166,627                            |
| Housing Finance.....                                  | 439,168              | 183,505              | 187,720                            |
| Others.....   | 355,745              | 139,862              | 59,138                             |
| <b>Total Component Units.....</b>                     | <b>\$ 4,882,917</b>  | <b>\$ 2,092,381</b>  | <b>\$ 1,207,268</b>                |

| General Revenues:                            |                |
|--|----------------|
| Taxes:                                       |                |
| Individual Income Taxes.....                 | \$ 7,203,337   |
| Corporate Income Taxes.....                  | 741,049        |
| Sales Taxes.....                             | 4,338,748      |
| Property Taxes.....                          | 733,889        |
| Motor Vehicle Taxes.....                     | 955,785        |
| Fuel Taxes.....                              | 2,388,543      |
| Other Taxes.....                             | 176,140        |
| Tobacco Tax.....                             | 57,700         |
| Undesignated Investment/Interest Income..... | 32,306         |
| Other Revenues.....                          | 17,900         |
| State Grants Not Restricted.....             | 95,318         |
| Special Item Transfers.....                  | -              |
| Total General Revenues and Transfers.....    | \$ 16,656,103  |
| Change in Net Assets.....                    | \$ (1,088,369) |
| Net Assets, Beginning, as Reported.....      | \$ 10,959,356  |
| Prior Period Adjustments.....                | 94,658         |
| Change in Accounting Principle.....          | (45,854)       |
| Net Assets, Beginning, as Restated.....      | \$ 11,008,160  |
| Net Assets, Ending.....                      | \$ 9,919,792   |

The notes are an integral part of the financial statements.

| NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS       |                         |                          |
|---|-------------------------|--------------------------|
| FUNCTIONS/PROGRAMS                                    | PRIMARY GOVERNMENT      |                          |
|   | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES |
| <b>Primary Government:</b>                            |                         |                          |
| Governmental Activities:                              |                         |                          |
| Public Safety and Corrections.....                    | \$ (649,999)            | \$ (649,999)             |
| Transportation.....                                   | (1,186,716)             | (1,186,716)              |
| Agricultural, Environmental and Energy Resources..... | (348,837)               | (348,837)                |
| Economic and Workforce Development.....               | (393,541)               | (393,541)                |
| General Education.....                                | (7,153,880)             | (7,153,880)              |
| Higher Education.....                                 | (912,011)               | (912,011)                |
| Health and Human Services.....                        | (4,932,938)             | (4,932,938)              |
| General Government.....                               | (329,107)               | (329,107)                |
| Intergovernmental Aid.....                            | (1,453,687)             | (1,453,687)              |
| Interest.....   | (210,435)               | (210,435)                |
| <b>Total Governmental Activities.....</b>             | <b>\$ (17,744,471)</b>  | <b>\$ (17,744,471)</b>   |
| <b>Business-type Activities:</b>                      |                         |                          |
| State Colleges and Universities.....                  | \$ (673,023)            | \$ (673,023)             |
| Unemployment Insurance.....                           | (431,192)               | (431,192)                |
| Lottery.....  | 118,906                 | 118,906                  |
| Other.....  | (2,593)                 | (2,593)                  |
| <b>Total Business-type Activities.....</b>            | <b>\$ (987,902)</b>     | <b>\$ (987,902)</b>      |
| <b>Total Primary Government.....</b>                  | <b>\$ (17,744,471)</b>  | <b>\$ (18,732,373)</b>   |
| <b>Component Units:</b>                               |                         |                          |
| University of Minnesota.....                          | \$ (816,644)            | \$ (816,644)             |
| Metropolitan Council.....                             | (176,841)               | (176,841)                |
| Housing Finance.....                                  | (67,943)                | (67,943)                 |
| Others.....   | (156,745)               | (156,745)                |
| <b>Total Component Units.....</b>                     | <b>\$ (1,218,173)</b>   | <b>\$ (1,218,173)</b>    |

| General Revenues:                            |                |
|--|----------------|
| Taxes:                                       |                |
| Individual Income Taxes.....                 | \$ 7,203,337   |
| Corporate Income Taxes.....                  | 741,049        |
| Sales Taxes.....                             | 4,338,748      |
| Property Taxes.....                          | 733,889        |
| Motor Vehicle Taxes.....                     | 955,785        |
| Fuel Taxes.....                              | 2,388,543      |
| Other Taxes.....                             | 176,140        |
| Tobacco Tax.....                             | 57,700         |
| Undesignated Investment/Interest Income..... | 32,306         |
| Other Revenues.....                          | 17,900         |
| State Grants Not Restricted.....             | 95,318         |
| Special Item Transfers.....                  | -              |
| Total General Revenues and Transfers.....    | \$ 16,656,103  |
| Change in Net Assets.....                    | \$ (1,088,369) |
| Net Assets, Beginning, as Reported.....      | \$ 10,959,356  |
| Prior Period Adjustments.....                | 94,658         |
| Change in Accounting Principle.....          | (45,854)       |
| Net Assets, Beginning, as Restated.....      | \$ 11,008,160  |
| Net Assets, Ending.....                      | \$ 9,919,792   |

STATE OF MINNESOTA

GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2009  
(IN THOUSANDS)

|   | GENERAL             | FEDERAL             | NONMAJOR FUNDS      | TOTAL               |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                                   |                     |                     |                     |                     |
| Cash and Cash Equivalents.....                  | \$ 857,656          | \$ 9,654            | \$ 3,027,309        | \$ 3,894,619        |
| Investments.....                                | 13,508              | -                   | 928,328             | 941,836             |
| Accounts Receivable.....                        | 1,886,194           | 142,456             | 392,699             | 2,421,349           |
| Interfund Receivables.....                      | 144,120             | 4,757               | 224,486             | 373,363             |
| Due from Component Units.....                   | 7,779               | -                   | 118,005             | 125,784             |
| Accrued Investment/Interest Income.....         | 13,969              | -                   | 7,130               | 21,099              |
| Federal Aid Receivable.....                     | -                   | 978,107             | 39,808              | 1,017,915           |
| Inventories.....                                | -                   | -                   | 25,202              | 25,202              |
| Loans and Notes Receivable.....                 | 41,330              | -                   | 264,949             | 306,279             |
| Advances to Other Funds.....                    | 1,125               | -                   | -                   | 1,125               |
| Deferred Costs.....                             | -                   | -                   | 2,577               | 2,577               |
| Securities Lending Collateral.....              | 461                 | -                   | 85,215              | 85,676              |
| Investment in Land.....                         | -                   | -                   | 16,007              | 16,007              |
| <b>Total Assets.....</b>                        | <b>\$ 2,966,142</b> | <b>\$ 1,134,974</b> | <b>\$ 5,131,715</b> | <b>\$ 9,232,831</b> |
| <b>LIABILITIES AND FUND BALANCES</b>            |                     |                     |                     |                     |
| Liabilities:                                    |                     |                     |                     |                     |
| Accounts Payable.....                           | \$ 2,062,544        | \$ 971,281          | \$ 446,311          | \$ 3,480,136        |
| Interfund Payables.....                         | 54,997              | 81,791              | 239,362             | 376,150             |
| Due to Component Units.....                     | 15,610              | 2,878               | 6,613               | 25,101              |
| Deferred Revenue.....                           | 1,468,238           | 78,871              | 185,741             | 1,732,850           |
| Accrued Interest Payable.....                   | 5,600               | -                   | -                   | 5,600               |
| Securities Lending Liabilities.....             | 461                 | -                   | 85,215              | 85,676              |
| <b>Total Liabilities.....</b>                   | <b>\$ 3,607,450</b> | <b>\$ 1,134,821</b> | <b>\$ 963,242</b>   | <b>\$ 5,705,513</b> |
| Fund Balances:                                  |                     |                     |                     |                     |
| Reserved Fund Balances:                         |                     |                     |                     |                     |
| Reserved for Encumbrances.....                  | \$ 68,727           | \$ -                | \$ 276,967          | \$ 345,694          |
| Reserved for Trust Principal.....               | -                   | -                   | 1,008,778           | 1,008,778           |
| Other Reserved Fund Balances.....               | 42,455              | 153                 | 572,691             | 615,299             |
| <b>Total Reserved Fund Balances.....</b>        | <b>\$ 111,182</b>   | <b>\$ 153</b>       | <b>\$ 1,858,436</b> | <b>\$ 1,969,571</b> |
| Unreserved Fund Balances:                       |                     |                     |                     |                     |
| Designated for:                                 |                     |                     |                     |                     |
| Special Revenue Funds.....                      | \$ -                | \$ -                | \$ 1,214,750        | \$ 1,214,750        |
| Debt Service Fund.....                          | -                   | -                   | 742,069             | 742,069             |
| Permanent Funds.....                            | -                   | -                   | 5,882               | 5,882               |
| Undesignated, reported in:                      |                     |                     |                     |                     |
| General Fund.....                               | (752,490)           | -                   | -                   | (752,490)           |
| Capital Project Funds.....                      | -                   | -                   | 2,472               | 2,472               |
| Special Revenue Funds.....                      | -                   | -                   | 344,884             | 344,884             |
| <b>Total Unreserved Fund Balance.....</b>       | <b>\$ (752,490)</b> | <b>\$ -</b>         | <b>\$ 2,310,037</b> | <b>\$ 1,557,547</b> |
| <b>Total Fund Balances.....</b>                 | <b>\$ (641,308)</b> | <b>\$ 153</b>       | <b>\$ 4,168,473</b> | <b>\$ 3,527,318</b> |
| <b>Total Liabilities and Fund Balances.....</b> | <b>\$ 2,966,142</b> | <b>\$ 1,134,974</b> | <b>\$ 5,131,715</b> | <b>\$ 9,232,831</b> |

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, 2009  
(IN THOUSANDS)

|  |                     |
|--|---------------------|
| <b>Total Fund Balance for Governmental Funds.....</b>  | <b>\$ 3,527,318</b> |
| 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.....  | \$ 7,323,111        |
| Depreciable Capital Assets.....  | 2,575,058           |
| Nondepreciable Capital Assets.....   | 2,363,894           |
| Accumulated Depreciation.....  | (1,051,171)         |
| <b>Total Capital Assets.....</b>   | <b>11,210,892</b>   |

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.....

1,124,787

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.....

38,387

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.....

280,076

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

|  |                    |
|--|--------------------|
| General Obligation Bonds Payable.....              | \$ (4,371,788)     |
| Bond Premium Payable.....                          | (296,114)          |
| Revenue Bonds Payable.....                         | (13,715)           |
| Accrued Interest Payable on Bonds.....             | (65,770)           |
| Loans and Notes Payable.....                       | (34,396)           |
| Claims Payable.....                                | (764,977)          |
| Workers' Compensation Liability.....               | (95,172)           |
| Capital Leases Payable.....                        | (161,629)          |
| Compensated Absences Payable.....                  | (281,408)          |
| Net Pension Obligation.....                        | (46,856)           |
| Net Other Post-Employment Benefits Obligation..... | (71,736)           |
| Pollution Remediation.....                         | (38,641)           |
| Due to Component Units.....                        | (19,465)           |
| <b>Total Liabilities.....</b>                      | <b>(6,261,668)</b> |

**Net Assets of Governmental Activities.....**

**\$ 9,919,792**

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)

|   | GENERAL        | FEDERAL      | NONMAJOR FUNDS | TOTAL          |
|---|----------------|--------------|----------------|----------------|
| Net Revenues:   |                |              |                |                |
| Individual Income Taxes.....                          | \$ 7,162,974   | \$ -         | \$ -           | \$ 7,162,974   |
| Corporate Income Taxes.....                           | 727,928        | -            | -              | 727,928        |
| Sales Taxes.....                                      | 4,279,055      | -            | -              | 4,279,178      |
| Property Taxes.....                                   | 234,317        | -            | 123            | 358,317        |
| Miscellaneous Taxes.....                              | 244,917        | -            | 710,868        | 955,785        |
| Fuel Taxes.....                                       | 1,196,171      | -            | 756,381        | 1,952,552      |
| Other Taxes.....                                      | 179,854        | -            | 769,449        | 949,303        |
| Tobacco Settlement.....                               | -              | -            | -              | 179,854        |
| Federal Revenues.....                                 | 7,344,523      | 7,344,523    | -              | 14,689,046     |
| Licenses and Fees.....                                | 246,755        | 3,044        | 527,301        | 777,100        |
| Departmental Services.....                            | 47,503         | 17,889       | 199,368        | 264,460        |
| Investment/Interest Income.....                       | 36,385         | 450          | (72,275)       | (35,440)       |
| Securities Lending Income.....                        | 940            | -            | 1,480          | 2,420          |
| Other Revenues.....                                   | 299,463        | 47,418       | 309,012        | 655,893        |
| Net Revenues.....                                     | \$ 15,153,318  | \$ 7,413,024 | \$ 3,744,129   | \$ 26,310,471  |
| Expenditures:   |                |              |                |                |
| Current:  |                |              |                |                |
| Public Safety and Corrections.....                    | \$ 601,299     | \$ 101,976   | \$ 188,205     | \$ 891,480     |
| Transportation.....                                   | 237,131        | 279,430      | 1,523,773      | 2,040,334      |
| Agricultural, Environmental and Energy Resources..... | 234,866        | 195,470      | 436,607        | 866,943        |
| Economic and Workforce Development.....               | 1,111,869      | 232,989      | 359,878        | 704,736        |
| General Education.....                                | 7,076,654      | 665,465      | 66,190         | 7,808,279      |
| Higher Education.....                                 | 830,789        | -            | 82,503         | 913,292        |
| Health and Human Services.....                        | 4,582,098      | 5,819,593    | 895,862        | 11,297,553     |
| Governmental Administration.....                      | 1,620,094      | 18,132       | 42,224         | 1,680,450      |
| Intergovernmental Aid.....                            | 1,435,675      | -            | 222            | 1,435,897      |
| Securities Lending Rebates and Fees.....              | 568            | -            | 669            | 1,237          |
| Total Current Expenditures.....                       | \$ 15,773,565  | \$ 7,313,055 | \$ 3,867,523   | \$ 26,954,143  |
| Capital Outlay.....                                   | 8,067          | 63,669       | 675,229        | 746,965        |
| Debt Service.....                                     | 32,149         | 579          | 587,288        | 620,016        |
| Total Expenditures.....                               | \$ 15,813,781  | \$ 7,377,293 | \$ 4,830,040   | \$ 28,021,114  |
| Excess of Revenues Over (Under) Expenditures.....     | \$ (660,463)   | \$ 35,731    | \$ (1,085,911) | \$ (1,710,643) |
| Other Financing Sources (Uses):                       |                |              |                |                |
| General Obligation Bond Issuance.....                 | \$ -           | \$ -         | \$ 675,810     | \$ 675,810     |
| Loan Proceeds.....                                    | -              | -            | 549            | 549            |
| Proceeds from Refunding Bonds.....                    | -              | -            | 155,415        | 155,415        |
| Payment to Refunded Bonds Escrow Agent.....           | -              | -            | (155,415)      | (155,415)      |
| Bond Issue Premium.....                               | 555,696        | 2,015        | 2,447,570      | 3,005,281      |
| Transfers In.....                                     | (1,379,167)    | (45,085)     | (2,161,569)    | (3,585,821)    |
| Transfers Out.....                                    | -              | -            | -              | -              |
| Net Other Financing Sources (Uses).....               | \$ (823,471)   | \$ (43,070)  | \$ 1,018,472   | \$ 151,931     |
| Net Change in Fund Balances.....                      | \$ (1,483,954) | \$ (7,339)   | \$ (67,439)    | \$ (1,558,712) |
| Fund Balances, Beginning, as Reported.....            | \$ 842,626     | \$ 7,492     | \$ 4,234,565   | \$ 5,084,683   |
| Change in Inventory.....                              | -              | -            | 1,347          | 1,347          |
| Fund Balances, Ending.....                            | \$ (641,308)   | \$ 153       | \$ (4,168,473) | \$ (3,527,318) |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)

|   |                       |
|---|-----------------------|
| Net Change in Fund Balances for Governmental Funds.....   | \$ (1,558,712)        |
| 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 of \$99,842 in the current period..... | 647,113               |
| 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.....  | (17,503)              |
| Internal service funds are used by management to charge the costs of certain activities to individual governmental activities. The net revenue (expense) of internal service funds activities reported with governmental activities.....  | 39,704                |
| 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.....   | 1,347                 |
| Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.....   | 137,616               |
| Bond and loan proceeds provide current financial resources to governmental funds; however, issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets.....  | (887,886)             |
| Repayment of bonds and loans are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.....  | 545,324               |
| 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.....  | 4,629                 |
| <b>Change in Net Assets of Governmental Activities.....</b>   | <b>\$ (1,085,368)</b> |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

MAJOR GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
BUDGETARY BASIS  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)

|   | ORIGINAL BUDGET | FINAL BUDGET   | ACTUAL         |
|---|-----------------|----------------|----------------|
| Net Revenues:   |                 |                |                |
| Individual Income Taxes.....                          | \$ 7,766,795    | \$ 7,203,220   | \$ 6,988,234   |
| Corporate Income Taxes.....                           | 965,780         | 652,365        | 708,195        |
| Sales Taxes.....                                      | 4,601,341       | 4,377,801      | 4,314,314      |
| Property Taxes.....                                   | 739,125         | 743,211        | 729,373        |
| Motor Vehicle Taxes.....                              | 248,265         | 237,669        | 246,370        |
| Other Taxes.....                                      | 1,133,860       | 1,154,769      | 1,153,603      |
| Departmental Earnings/Licenses & Fees.....            | 278,138         | 290,521        | 293,535        |
| Investment/Interest Income.....                       | 35,000          | 28,000         | 40,093         |
| Tobacco Settlement.....                               | 180,987         | 176,982        | 179,855        |
| Other Revenues.....                                   | 394,572         | 371,086        | 426,929        |
| Net Revenues.....                                     | \$ 16,346,853   | \$ 15,239,278  | \$ 15,081,667  |
| Expenditures:   |                 |                |                |
| Public Safety and Corrections.....                    | \$ 612,650      | \$ 623,597     | \$ 608,629     |
| Transportation.....                                   | 241,371         | 241,292        | 239,707        |
| Agricultural, Environmental and Energy Resources..... | 274,000         | 260,064        | 245,082        |
| Economic and Workforce Development.....               | 80,832          | 73,708         | 65,273         |
| General Education.....                                | 7,074,188       | 7,059,426      | 7,056,860      |
| Higher Education.....                                 | 900,406         | 876,493        | 867,180        |
| Health and Human Services.....                        | 4,906,698       | 4,529,589      | 4,409,591      |
| General Government.....                               | 1,279,868       | 821,268        | 770,723        |
| Intergovernment Aid.....                              | 1,541,547       | 1,459,048      | 1,441,246      |
| Total Expenditures.....                               | \$ 16,911,560   | \$ 15,944,465  | \$ 15,704,291  |
| Excess of Revenues Over (Under) Expenditures.....     | \$ (564,707)    | \$ (705,187)   | \$ (622,624)   |
| Other Financing Sources (Uses):                       |                 |                |                |
| Transfers-In.....                                     | \$ 391,375      | \$ 465,872     | \$ 464,507     |
| Transfers-Out.....                                    | (691,169)       | (1,357,963)    | (1,357,963)    |
| Net Other Financing Sources (Uses).....               | \$ (299,794)    | \$ (892,091)   | \$ (893,456)   |
| Net Change in Fund Balances.....                      | \$ (1,064,501)  | \$ (1,597,278) | \$ (1,516,080) |
| Fund Balances, Beginning, as Reported.....            | \$ 1,981,911    | \$ 1,981,911   | \$ 1,981,911   |
| Prior Period Adjustments.....                         | -               | -              | 32,175         |
| Fund Balances, Beginning, as Restated.....            | \$ 1,981,911    | \$ 1,981,911   | \$ 2,014,086   |
| Budgetary Fund Balances, Ending.....                  | \$ 917,410      | \$ 384,633     | \$ 498,006     |
| Less: Appropriation Carryover.....                    | -               | -              | 45,644         |
| Less: Reserved for Long-Term Receivables.....         | -               | -              | 41,330         |
| Less: Budgetary Reserve.....                          | -               | -              | 350,000        |
| Undesignated Fund Balances, Ending.....               | \$ 917,410      | \$ 384,633     | \$ 61,032      |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009  
(IN THOUSANDS)

|   | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL        | INTERNAL SERVICE FUNDS |
|---|-------------------------------|------------------------|---------------------------|--------------|------------------------|
| ASSETS                                    |                               |                        |                           |              |                        |
| Current Assets:                           |                               |                        |                           |              |                        |
| Cash Equivalents.....                     | \$ 544,952                    | \$ 67,428              | \$ 104,431                | \$ 716,811   | \$ 307,588             |
| Investments.....                          | 27,344                        | -                      | -                         | 27,344       | 21,329                 |
| Accounts Receivable.....                  | 42,957                        | 335,370                | 33,324                    | 411,651      | 26,082                 |
| Intertfund Receivables.....               | 42,016                        | -                      | 2,355                     | 44,371       | -                      |
| Accrued Investment/Interest Income.....   | 13,629                        | 29,316                 | 17                        | 42,962       | 251                    |
| Prepaid and Receivable.....               | 14,328                        | -                      | -                         | 14,328       | 5                      |
| Deferred Costs.....                       | 313                           | -                      | 7,073                     | 7,386        | 788                    |
| Loans and Notes Receivable.....           | 6,622                         | -                      | 594                       | 7,216        | 6,301                  |
| Securities Lending Collateral.....        | 358                           | -                      | -                         | 358          | -                      |
| Other Assets.....                         | 692,514                       | 432,114                | 1,974                     | 1,274,996    | 962,349                |
| Total Current Assets.....                 | \$ 1,728,467                  | \$ 432,114             | \$ 148,768                | \$ 3,088,899 | \$ 993,661             |
| Noncurrent Assets:                        |                               |                        |                           |              |                        |
| Cash and Cash Equivalents-Restricted..... | \$ 138,846                    | -                      | \$ 1,600                  | \$ 140,446   | \$ -                   |
| Other Assets-Restricted.....              | 82                            | -                      | -                         | 82           | -                      |
| Deferred Costs.....                       | 28,092                        | -                      | -                         | 28,092       | 1,229                  |
| Loans and Notes Receivable.....           | 1,369,522                     | -                      | 31,056                    | 1,399,578    | 30,083                 |
| Securities Lending Collateral.....        | 233,366                       | -                      | 3,380                     | 236,746      | -                      |
| Nondepreciable Capital Assets.....        | 1,728,467                     | -                      | 36,036                    | 1,764,503    | -                      |
| Total Noncurrent Assets.....              | \$ 2,420,981                  | \$ 432,114             | \$ 185,804                | \$ 3,038,899 | \$ 31,312              |
| Total Assets.....                         | \$ 4,149,448                  | \$ 864,228             | \$ 334,572                | \$ 5,117,798 | \$ 1,025,073           |
| LIABILITIES                               |                               |                        |                           |              |                        |
| Current Liabilities:                      |                               |                        |                           |              |                        |
| Accounts Payable.....                     | \$ 181,488                    | \$ 70,322              | \$ 31,754                 | \$ 283,564   | \$ 81,481              |
| Intertfund Payables.....                  | 25,320                        | 19,254                 | -                         | 44,574       | 488                    |
| Accrued Bond Interest Payable.....        | 38,874                        | -                      | 418                       | 39,292       | 4,827                  |
| General Obligation Bonds Payable.....     | 16,786                        | -                      | 281                       | 17,067       | -                      |
| Loans and Notes Payable.....              | 929                           | -                      | 9,360                     | 10,289       | 6,448                  |
| Revenue Bonds Payable.....                | 6,270                         | -                      | -                         | 6,270        | 15,630                 |
| Capital Leases.....                       | 2,141                         | -                      | 112                       | 2,253        | -                      |
| Compensation Liability.....               | 13,192                        | -                      | 1,442                     | 14,634       | 530                    |
| Compensated Absences Payable.....         | 15,454                        | -                      | -                         | 15,454       | -                      |
| Securities Lending Liabilities.....       | 277,557                       | 114,896                | 60,802                    | 453,255      | 98,744                 |
| Other Liabilities.....                    | -                             | -                      | 41                        | 41           | -                      |
| Total Current Liabilities.....            | \$ 277,557                    | \$ 114,896             | \$ 60,802                 | \$ 453,255   | \$ 98,744              |
| Noncurrent Liabilities:                   |                               |                        |                           |              |                        |
| General Obligation Bonds Payable.....     | \$ 222,526                    | -                      | \$ 2,353                  | \$ 224,879   | \$ -                   |
| Loans and Notes Payable.....              | 4,653                         | -                      | -                         | 4,653        | 12,814                 |
| Revenue Bonds Payable.....                | 188,838                       | -                      | 73,778                    | 262,616      | -                      |
| Workers' Compensation Liability.....      | 3,099                         | -                      | -                         | 3,099        | -                      |
| Capital Leases.....                       | 17,573                        | -                      | 488                       | 18,061       | 5,524                  |
| Compensated Absences Payable.....         | 116,770                       | -                      | 10,762                    | 127,532      | 1,125                  |
| Advances from Other Funds.....            | 43,840                        | -                      | 787                       | 44,627       | 378                    |
| Other Liabilities.....                    | 599,299                       | -                      | 88,125                    | 687,424      | 19,841                 |
| Total Noncurrent Liabilities.....         | \$ 876,856                    | \$ 114,896             | \$ 146,927                | \$ 1,140,679 | \$ 113,585             |
| Total Liabilities.....                    | \$ 1,154,413                  | \$ 229,792             | \$ 207,729                | \$ 1,591,934 | \$ 212,329             |
| NET ASSETS                                |                               |                        |                           |              |                        |
| Invested in Capital Assets.....           | \$ 1,179,321                  | \$ -                   | \$ 20,406                 | \$ 1,199,727 | \$ 11,096              |
| Restricted for:                           |                               |                        |                           |              |                        |
| Bond Covenants.....                       | \$ 51,881                     | -                      | -                         | \$ 51,881    | \$ -                   |
| Capital Projects.....                     | 24,942                        | -                      | -                         | 24,942       | -                      |
| Economic and Workforce Development.....   | 6,058                         | -                      | 6,058                     | 12,116       | -                      |
| Health and Human Services.....            | 16,506                        | -                      | 16,506                    | 33,012       | -                      |
| Other Purposes.....                       | 32,814                        | -                      | 55,378                    | 88,192       | 46,873                 |
| Total Restricted.....                     | \$ 112,888                    | \$ -                   | \$ 78,448                 | \$ 189,336   | \$ 96,956              |
| Unrestricted.....                         | \$ 251,906                    | \$ 317,218             | \$ 389,077                | \$ 958,191   | \$ 268,980             |
| Total Net Assets.....                     | \$ 1,544,125                  | \$ 317,218             | \$ 368,777                | \$ 1,888,220 | \$ 280,076             |

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, 2009  
(IN THOUSANDS)

|   | ENTERPRISE FUNDS              |                        |                           |                | INTERNAL SERVICE FUNDS |
|---|-------------------------------|------------------------|---------------------------|----------------|------------------------|
|   | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL          |                        |
| Operating Revenues:                                 |                               |                        |                           |                |                        |
| Tuition and Fees.....                               | \$ 730,048                    | -                      | \$ 525,235                | \$ 730,048     | \$ 16,543              |
| Net Sales.....                                      | -                             | -                      | 525,235                   | -              | 175,401                |
| Rentals.....  | -                             | -                      | 175,401                   | -              | 186,468                |
| Service Fees.....                                   | -                             | 798,037                | 89,850                    | 887,887        | 684,166                |
| Other Revenues.....                                 | 216,482                       | -                      | 11,810                    | 216,482        | -                      |
| Federal Revenues.....                               | 80,834                        | -                      | -                         | 80,834         | -                      |
| State Grants.....                                   | 17,115                        | -                      | -                         | 17,115         | -                      |
| Other Income.....                                   | 2,553                         | -                      | 2,859                     | 2,553          | 8,163                  |
| Total Operating Revenues.....                       | \$ 1,044,479                  | \$ 800,590             | \$ 715,308                | \$ 2,560,377   | \$ 857,280             |
| Less: Cost of Goods Sold.....                       | -                             | -                      | 357,361                   | -              | 4,481                  |
| Gross Margin.....                                   | \$ 1,044,479                  | \$ 800,590             | \$ 357,947                | \$ 2,203,016   | \$ 851,799             |
| Operating Expenses:                                 |                               |                        |                           |                |                        |
| Purchased Services.....                             | \$ 220,513                    | -                      | \$ 50,739                 | \$ 271,252     | \$ 167,470             |
| Salaries and Fringe Benefits.....                   | 1,224,801                     | -                      | 126,883                   | 1,351,684      | 54,004                 |
| Student Financial Aid.....                          | 33,506                        | -                      | -                         | 33,506         | -                      |
| Unemployment Benefits.....                          | -                             | 1,865,237              | -                         | 1,865,237      | -                      |
| Claims.....   | 82,982                        | -                      | 8,914                     | 91,896         | 539,658                |
| Depreciation.....                                   | -                             | -                      | 4,284                     | 4,284          | 59,574                 |
| Amortization.....                                   | -                             | -                      | 71                        | 71             | 8,932                  |
| Supplies and Materials.....                         | 89,593                        | -                      | 5,933                     | 95,526         | 7,681                  |
| Repairs and Maintenance.....                        | 28,093                        | -                      | -                         | 28,093         | -                      |
| Indirect Costs.....                                 | -                             | -                      | 8,611                     | 8,611          | 2,833                  |
| Other Expenses.....                                 | 37,860                        | -                      | 9,371                     | 47,231         | 7,671                  |
| Total Operating Expenses.....                       | \$ 1,717,348                  | \$ 1,865,237           | \$ 214,802                | \$ 3,797,387   | \$ 789,575             |
| Operating Income (Loss).....                        | \$ (672,869)                  | \$ (1,064,647)         | \$ 143,145                | \$ (1,594,371) | \$ 62,224              |
| Nonoperating Revenues (Expenses):                   |                               |                        |                           |                |                        |
| Investment Income.....                              | \$ 10,066                     | \$ 19,665              | \$ 2,575                  | \$ 32,306      | \$ 9,307               |
| Private Grants.....                                 | 21,845                        | 634,157                | -                         | 21,845         | 21,845                 |
| Grants and Subsidies.....                           | 4,262                         | -                      | -                         | 4,262          | 638,419                |
| Other Nonoperating Revenues.....                    | (17,155)                      | -                      | 27                        | (17,155)       | -                      |
| Grants, Aids and Subsidies.....                     | (8,106)                       | (702)                  | (3,427)                   | (20,582)       | (672)                  |
| Other Nonoperating Expenses.....                    | 653                           | -                      | (5,850)                   | (5,197)        | (1,383)                |
| Gain (Loss) on Disposal of Capital Assets.....      | -                             | -                      | (45)                      | -              | 316                    |
| Total Nonoperating Revenues (Expenses).....         | \$ 10,565                     | \$ 653,120             | \$ (24,280)               | \$ 639,405     | \$ 7,568               |
| Income (Loss) Before Transfers & Contributions..... | \$ (662,304)                  | \$ (411,527)           | \$ 118,865                | \$ (954,966)   | \$ 69,792              |
| Capital Contributions.....                          | 106,793                       | -                      | 252                       | 106,985        | 106,985                |
| Transfers-In.....                                   | 662,417                       | -                      | 6,098                     | 668,505        | 681                    |
| Transfers-Out.....                                  | -                             | (2,198)                | (162,472)                 | (164,670)      | (307,659)              |
| Change in Net Assets.....                           | \$ 106,846                    | \$ (413,665)           | \$ (37,267)               | \$ (344,086)   | \$ 38,704              |
| Net Assets, Beginning, as Reported.....             | \$ 1,437,279                  | \$ 730,863             | \$ 74,144                 | \$ 2,242,006   | \$ 240,372             |
| Net Assets, Ending.....                             | \$ 1,544,125                  | \$ 317,218             | \$ 36,877                 | \$ 1,898,220   | \$ 280,076             |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)

|   | ENTERPRISE FUNDS              |                        |                           |                | INTERNAL SERVICE FUNDS |
|---|-------------------------------|------------------------|---------------------------|----------------|------------------------|
|   | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL          |                        |
| Cash Flows from Operating Activities:                             |                               |                        |                           |                |                        |
| Receipts from Customers.....                                      | \$ 895,740                    | \$ 815,322             | \$ 708,716                | \$ 2,429,778   | \$ 846,766             |
| Receipts from Other Revenues.....                                 | 297,593                       | -                      | 2,311                     | 297,593        | 9,087                  |
| Repayment of Program Loans.....                                   | -                             | -                      | -                         | -              | 2,311                  |
| Financial Aid Disbursements.....                                  | (34,673)                      | -                      | -                         | (34,673)       | -                      |
| Payments to Claimants.....  | (450,607)                     | (1,655,990)            | (302,812)                 | (2,158,802)    | (533,667)              |
| Payments to Suppliers.....  | (1,209,167)                   | -                      | (106,777)                 | (1,315,944)    | (181,488)              |
| Payments to Employees.....  | (3,647)                       | -                      | (28,016)                  | (31,663)       | (53,289)               |
| Payments of Program Loans.....                                    | -                             | -                      | -                         | -              | (1,423)                |
| Net Cash Flows from Operating Activities.....                     | \$ (991,308)                  | \$ (1,040,668)         | \$ 148,688                | \$ (1,483,288) | \$ 87,976              |
| Cash Flows from Noncapital Financing Activities:                  |                               |                        |                           |                |                        |
| Grant Disbursements.....  | \$ 17,301                     | \$ 605,793             | \$ -                      | \$ 623,094     | \$ -                   |
| Transfers-In.....   | 642,417                       | (5,919)                | (16,541)                  | 630,957        | -                      |
| Advances from Other Funds.....                                    | -                             | -                      | (162,221)                 | (162,221)      | (30,988)               |
| Repayments of Advances from Other Funds.....                      | -                             | -                      | 42,981                    | 42,981         | 1,889                  |
| Proceeds from Bonds.....  | -                             | -                      | (2,452)                   | (2,452)        | -                      |
| Proceeds from Bond Principal.....                                 | -                             | -                      | (4,995)                   | (4,995)        | -                      |
| Interest Paid.....  | -                             | -                      | -                         | -              | (6,384)                |
| Other Nonoperating Revenues.....                                  | 2,057                         | -                      | -                         | 2,057          | -                      |
| Net Cash Flows from Noncapital Financing Activities.....          | \$ 652,669                    | \$ 598,154             | \$ (140,685)              | \$ 1,110,138   | \$ (36,698)            |
| Cash Flows from Capital and Related Financing Activities:         |                               |                        |                           |                |                        |
| Capital Contributions.....  | \$ 109,534                    | \$ -                   | \$ -                      | \$ 109,534     | \$ -                   |
| Investment in Capital Assets.....                                 | (201,008)                     | -                      | (4,910)                   | (205,918)      | (12,881)               |
| Proceeds from Disposal of Capital Assets.....                     | 1,441                         | -                      | 83                        | 1,524          | 2,130                  |
| Proceeds from Debt.....   | 70,375                        | -                      | -                         | 70,375         | 8,579                  |
| Proceeds from Loans.....  | -                             | -                      | (80)                      | (80)           | -                      |
| Capital Lease Payments.....                                       | (703)                         | -                      | (1,029)                   | (1,732)        | (9,498)                |
| Repayment of Loan Principal.....                                  | (19,764)                      | -                      | -                         | (19,764)       | -                      |
| Repayment of Bond Principal.....                                  | (17,909)                      | -                      | (1,128)                   | (19,037)       | (683)                  |
| Interest Paid.....  | -                             | -                      | -                         | -              | -                      |
| Net Cash Flows from Capital and Related Financing Activities..... | \$ (60,382)                   | \$ -                   | \$ (7,084)                | \$ (67,466)    | \$ (12,383)            |
| Cash Flows from Investing Activities:                             |                               |                        |                           |                |                        |
| Purchase of Investments.....                                      | \$ 9,093                      | \$ -                   | \$ -                      | \$ 9,093       | \$ 15,037              |
| Proceeds from Maturities of Investments.....                      | (8,397)                       | -                      | -                         | (8,397)        | (15,328)               |
| Purchase of Investments.....                                      | 11,523                        | 19,666                 | 2,562                     | 33,751         | 8,787                  |
| Investment Earnings.....  | -                             | -                      | -                         | -              | -                      |
| Net Cash Flows from Investing Activities.....                     | \$ 12,219                     | \$ 19,666              | \$ 2,562                  | \$ 34,447      | \$ 8,496               |
| Net Increase (Decrease) in Cash and Cash Equivalents.....         | \$ 13,218                     | \$ (422,848)           | \$ 3,501                  | \$ (406,129)   | \$ 47,421              |
| Cash and Cash Equivalents, Beginning, as Reported.....            | \$ 670,580                    | \$ 463,276             | \$ 102,530                | \$ 1,236,386   | \$ 280,177             |
| Cash and Cash Equivalents, Ending.....                            | \$ 683,798                    | \$ 67,428              | \$ 106,031                | \$ 857,257     | \$ 307,598             |



STATE OF MINNESOTA

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009  
(IN THOUSANDS)

|  | ENTERPRISE FUNDS              |                        |                           |                | INTERNAL SERVICE FUNDS |
|--|-------------------------------|------------------------|---------------------------|----------------|------------------------|
|  | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL          |                        |
| Net Cash Flows from Operating Activities:  |                               |                        |                           |                |                        |
| Operating Income (Loss)  | \$ (672,869)                  | \$ (1,064,647)         | \$ 143,145                | \$ (1,594,371) | \$ 62,224              |
| Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities: |                               |                        |                           |                |                        |
| Depreciation   | \$ 62,982                     | \$ -                   | \$ 4,280                  | \$ 87,262      | \$ 9,832               |
| Amortization   | -                             | -                      | 71                        | 71             | 428                    |
| Loan Principal Repayments  | 3,453                         | -                      | -                         | 3,453          | -                      |
| Loans Issued   | (3,647)                       | -                      | -                         | (3,647)        | -                      |
| Change in Loan Details   | 1,077                         | -                      | -                         | 1,077          | -                      |
| Loans Forgiven   | 575                           | -                      | -                         | 575            | -                      |
| Change in Valuation of Assets  | 1,593                         | -                      | -                         | 1,593          | -                      |
| Change in Assets and Liabilities:  |                               |                        |                           |                |                        |
| Accounts Receivable  | (3,569)                       | (25,025)               | (797)                     | (28,391)       | 790                    |
| Inventories  | (1,251)                       | -                      | 421                       | (830)          | 435                    |
| Prepaid Expenses   | 1,077                         | -                      | 67                        | 1,144          | (37)                   |
| Accounts Payable   | (7,380)                       | 45,630                 | 1,171                     | 39,443         | 10,362                 |
| Compensated Absences Payable   | 9,753                         | -                      | 210                       | 9,963          | 337                    |
| Unearned Revenues  | 1,071                         | 3,401                  | 336                       | 4,808          | 107                    |
| Other Liabilities  | (2,377)                       | (27)                   | 556                       | (1,848)        | 2,530                  |
| Net Reconciling Items to be Added to (Deducted from) Operating Income                  | \$ 81,561                     | \$ 23,979              | \$ 5,549                  | \$ 111,083     | \$ 25,752              |
| Net Cash Flows from Operating Activities   | \$ (591,308)                  | \$ (1,040,668)         | \$ 148,688                | \$ (1,483,288) | \$ 87,976              |
| Noncash Investing, Capital and Financing Activities:                                   |                               |                        |                           |                |                        |
| Transferred/Donated Assets   | \$ 3,251                      | \$ -                   | \$ 252                    | \$ 3,503       | \$ -                   |
| Change in Fair Value of Investments  | (1,861)                       | -                      | -                         | (1,861)        | -                      |
| Capital Assets Acquired Through Leases/Loans   | -                             | -                      | -                         | -              | 40                     |
| Capital Assets Purchased on Account  | 32,429                        | -                      | -                         | 32,429         | -                      |
| Investment Earning on Account  | 806                           | -                      | -                         | 806            | 1,324                  |
| Investment Earning on Investment in Capital Assets                                     | -                             | -                      | -                         | -              | 369                    |
| Bond Premium Amortization  | 1,084                         | -                      | 271                       | 1,355          | -                      |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009  
(IN THOUSANDS)

|   | PENSION TRUST | INVESTMENT TRUST | AGENCY     |
|---|---------------|------------------|------------|
| <b>ASSETS</b>   |               |                  |            |
| Cash and Cash Equivalents   | \$ 21,329     | \$ -             | \$ 131,015 |
| Investment Pools, at fair value:                                    |               |                  |            |
| Cash Equivalent Investments   | \$ 1,727,015  | \$ 145,319       | \$ -       |
| Investments:  |               |                  |            |
| Debt Securities   | \$ 8,446,460  | \$ 386,562       | \$ -       |
| Equity Securities   | 28,145,287    | 781,055          | -          |
| Mutual Funds  | 2,699,509     | -                | -          |
| Total Investments   | \$ 39,291,656 | \$ 1,167,617     | \$ -       |
| Accrued Interest and Dividends                                      | \$ 116,985    | \$ 5,100         | \$ -       |
| Securities Trades Receivables (Payables)                            | (638,559)     | (25,792)         | -          |
| Total Investment Pool Participation                                 | \$ 40,497,097 | \$ 1,232,244     | \$ -       |
| Receivables:  |               |                  |            |
| Employer Contributions  | \$ 21,081     | \$ -             | \$ -       |
| Member Contributions  | 14,693        | -                | -          |
| Accounts Receivable   | -             | -                | 19,627     |
| Interfund Receivables   | 50,745        | -                | -          |
| Other Receivables   | 24,417        | -                | -          |
| Accrued Interest and Dividends                                      | 508           | -                | -          |
| Total Receivables   | \$ 111,444    | \$ -             | \$ 19,627  |
| Securities Lending Collateral                                       | \$ 5,973,804  | \$ 216,989       | \$ -       |
| Depreciable Capital Assets (Net)                                    | 24,996        | -                | -          |
| Nondepreciable Capital Assets                                       | 429           | -                | -          |
| Total Assets  | \$ 46,629,099 | \$ 1,509,233     | \$ 150,642 |
| <b>LIABILITIES</b>  |               |                  |            |
| Accounts Payable  | \$ 21,768     | \$ 72            | \$ 150,642 |
| Interfund Payables  | 50,745        | -                | -          |
| Accrued Expense   | 1             | -                | -          |
| Revenue Bonds Payable   | 24,929        | -                | -          |
| Bond Interest   | 45            | -                | -          |
| Compensated Absences Payable  | 2,327         | -                | -          |
| Securities Lending Liabilities                                      | 5,973,804     | 216,989          | -          |
| Total Liabilities   | \$ 6,073,619  | \$ 217,061       | \$ 150,642 |
| Net Assets Held in Trust for Pension Benefits and Pool Participants | \$ 40,555,480 | \$ 1,292,172     | \$ -       |

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, 2009  
(IN THOUSANDS)

|  | PENSION TRUST   | INVESTMENT TRUST |
|--|-----------------|------------------|
| Contributions:   |                 |                  |
| Employer.....  | \$ 856,976      | \$ -             |
| Member.....  | 1,059,961       | -                |
| Contributions From Other Sources.....  | 25,797          | -                |
| Participating Plans.....   | -               | 1,122,011        |
| Total Contributions.....   | \$ 1,942,734    | \$ 1,122,011     |
| Net Investment Income:   |                 |                  |
| Investment Income.....   | \$ (9,397,750)  | \$ (37,402)      |
| Less: Investment Expense.....  | (50,974)        | (319)            |
| Net Investment Income.....   | \$ (9,448,724)  | \$ (37,721)      |
| Securities Lending Revenues (Expenses):  |                 |                  |
| Securities Lending Income.....   | \$ 103,424      | \$ 3,704         |
| Borrower Fees.....   | (36,369)        | (1,651)          |
| Management Fees.....   | (10,067)        | (11)             |
| Net Securities Lending Revenue.....  | \$ 57,048       | \$ 2,042         |
| Total Investment Income.....   | \$ (9,391,675)  | \$ (35,679)      |
| Transfers From Other Funds.....  | \$ 15,283       | \$ -             |
| Other Additions.....   | 14,387          | -                |
| Total Additions.....   | \$ (7,419,271)  | \$ (1,086,332)   |
| Deductions:  |                 |                  |
| Benefits.....  | \$ 3,205,137    | \$ -             |
| Refunds/Withdrawals.....   | 170,325         | 233,665          |
| Administrative Expenses.....   | 43,978          | -                |
| Transfers to Other Funds.....  | 15,283          | -                |
| Total Deductions.....  | \$ 3,434,723    | \$ 233,665       |
| Net Increase (Decrease).....   | \$ (10,953,994) | \$ 852,667       |
| Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported..... | \$ 51,409,474   | \$ 439,505       |
| Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending.....                 | \$ 40,555,480   | \$ 1,292,172     |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

COMPONENT UNIT FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008 and JUNE 30, 2009  
(IN THOUSANDS)

|   | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|------------------------|----------------------|-------------------------|--------------------------|-----------------------|
| <b>ASSETS</b>                                 |                        |                      |                         |                          |                       |
| Current Assets:                               |                        |                      |                         |                          |                       |
| Cash and Cash Equivalents.....                | \$ 305,521             | \$ 50,719            | \$ 314,239              | \$ 503,853               | \$ 1,174,332          |
| Investments.....                              | 105,209                | 247,020              | 74,678                  | 434,994                  | 861,891               |
| Accounts Receivable.....                      | 10,691                 | 20,926               | 355,685                 | 40,174                   | 467,476               |
| Due from Other Governmental Units.....        | -                      | 17,652               | -                       | -                        | 17,652                |
| Due from Primary Government.....              | 17,720                 | 60,875               | 7,177                   | 3,377                    | 71,999                |
| Investment Income.....                        | 2,503                  | 1,774                | 2,944                   | 10,385                   | 12,888                |
| Federal Aid Receivable.....                   | -                      | -                    | 23,144                  | 53                       | 45,451                |
| Inventories.....                              | 13,698                 | -                    | -                       | -                        | 17,765                |
| Loans and Notes Receivable.....               | -                      | -                    | 8,810                   | 187,353                  | 196,163               |
| Loans and Notes Held in Trust.....            | -                      | -                    | 36,242                  | -                        | 36,242                |
| Other Assets.....                             | 13,101                 | 1,318                | 35,064                  | 229                      | 19,172                |
| Total Current Assets.....                     | \$ 468,455             | \$ 422,538           | \$ 827,693              | \$ 1,204,023             | \$ 2,922,117          |
| Noncurrent Assets:                            |                        |                      |                         |                          |                       |
| Investments-Restricted.....                   | \$ 105,285             | \$ 109,762           | \$ 51,416               | \$ 45,792                | \$ 312,255            |
| Accounts Receivable-Restricted.....           | 509,282                | 11,832               | 95,516                  | 22,430                   | 627,219               |
| Due from Primary Government-Restricted.....   | -                      | 26,810               | -                       | 2,673                    | 14,505                |
| Other Assets-Restricted.....                  | -                      | 13,378               | -                       | 15,718                   | 42,528                |
| Accounts Receivable.....                      | -                      | -                    | 2,491,043               | 70,833                   | 13,378                |
| Loans and Notes Receivable.....               | -                      | -                    | 183,995                 | 397,263                  | 95,578                |
| Loans and Notes Held in Trust.....            | 2,428,625              | 44,537               | 59,999                  | 2,190,842                | 4,724,003             |
| Depreciable Capital Assets (Net).....         | 2,585                  | 2,147,251            | 1,922,649               | 2,141                    | 4,074,626             |
| Nondepreciable Capital Assets.....            | -                      | 31,790               | 573,317                 | 517                      | 915,614               |
| Other Assets.....                             | 3,045,757              | -                    | 4,473                   | 6,429                    | 10,995                |
| Total Noncurrent Assets.....                  | \$ 3,045,757           | \$ 2,895,370         | \$ 5,367,488            | \$ 2,744,261             | \$ 13,847,246         |
| Total Assets.....                             | \$ 3,514,210           | \$ 3,117,708         | \$ 6,195,101            | \$ 3,948,644             | \$ 16,769,363         |
| <b>LIABILITIES</b>                            |                        |                      |                         |                          |                       |
| Current Liabilities:                          |                        |                      |                         |                          |                       |
| Accounts Payable.....                         | \$ 19,277              | \$ 84,871            | \$ 196,431              | \$ 21,549                | \$ 322,128            |
| Payable to Other Governmental Units.....      | -                      | 241                  | -                       | -                        | 241                   |
| Due to Primary Government.....                | -                      | 823                  | 5,756                   | 18,885                   | 24,641                |
| Unearned Revenue.....                         | 49,956                 | 30,040               | 67,745                  | 22,171                   | 96,737                |
| Accounts Payable-Restricted.....              | -                      | -                    | 15,870                  | 15,870                   | 31,740                |
| General Obligation Bonds Payable.....         | -                      | -                    | 210,427                 | 300,467                  | 300,467               |
| Loans and Notes Payable.....                  | -                      | -                    | 263,600                 | 822                      | 264,422               |
| Revenue Bonds Payable.....                    | 446,815                | 1,135                | 5,524                   | 50,275                   | 503,749               |
| Grants Payable.....                           | -                      | 5,795                | 27,293                  | 2,843                    | 32,643                |
| Compensated Absences Payable.....             | 182                    | 2,836                | 189,678                 | 60,753                   | 193,329               |
| Securities Lending Liabilities.....           | -                      | -                    | 36,782                  | -                        | 36,782                |
| Other Liabilities.....                        | -                      | 540                  | 22,955                  | 498                      | 23,993                |
| Total Current Liabilities.....                | \$ 516,230             | \$ 195,998           | \$ 1,023,642            | \$ 193,868               | \$ 1,929,738          |
| Noncurrent Liabilities:                       |                        |                      |                         |                          |                       |
| Accounts Payable-Restricted.....              | -                      | -                    | 55,732                  | -                        | 55,732                |
| Unearned Revenue-Restricted.....              | -                      | 40,822               | -                       | -                        | 40,822                |
| Accrued Bond Interest Payable-Restricted..... | -                      | 55,591               | -                       | -                        | 55,591                |
| Accounts Payable.....                         | -                      | 10,246               | -                       | -                        | 10,246                |
| Unearned Revenue.....                         | -                      | -                    | 48,094                  | 63,263                   | 111,357               |
| General Obligation Bonds Payable.....         | -                      | 1,087,120            | 262,733                 | -                        | 1,349,853             |
| Loans and Notes Payable.....                  | 2,026,918              | 1,405                | 139,237                 | 3,295                    | 2,170,855             |
| Revenue Bonds Payable.....                    | 1,757                  | 945                  | 1,575,100               | 1,575,100                | 3,746,999             |
| Compensated Absences Payable.....             | 83,486                 | 4,956                | 37,849                  | 603,177                  | 635,468               |
| Funds Held in Trust.....                      | 100                    | 91,741               | 5,118                   | 97                       | 107,066               |
| Other Liabilities.....                        | -                      | 42,302               | -                       | 6,090                    | 48,392                |
| Total Noncurrent Liabilities.....             | \$ 2,112,261           | \$ 1,257,123         | \$ 649,475              | \$ 2,292,239             | \$ 4,271,098          |
| Total Liabilities.....                        | \$ 2,628,491           | \$ 1,453,121         | \$ 1,673,117            | \$ 2,446,107             | \$ 6,200,836          |
| <b>NET ASSETS</b>                             |                        |                      |                         |                          |                       |
| Invested in Capital Assets.....               | \$ 2,585               | \$ 1,486,014         | \$ 1,607,315            | \$ 2,658                 | \$ 3,088,572          |
| Restricted-Expendable.....                    | 863,134                | 191,040              | 1,696,365               | 1,290,855                | 4,063,994             |
| Restricted-Nonexpendable.....                 | -                      | -                    | 934,702                 | -                        | 934,702               |
| Unrestricted.....                             | 12,467                 | -                    | 275,682                 | 209,029                  | 477,159               |
| Total Net Assets.....                         | \$ 865,719             | \$ 1,684,597         | \$ 4,515,984            | \$ 1,502,537             | \$ 8,568,827          |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

COMPONENT UNIT FUNDS  
STATEMENT OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2008 AND JUNE 30, 2009  
(IN THOUSANDS)

|                                       | HOUSING<br>FINANCE<br>AGENCY | METROPOLITAN<br>COUNCIL | UNIVERSITY<br>OF<br>MINNESOTA | NONMAJOR<br>COMPONENT<br>UNITS | TOTAL<br>COMPONENT<br>UNITS |
|---------------------------------------|------------------------------|-------------------------|-------------------------------|--------------------------------|-----------------------------|
| Net Expenses:                         |                              |                         |                               |                                |                             |
| Total Expenses:                       | \$ 439,169                   | \$ 853,745              | \$ 3,234,259                  | \$ 355,745                     | \$ 4,882,917                |
| Program Revenues:                     |                              |                         |                               |                                |                             |
| Charges for Services:                 | \$ 183,505                   | \$ 348,281              | \$ 1,420,733                  | \$ 139,862                     | \$ 2,092,381                |
| Operating Grants and Contributions:   | 187,720                      | 166,627                 | 793,793                       | 59,138                         | 1,207,288                   |
| Capital Grants and Contributions:     | -                            | 161,996                 | 203,099                       | -                              | 365,095                     |
| Net (Expense) Revenue:                | \$ (67,943)                  | \$ (176,841)            | \$ (816,644)                  | \$ (156,745)                   | \$ (1,218,173)              |
| General Revenues:                     |                              |                         |                               |                                |                             |
| Taxes:                                | \$ -                         | \$ 196,142              | \$ -                          | \$ -                           | \$ 196,142                  |
| Investment Income:                    | -                            | 7,914                   | (597,965)                     | (58,456)                       | (648,507)                   |
| Other Revenues:                       | 1,991                        | 83                      | 23,369                        | 1,156                          | 32,599                      |
| Total General Revenues before Grants: | \$ 1,991                     | \$ 204,139              | \$ (568,596)                  | \$ (57,300)                    | \$ (419,766)                |
| Special Items:                        | 44,205                       | -                       | 707,806                       | 236,605                        | 988,616                     |
|                                       |                              |                         |                               | (16,822)                       | (16,822)                    |
| Total General Revenues:               | \$ 46,196                    | \$ 204,139              | \$ 139,210                    | \$ 162,804                     | \$ 552,349                  |
| Change in Net Assets:                 | \$ (21,747)                  | \$ 27,298               | \$ (677,434)                  | \$ 6,059                       | \$ (665,824)                |
| Net Assets, Beginning, as Reported    | \$ 907,466                   | \$ 1,637,289            | \$ 5,146,444                  | \$ 1,496,478                   | \$ 9,187,677                |
| Change in Accounting Principle:       | -                            | -                       | 46,974                        | -                              | 46,974                      |
| Net Assets, Beginning, as Restated:   | \$ 907,466                   | \$ 1,637,289            | \$ 5,193,418                  | \$ 1,496,478                   | \$ 9,234,651                |
| Net Assets, Ending:                   | \$ 885,719                   | \$ 1,664,587            | \$ 4,515,984                  | \$ 1,502,537                   | \$ 8,568,827                |

The notes are an integral part of the financial statements.



State of Minnesota

2009 Comprehensive Annual Financial Report  
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## 2009 Comprehensive Annual Financial Report Notes to 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). The state implemented the following two GASB statements for the fiscal year ended June 30, 2009.

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" was issued in November 2006. The statement addresses accounting and financial reporting for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The statement sets uniform standards requiring more timely and complete reporting of pollution remediation obligations, including required reporting of pollution remediation obligations that previously may not have been reported. See the impact on implementing this change in accounting principle in Note 14 - Pollution Remediation for more information on the state's and its component units' liability.

GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments" was issued in November 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value.

In fiscal year 2009, the University of Minnesota changed its method for recognizing sponsored revenue, resulting in a \$8.3 million change in accounting principle.

#### Financial Reporting Entity of the State of Minnesota

This report includes the state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota legislature or its constitutional officers. The state of Minnesota, as a primary government, consists of all organizations that make up its legal entity. This report also includes other legally separate organizations as component units. GASB has established criteria for determining which organizations should be included as component units. Legally separate organizations are reported as component units if either the state is financially accountable for the organization or the nature and significance of the organization's relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. 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.

Component units may be blended or discretely presented. All of the state's component units are discretely presented, or shown separately from the primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the state's discretely presented component units. They are also identified separately in the note disclosures because of their separate legal status. All component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

The following provides a description of the state's discretely presented component units. Additional information is available from the component unit's separately issued financial statements.

- 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, including the chair, subject to the advice and consent of the Minnesota senate. The regional administrator, appointed by the council, is responsible for the administration of council activities. MC includes the Metropolitan Sports Facilities Commission as a component unit. The fiscal year for MC ends December 31.
- University of Minnesota (U of M) – 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 U of M, but the state does not have direct authority over the management of the university. The state has issued debt for U of M capital projects. U of M includes several foundations as component units.
- Agricultural and Economic Development Board (AEDB) – AEDB administers 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 bans. AEDB may issue revenue bonds for the purpose of financing development projects.
- ClearWay Minnesota – ClearWay Minnesota issues grants to health, community, and academic organizations throughout Minnesota to support research and cessation activities that will encourage and help tobacco users quit. It is funded by tobacco lawsuit settlement proceeds. Although the state does not appoint a voting majority of ClearWay Minnesota's governing board and is neither able to impose its will on ClearWay Minnesota nor is there a potential financial benefit/burden to the state, the state believes that excluding ClearWay Minnesota from the reporting entity would fail to provide a complete overview of tobacco settlement funds.
- National Sports Center Foundation (NSCF) – The Minnesota Amateur Sports Commission contracts with NSCF to operate various sports facilities, including the National Sports Center, primarily for holding youth-oriented athletic and other non-athletic functions and events. Although the facilities belong to the state, NSCF is responsible for the operating costs and certain improvements to the facilities. The commission appoints foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. The fiscal year for NSCF ends December 31.
- Office of Higher Education (OHE) – OHE makes and guarantees loans to qualified post-secondary students. To fund the loan program, revenue bonds are issued in OHE's name with limitations set by the legislature. OHE also administers the state grant program. The state provides administrative funding for these programs. The governor appoints the OHE director with the advice and consent of the senate.
- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. The state provides funding and administrative services 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 the Department 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 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. The fiscal year for WCARP ends December 31.

A component unit is classified as major or nonmajor, depending on its significance relative to other component units and the nature and significance of the component unit's relationship to the primary government. HFA, MC, and U of M are classified as major component units for this report.

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

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

|  |  |
|--|--|
| Housing Finance Agency<br>400 Sibley Street, Suite 300<br>St. Paul, Minnesota 55101  | National Sports Center Foundation<br>National Sports Center<br>1700 105 <sup>th</sup> Avenue Northeast<br>Blaine, Minnesota 55449  |
| Metropolitan Council<br>390 North Robert Street<br>St. Paul, Minnesota 55101   | Office of Higher Education<br>1450 Energy Park Drive, Suite 350<br>St. Paul, Minnesota 55108   |
| University of Minnesota<br>Office of the Controller<br>205 West Bank Office Building<br>1300 South Second Street<br>Minneapolis, Minnesota 55454 | Public Facilities Authority<br>Department of Employment & Economic Development<br>1 <sup>st</sup> National Bank Building, Suite E200<br>332 Minnesota Street<br>St. Paul, Minnesota 55101-1351 |
| ClearWay Minnesota<br>Two Appletree Square, Suite 400<br>8011, 34 <sup>th</sup> Avenue South<br>Minneapolis, Minnesota 55425                     | Workers' Compensation Assigned Risk Plan<br>Affinity Insurance Services, Inc.<br>8300 Norman Center Drive, Fourth Floor<br>Minneapolis, Minnesota 55437  |

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, but are 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 state commissioner of the Department of Commerce 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.
- Workers' Compensation Reinsurance Association – The state commissioner of the Department of Labor and Industry appoints, or approves the appointment of, 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 included in the primary government, prepare and publish separate financial reports, which may contain differences in presentation resulting from differing reporting emphasis. These financial reports may be obtained directly from each organization.

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

The financial statements, available from the State Board of Investment, report on investments in investment pools, which include the majority of the state's Fiduciary Funds.

**Financial Reporting Structure of the State of Minnesota**

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements report on the state as a whole, while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize activities as either governmental or business-type. Governmental expenditures are classified by function. Each of the state's departments and agencies is included in a functional classification based on its primary mission and objectives.

### 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. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements. These amounts are reported as expenditures in the governmental fund financial statements. Long-term debt is recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liabilities, rather than as expenditures.

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 how much of the cost of each functional category (public safety and corrections, transportation, etc.) is supported by general government revenues (sales taxes, 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.

### Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental, proprietary, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The emphasis in fund financial statements is on the major funds in the governmental or enterprise categories. All remaining governmental, proprietary, and fiduciary funds are aggregated and reported as nonmajor funds.

Governmental funds, including the general, special revenue, capital projects, debt service, and permanent funds, are presented on a current financial resource measurement focus and modified accrual basis of accounting in the fund financial statements. 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 spending 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, reconciliations explaining the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column are included.

Proprietary funds, including the enterprise and internal service funds, are presented on the economic resource measurement focus and full accrual basis of accounting in the fund financial statements. This is the same measurement focus and basis of accounting as the government-wide financial statements.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, or 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.

The fund financial statements are presented after the government-wide financial statements. These statements 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 followed 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. Activities of enterprise funds 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 motor pool, central stores, employee insurance, technology services, plant management, risk management, and central services.
- The state has two major enterprise funds, State Colleges and Universities and Unemployment Insurance funds. The State Colleges and Universities Fund accounts for the activities of the Minnesota State Colleges and Universities (MnSCU) System. 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, or other governmental units. 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.
  - Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.
  - 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**

All governmental funds focus on the flow of current financial resources and use the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. 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 to 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 current year revenues in governmental funds. Individual income taxes, property taxes, sales taxes, and federal grants are the major revenue sources susceptible to accrual. Revenues collected in advance, 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. Expenditures and related liabilities are recognized when fund obligations are incurred, except for debt service, compensated absences, pollution remediation obligations, pension and other postemployment benefits, and claims and judgments, which are recorded when due and expected to be liquidated with available financial resources. The following provides further detail on specific items regarding the modified accrual basis of accounting.

Tax Revenues – 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 is estimated and recorded as reductions in revenue in the period when the related tax is recognized.

Property Tax Revenues – 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.

Federal Revenues – Federal revenues, earned by incurring allowable obligations, are recognized at the same time the related obligation is recognized, with one exception. Trunk Highway Fund (a special revenue fund) expenditures incurred by June 30, but not converted to Federal funding by the close of the federal fiscal year, are not recognized as federal revenues.

Proprietary, pension, and investment trust funds are accounted for using the full 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 expenses.

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.

Private-sector standards of accounting and financial reporting, including Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, generally are followed in the government-wide, proprietary, and component unit financial statements to the extent that those standards do not conflict with or contradict GASB guidance. Except for the Workers' Compensation Assigned Risk Plan (WCARP) (component unit), the government has elected not to follow subsequent private-sector guidance. WCARP has elected to follow all applicable FASB statements issued after November 30, 1989, that do not contradict GASB pronouncements.

#### **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 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 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, or specific cost methods.

### Securities Lending

Securities on loan for cash collateral and the liabilities resulting from the security lending transactions are reported on the Statement of Net Assets or the Balance Sheet, as appropriate, for the particular fund type or level of reporting. 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.

### Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted assets. After liabilities from restricted assets are paid, any remaining restricted assets in the enterprise funds will be used for debt service.

### Income Tax Credits

The Minnesota Department of Revenue processes several types of tax credits through 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. In contrast, credits for Education, Working Family, and Child and Dependent Care may be received even if they exceed the individual's tax liability. These types of credits are reported as expenditures, rather than revenue reductions, because the income tax system is, essentially, being used as a filing and payment mechanism to make grant payments to individuals.

### 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.

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.

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.

### 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. The current and noncurrent compensated absences liabilities for governmental funds 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 land, buildings, equipment, and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. 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 of at least three years.

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 1989. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Permanent School Fund (Permanent Fund) land is reported at estimated historic cost. The land included in the Permanent School Fund was granted to the state by the federal government in connection with the state being admitted to the United States. 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.

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. Transportation infrastructure assets using the modified approach plus land, construction in progress, and works of art and historical treasures, such as the state capitol, are not depreciated.

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets in which costs to maintain and preserve these assets are expensed 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 Required Supplementary Information. See Note 6 – Capital Assets for further information on capital assets.

### Current and Noncurrent Assets

At the government-wide level, assets are classified as either current or noncurrent. Governmental activity current assets are those, including cash, various receivables, and short-term investments, considered available for appropriation and expenditure. Current assets in business-type activities 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. Assets are classified as current or noncurrent in proprietary funds, but assets are not classified at the fund level for governmental funds.

### Noncurrent Liabilities

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. Long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, pollution remediation obligations, net pension and other postemployment benefit obligations, and arbitrage rebate requirements. 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 – Primary Government for further information.



#### **Deferred Compensation Plan**

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The State Deferred Compensation Fund (pension trust fund) represents the value of all assets of the plan. 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. The State Board of Investment determines the investment options available to plan participants and oversees the activities of the investment managers. The majority of the assets of the plan are invested in various mutual funds. The state is not liable for any investment losses under the plan.

#### **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.

Restricted Net Assets represent the portion of net assets that are constrained either externally by parties such as creditors or grantors, or legally through constitution provisions or enabling legislation. Restricted net assets are determined at the fund level. For a fund with more than one revenue stream, restricted net assets are determined by the materiality of any restricted revenues in the fund. When both restricted and unrestricted net assets are available for use, the state policy is to use restricted resources first.

#### **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 Minnesota Management and Budget 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, Municipal State-Aid Street, County State-Aid Highway, Minnesota Resources, Environmental and Natural Resources, Iron Range Resources and Rehabilitation, Douglas J. Johnson Economic Protection Trust, Endowment, Maximum Effort School Loan, Health Impact, Medical Education and Research, 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.

Unencumbered appropriation balances generally 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, unencumbered 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 Minnesota Management and Budget.

#### **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 government-wide Statement of Net Assets, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

#### **Prior Period Adjustment**

See Note 6 – Capital Assets for discussion of the prior period adjustment.

#### **Special Item**

GASB Statement No. 34 defines a special item as a significant transaction or event within the control of management, but either unusual in nature or infrequent in occurrence. Based on a 2002 law, Workers Compensation Assigned Risk Plan (WCARP) (component unit) paid \$16,822,000 in excess surplus to the General Fund during fiscal year 2009. The payment was received and reported by the General Fund during the year ended June 30, 2009. WCARP reported the payment as a special item on its financial statements for the year ended December 31, 2008.

#### **Note 2 – Cash and Investments**

##### **Primary Government**

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. Cash in individual funds may be invested separately where permitted by statute; however, 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. Where provided by statute, investment earnings of the primary government's pools are allocated to the individual funds. Earnings for all other participants are credited to the General Fund.

##### **Deposits**

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. The statute further requires that the insurance and collateral shall be in an amount sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amounts and the fair value of the collateral.

**Investments**

The State Board of Investment (SBI) manages the majority of the state's investments. All investments undertaken by SBI are governed by the standards codified in Minnesota Statutes, Chapters 11A and 356A. 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.

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.

Generally, when applicable, the statutes limit investments to those rated by a nationally recognized rating agency within the top four quality ratings categories. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

SBI is authorized to establish, and has established, combined investment funds used by participating public retirement and nonretirement funds. Retirement and nonretirement funds may not be commingled. Each investment fund has its own characteristics, including investment objective and risk characteristics. Within statutory requirements and based on detailed analyses of each fund, SBI has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

**Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Lehman Aggregate Bond Index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

**Credit Risk of Debt Security Investments**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit investments in debt securities to the top four quality ratings categories by a nationally recognized rating agency. The state does not have a credit risk policy that is more stringent than the statutory requirements. The contracts between SBI and investment managers contain any guidelines or limitations regarding credit risk.

The primary government's investments, excluding pension trust and investment trust funds, as of June 30, 2009, are presented below using the Standard & Poor's (S & P) rating scale.

**Primary Government  
Governmental, Proprietary, and Agency Funds  
Investments and Cash Equivalent Investments  
As of June 30, 2009  
(In Thousands)**

|  | Fair Value   | Weighted<br>Average<br>Maturity<br>(Years) | AA or<br>Better | BBB<br>to A | BB or<br>Lower | Not<br>Rated |
|--|--------------|--|-----------------|-------------|----------------|--------------|
| Lower of S & P or Moody<br>S & P Equivalent Rating |              |  |                 |             |                |              |
| <b>Debt Securities:</b>                            |              |  |                 |             |                |              |
| U.S. Treasury                                      | \$ 132,643   | 0.41                                       | 100%            | -           | -              | -            |
| U.S. Agencies                                      | 63,302       | 10.29                                      | 95%             | -           | -              | 5%           |
| Mortgage-backed Securities                         | 239,088      | 21.97                                      | 93%             | 2%          | 1%             | 4%           |
| State or Local Government Bonds                    | 61,860       | 9.17                                       | 86%             | 7%          | -              | 7%           |
| Corporate Bonds                                    | 2,417,526    | 1.35                                       | 52%             | 47%         | 1%             | -            |
| Commercial Paper                                   | 1,906,071    | 0.10                                       | 100%            | -           | -              | -            |
| Repurchase Agreements                              | 581,643      | 0.01                                       | 2%              | 3%          | -              | 95%          |
| Certificates of Deposit                            | 64,918       | 0.08                                       | 20%             | -           | -              | 80%          |
| Total Debt Securities                              | \$ 5,467,051 |  |                 |             |                |              |

**Equity Investments:**

|                          |            |
|--------------------------|------------|
| Corporate Stock          | \$ 466,760 |
| Alternative Equities     | 4,601      |
| Stock Options            | 658        |
| Total Equity Investments | \$ 472,019 |

**Other Investments:**

|                         |                             |
|-------------------------|-----------------------------|
| Escheat Property        | \$ 8,444                    |
| Money Market Accounts   | 4,838                       |
| Total Other Investments | \$ 13,282                   |
| Total Investments       | \$ 5,952,352 <sup>(1)</sup> |

<sup>(1)</sup>Total investments are less than the amount shown on the face of the financial statements as amounts do not include cash on hand.

Investments of the pension trust and investment trust funds are presented below:

| Primary Government<br>Pension Trust and Investment Trust Funds<br>Investments and Cash Equivalent Investments<br>As of June 30, 2009<br>(in Thousands) |                      |  |  |             |                |              |
|--|----------------------|--|--|-------------|----------------|--------------|
|  | Fair Value           | Weighted<br>Average<br>Maturity<br>(Years) | Lower of S & P or Moody<br>S & P Equivalent Rating |             |                | Not<br>Rated |
|  |                      |  | AA or<br>Better                                    | BBB to<br>A | BB or<br>Lower |              |
| <b>Debt Securities:</b>  |                      |  |  |             |                |              |
| U.S. Treasury  | \$ 793,933           | 10.09                                      | 100%   | -           | -              | -            |
| U.S. Agencies  | 642,486              | 8.44                                       | 98%  | -           | 1%             | 1%           |
| Mortgage-backed Securities   | 4,139,211            | 24.76                                      | 83%  | 3%          | 8%             | 6%           |
| State or Local Government Bonds  | 93,854               | 12.19                                      | 53%  | 37%         | 2%             | 9%           |
| Corporate Bonds  | 3,303,544            | 9.12                                       | 22%  | 64%         | 10%            | 4%           |
| Foreign Country Bonds  | 16,744               | 13.41                                      | 63%  | 37%         | -              | -            |
| Commercial Paper   | 625,510              | 0.19                                       | 100%   | -           | -              | -            |
| Asset-backed Securities  | 298,013              | 11.72                                      | 76%  | 17%         | 4%             | 3%           |
| Certificates of Deposit  | 153,856              | 0.14                                       | 41%  | -           | -              | 59%          |
| Repurchase Agreements  | 451,611              | 0.00                                       | 22%  | 50%         | -              | 29%          |
| Other Short-term Securities  | 207,953              | -  | -  | -           | -              | 100%         |
| <b>Total Debt Securities</b>   | <b>\$ 10,726,685</b> |  |  |             |                |              |
| <b>Equity Investments:</b>   |                      |  |  |             |                |              |
| Corporate Stock  | \$ 23,466,170        |  |  |             |                |              |
| Stock Options  | 50,405               |  |  |             |                |              |
| Alternative Equities   | 5,409,767            |  |  |             |                |              |
| Mutual Funds   | 2,699,909            |  |  |             |                |              |
| <b>Total Equity Investments</b>  | <b>\$ 31,626,251</b> |  |  |             |                |              |
| <b>Total Investments</b>   | <b>\$ 42,352,936</b> |  |  |             |                |              |

(1) Total investments include cash equivalent investments not included in the investment pools.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The state does not have a formal policy regarding concentration of credit risk for rated corporate debt securities that are among the top four quality categories. For other types of investments, Minnesota Statutes, Section 11A.24, established the following parameters:

Unrated Corporate Obligations

- Aggregate value may not exceed 5 percent of the market or book value, whichever is less, of the fund being invested.
- SBI's participation is limited to 50 percent of a single offering.
- SBI's participation is limited to 25 percent of the issuer's unrated obligations.

Corporate Stock

- Aggregate value of corporate stock may not exceed 85 percent of the market or book value, whichever is less, of a fund.
- Generally, investment in corporate stock may not exceed five percent of the total outstanding shares of any one corporation.

The state had concentration of credit risk over 5% as of June 30, 2009, in the General Electric Capital Corporation (GE-CAP). GE-CAP represented 5.7% and 5.3%, respectively, of the primary government's, excluding pension trust and investment trust funds, total debt securities investments and total investments.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SBI has established guidelines to be used by investment managers for international investing. Under these guidelines, countries are categorized based on a country's legal structures and standings regarding worker and human rights issues. Managers may invest in countries with legal structures that generally respect the rights of workers and human rights without additional notification of SBI. Investment managers who wish to invest in other countries must either notify SBI in writing or appear before SBI, depending on the country involved. Managers with authority to invest in foreign securities are given authority to hedge foreign currency through forward contracts to avoid currency losses.

The primary government, excluding pension trust and investment trust funds, had no exposure to foreign currency risk as of June 30, 2009.

The following table presents foreign currency risk for pension trust and investment trust funds:

| Pension Trust and Investment Trust Funds<br>Foreign Currency Risk<br>International Investment Securities at Fair Value<br>As of June 30, 2009<br>(In Thousands) |           |           |              |  |
|---|-----------|-----------|--------------|--|
| Currency  | Cash      | Debt      | Equity       |  |
| Australian Dollar   | \$ 5,060  | \$ -      | \$ 263,108   |  |
| Brazilian Real  | 2,451     | -         | 89,804       |  |
| Canadian Dollar   | 6,387     | 1,264     | 355,047      |  |
| Euro Currency   | 24,379    | 7,837     | 1,367,475    |  |
| Hong Kong Dollar  | 1,998     | -         | 365,463      |  |
| Indian Rupee  | 592       | -         | 106,177      |  |
| Japanese Yen  | 17,641    | -         | 1,021,505    |  |
| New Taiwan Dollar   | 2,570     | -         | 101,897      |  |
| Norwegian Krone   | 3,217     | -         | 25,420       |  |
| Pound Sterling  | 13,219    | 18,362    | 857,180      |  |
| South African Rand  | 1,218     | -         | 77,038       |  |
| South Korean Won  | 47        | -         | 132,851      |  |
| Swedish Krona   | 1,499     | -         | 81,070       |  |
| Swiss Franc   | 5,946     | -         | 312,369      |  |
| Other   | 2,017     | -         | 300,722      |  |
| Total   | \$ 88,241 | \$ 27,463 | \$ 5,457,126 |  |

#### Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counter party, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are held in the state's name and collateral for repurchase agreements is held in the state's name by third party agents. The primary government does not have a formal policy for custodial credit risk.

#### Securities Lending

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. The Wells Fargo program was suspended at the end of May 2009.

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. Wells Fargo securities lent included U. S. Treasuries and Agencies debt securities. State Street securities lent included both debt securities and equity investments. Neither State Street nor Wells Fargo has/had 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 100 percent 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 separately managed funds of SBI.

#### Primary Government<sup>(1)</sup> Securities Lending Analysis As of June 30, 2009 (In Thousands)

|   |              |              |
|---|--------------|--------------|
| Fair Value of Securities on Loan                            | State Street | \$ 6,587,602 |
| Collateral Held   |              | \$ 6,829,949 |
| Cash Collateral Held & Reported on Statements of Net Assets |              | \$ 6,307,960 |
| Average Weighted Maturity                                   |              | 37 days      |

<sup>(1)</sup> Includes securities lending for certain component units that invest through SBI. Some of these component units have a December 31 year end.

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, 2009, 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.

**Component Units**

Metropolitan Council and University of Minnesota (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.

**Housing Finance Agency**

As of June 30, 2009, Housing Finance Agency (HFA) had \$1,025,277,000 of cash, cash equivalents, and investments. As of June 30, 2009, \$222,755,000 of deposits and \$722,780,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from .2 years (certificates of deposit) to 1.1 – 10.2 years (U.S. Agencies).

HFA cash equivalents included \$188,031,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2009, most investment agreement providers had a Standard & Poor's long-term credit rating of 'A-' or higher and a Moody's Investors Service long-term credit rating of 'A3 or higher.' The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

HFA investments had an estimated fair market value of \$614,491,000 as of June 30, 2009. Included in these investments were \$10,683,000 in U. S. Treasuries (not rated), plus \$363,985,000 in Certificates of Deposit, \$118,800,000 in U. S. Agencies, and \$38,380,000 in municipal debt investments having a Standard & Poor's rating of 'AAA' and Moody's Investors Services rating of 'Aaa.' An additional \$80,880,000 in municipal debt investments had a Standard & Poor's rating of 'AA' to 'A' and Moody's Investors Services rating of 'Aa' to 'A'.

HFA had investments in single issuers as of June 30, 2009, excluding investments issued or explicitly guaranteed by the U.S. Government, that exceeded five percent of total investments. These investments amounted to \$469,982,000 and involved Federal Home Loan Bank and FSA Capital Management Services.

**Metropolitan Council**

As of December 31, 2008, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of \$407,521,000. Of this amount, \$376,306,000 was subject to rating. \$323,215,000 of these investments were rated 'Aaa' using the Moody's Investors Services rating scale, while \$53,091,000 was not rated.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the \$155,606,000 U.S. Treasury and Agency investments, MC has a custodial credit risk exposure of \$4,999,000 because the related securities are held by a custodial agent in the broker's name.

MC has adopted the simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2008. The investment portfolio has an average yield of 2.4 percent, modified duration of 3.1 years, effective duration of 1.42 years, and convexity of -.33.

The following table presents the estimated fair value of MC, excluding its component unit, investments subject to interest rate risk using the simulation model (in thousands).

| Major Component Unit<br>Metropolitan Council<br>Fair Value of Investments<br>(In Thousands) |    | Estimated Fair<br>Value |
|---|----|-------------------------|
| December 31, 2008   |    | \$ 388,651              |
| Fair Value of Portfolio After Basis<br>Point Increase of:                                   |    |                         |
| 50 Points   | \$ | 372,523                 |
| 100 Points  | \$ | 369,339                 |
| 150 Points  | \$ | 365,531                 |
| 200 Points  | \$ | 361,785                 |

**University of Minnesota**

As of June 30, 2009, University of Minnesota (U of M), including its discretely presented component units, had \$365,655,000 of cash and cash equivalents and \$2,661,237,000 of investments. U of M's discretely presented component units do not classify investments according to risk because these entities prepare their financial statements under standards set by the Financial Accounting Standards Board. Excluding discretely presented component units, U of M reported cash and cash equivalents of \$326,320,000 and investments of \$1,192,237,000.

U of M does not have a policy for custodial risk of deposits. As of June 30, 2009, \$8,044,000 of U of M's bank balance of \$8,294,000 was uninsured and uncollateralized.

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes U of M's investment policies and objectives. U of M uses internal investment pools designed to maximize investment return within established risk parameters for each pool.

U of M has established policies to address the various types of investment risks. U of M uses Standard & Poor's ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2009, \$593,767,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- \$384,768,000 was rated AAA
- \$53,863,000 was rated A- to AA



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

- Corporate and Individual Taxes \$144,972,000
- Sales and Use Taxes \$42,443,000
- Child Support \$322,659,000
- Other Receivables \$50,902,000

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

- Corporate and Individual Taxes \$80,587,000
- Sales and Use Taxes \$37,332,000
- Child Support \$142,073,000
- Health Care Provider \$84,039,000
- Other Receivables \$18,145,000

**Note 4 – Loans and Notes Receivable**

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2009, consisted of the following:

|   | Primary Government<br>Loans and Notes Receivable<br>As of June 30, 2009<br>(In Thousands) |   |                              |  |
|---|---|---|------------------------------|--|
|   | General<br>Fund   | Nonmajor<br>Special<br>Revenue<br>Funds | Capital<br>Projects<br>Funds | State<br>Colleges<br>and<br>Universities<br>Fund |
| Student Loan Program                                | \$ -  | \$ -                                    | \$ -                         | \$ 34,714  |
| Economic Development                                | 41,296  | 64,083                                  | -                            | -  |
| School Districts                                    | -   | 107,450                                 | -                            | -  |
| Agricultural, Environmental and<br>Energy Resources | 34  | 74,146                                  | -                            | -  |
| Transportation                                      | -   | 16,708                                  | 243                          | -  |
| Other   | -   | 2,222                                   | 97                           | -  |
| <b>Total</b>  | <b>\$ 41,330</b>  | <b>\$ 264,609</b>                       | <b>\$ 340</b>                | <b>\$ 34,714</b>                                 |

| Component Units<br>Loans and Notes Receivable<br>As of June 30, 2009<br>(In Thousands) |                     |
|--|---------------------|
| Housing Finance Authority  | \$ 2,428,625        |
| Metropolitan Council   | 44,537              |
| University of Minnesota  | 68,809              |
| Agricultural and Economic Development Board  | 8,608               |
| Office of Higher Education   | 714,195             |
| Public Facilities Authority  | 1,600,387           |
| Rural Finance Authority  | 55,005              |
| <b>Total</b>   | <b>\$ 4,920,166</b> |

**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 financial statements, these transactions are generally recorded as transfers in/transfers out and interfund receivables/payables. 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.

| <b>Primary Government<br/>Interfund Receivables and Payables<br/>As of June 30, 2009<br/>(In Thousands)</b> |                   |
|---|-------------------|
| Due to the General Fund From:   |                   |
| Federal Fund  | \$ 67,414         |
| Nonmajor Governmental Funds   | 66,828            |
| Nonmajor Enterprise Funds   | 9,420             |
| Internal Service Funds  | 458               |
| Total Due to General Fund From Other Funds  | <u>\$ 144,120</u> |
| Due to the Federal Fund From:   |                   |
| Nonmajor Governmental Funds   | \$ 4,748          |
| Unemployment Insurance Fund   | 9                 |
| Total Due to Federal Fund From Other Funds  | <u>\$ 4,757</u>   |
| Due to the State Colleges and Universities Fund From:   |                   |
| General Fund  | \$ 20,000         |
| Nonmajor Governmental Funds   | 22,016            |
| Total Due to State Colleges and Universities From Other Funds   | <u>\$ 42,016</u>  |
| Due to the Nonmajor Enterprise Funds From:  |                   |
| Nonmajor Enterprise Funds   | \$ 2,355          |
| Total Due to Nonmajor Enterprise Funds From Other Funds   | <u>\$ 2,355</u>   |
| Due to Fiduciary Funds From:  |                   |
| Fiduciary Funds   | \$ 50,745         |
| Total Due to Fiduciary Funds From Other Fiduciary Funds   | <u>\$ 50,745</u>  |
| Due to the Nonmajor Governmental Funds From:  |                   |
| General Fund  | \$ 34,997         |
| Federal Fund  | 14,377            |
| Unemployment Insurance Fund   | 25,311            |
| Nonmajor Governmental Funds   | 145,770           |
| Nonmajor Enterprise Funds   | 4,031             |
| Total Due to Nonmajor Governmental Funds From Other Funds   | <u>\$ 224,486</u> |

The Central Motor Pool Fund had an outstanding advance of \$1,125,000 from the General Fund as of June 30, 2009. This advance is not expected to be repaid within one year.

**Primary Government  
Interfund Transfers  
Year Ended June 30, 2009  
(In Thousands)**

|   |           |                  |
|---|-----------|------------------|
| Transfers to the General Fund From:                                 |           |                  |
| Federal Fund  | \$        | 21,353           |
| Nonmajor Governmental Funds   |           | 447,304          |
| Nonmajor Enterprise Funds   |           | 65,944           |
| Internal Service Funds  |           | 21,095           |
| Total Transfers to General Fund From Other Funds                    | <u>\$</u> | <u>555,696</u>   |
| Transfers to the Federal Fund From:                                 |           |                  |
| General Fund  | \$        | 717              |
| Unemployment Insurance Fund   |           | 24               |
| Nonmajor Governmental Funds   |           | 1,274            |
| Total Transfers to Federal Fund From Other Funds                    | <u>\$</u> | <u>2,015</u>     |
| Transfers to the State Colleges and Universities Fund From:         |           |                  |
| General Fund  | \$        | 662,417          |
| Nonmajor Governmental Funds – Capital Contributions                 |           | 106,733          |
| Total Transfers to State Colleges and Universities From Other Funds | <u>\$</u> | <u>769,150</u>   |
| Transfers to Fiduciary Funds From:                                  |           |                  |
| Fiduciary Funds   | \$        | 15,283           |
| Total Transfers to Fiduciary Funds From Other Fiduciary Funds       | <u>\$</u> | <u>15,283</u>    |
| Transfers to the Nonmajor Governmental Funds From:                  |           |                  |
| General Fund  | \$        | 715,046          |
| Federal Fund  |           | 23,732           |
| Unemployment Insurance Fund   |           | 2,114            |
| Nonmajor Governmental Funds   |           | 1,600,476        |
| Nonmajor Enterprise Funds   |           | 96,528           |
| Internal Service Funds  |           | 9,674            |
| Total Transfers to Nonmajor Governmental Funds From Other Funds     | <u>\$</u> | <u>2,447,570</u> |
| Transfers to the Nonmajor Enterprise Funds From:                    |           |                  |
| General Fund  | \$        | 987              |
| Nonmajor Governmental Funds   |           | 5,101            |
| Total Transfers to Nonmajor Enterprise Funds From Other Funds       | <u>\$</u> | <u>6,088</u>     |
| Transfers to Internal Service Funds From:                           |           |                  |
| Nonmajor Governmental funds   | \$        | 681              |
| Total Transfers to Internal Service Funds From Other Funds          | <u>\$</u> | <u>681</u>       |



**Component Units**

Receivables and payables as of June 30, 2009, between the primary government and component units are summarized as follows:

|                                | Primary Government and Component Units<br>Receivables and Payables<br>As of June 30, 2009<br>(In Thousands) |                                 |
|--------------------------------|---|---------------------------------|
|                                | Due From<br>Primary<br>Government   | Due To<br>Primary<br>Government |
| Component Units                |   |                                 |
| Major Component Units:         |   |                                 |
| Metropolitan Council           | \$ 87,485   | \$ -                            |
| University of Minnesota        | 7,177   | 45,760                          |
| Total Major Component Units    | \$ 94,662   | \$ 45,760                       |
| Nonmajor Component Units       | \$ 19,465   | \$ 82,148                       |
| Total Component Units          | \$ 114,127  | \$ 127,908                      |
|                                | Due From<br>Component Units   | Due To<br>Component Units       |
| Primary Government             |   |                                 |
| Major Governmental Funds:      |   |                                 |
| General Fund                   | \$ 7,779  | \$ 15,610                       |
| Federal Fund                   | -   | 2,878                           |
| Total Major Governmental Funds | \$ 7,779  | \$ 18,488                       |
| Nonmajor Governmental Funds    | \$ 118,005  | \$ 6,613                        |
| Total Primary Government       | \$ 125,784  | \$ 25,101 <sup>(1)</sup>        |

<sup>(1)</sup> Due to component units on the Government-wide Statement of Net Assets totals \$44,566 including \$19,465 of loans payable to the Public Facilities Authority, a component unit, that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by \$2,124,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The \$89,026,000 difference between the Due From Primary Government balance and the Due To Component Units balance is also due to these different fiscal year ends as well as the \$19,465,000 loans payable disclosed above.

**Note 6 – Capital Assets**

**Primary Government**

|  | Primary Government<br>Capital Asset Activity<br>Government-wide<br>Year Ended June 30, 2009<br>(In Thousands) |              |              |                |
|--|---|--------------|--------------|----------------|
|  | Beginning   | Additions    | Deductions   | Ending         |
| Governmental Activities                |   |              |              |                |
| Capital Assets not Depreciated:        |   |              |              |                |
| Land                                   | \$ 1,904,657  | \$ 171,907   | \$ (3,394)   | \$ 2,073,170   |
| Buildings, Structures, Improvements    | 28,040  | 24,759       | -            | 52,799         |
| Construction in Progress               | 261,251   | 180,185      | (189,493)    | 251,943        |
| Infrastructure                         | 6,876,135   | 455,048      | (8,072)      | 7,323,111      |
| Art and Historical Treasures           | 1,989   | -            | -            | 1,989          |
| Total Capital Assets not Depreciated   | \$ 9,072,072  | \$ 831,899   | \$ (200,959) | \$ 9,703,012   |
| Capital Assets Depreciated:            |   |              |              |                |
| Buildings, Structures, Improvements    | \$ 2,011,326  | \$ 146,107   | \$ (14,747)  | \$ 2,142,686   |
| Infrastructure                         | 69,216  | 23,602       | (29)         | 92,789         |
| Equipment, Furniture, Fixtures         | 397,033   | 46,119       | (26,108)     | 417,044        |
| Total Capital Assets Depreciated       | \$ 2,477,575  | \$ 215,828   | \$ (40,884)  | \$ 2,652,519   |
| Accumulated Depreciation for:          |   |              |              |                |
| Buildings, Structures, Improvements    | \$ (751,327)  | \$ (73,395)  | \$ 7,079     | \$ (817,643)   |
| Infrastructure                         | (15,480)  | (2,130)      | 7            | (17,603)       |
| Equipment, Furniture, Fixtures         | (251,160)   | (34,575)     | 22,432       | (263,303)      |
| Total Accumulated Depreciation         | \$ (1,017,967)  | \$ (110,100) | \$ 29,518    | \$ (1,098,549) |
| Total Capital Assets Depreciated, Net  | \$ 1,459,608  | \$ 105,728   | \$ (11,366)  | \$ 1,553,970   |
| Governmental Act. Capital Assets, Net  | \$ 10,531,680   | \$ 937,627   | \$ (212,325) | \$ 11,256,982  |
| Business-type Activities               |   |              |              |                |
| Capital Assets not Depreciated:        |   |              |              |                |
| Land                                   | \$ 80,852   | \$ 1,027     | \$ -         | \$ 81,879      |
| Construction in Progress               | 174,345   | 194,057      | (213,535)    | 154,867        |
| Total Capital Assets not Depreciated   | \$ 255,197  | \$ 195,084   | \$ (213,535) | \$ 236,746     |
| Capital Assets Depreciated:            |   |              |              |                |
| Buildings, Structures, Improvements    | \$ 2,071,380  | \$ 214,851   | \$ (145)     | \$ 2,286,086   |
| Library Collections                    | 48,168  | 6,651        | (6,293)      | 48,526         |
| Equipment, Furniture, Fixtures         | 288,172   | 18,462       | (17,727)     | 288,907        |
| Total Capital Assets Depreciated       | \$ 2,407,720  | \$ 239,964   | \$ (24,165)  | \$ 2,623,519   |
| Accumulated Depreciation for:          |   |              |              |                |
| Buildings, Structures, Improvements    | \$ (970,712)  | \$ (59,485)  | \$ 10        | \$ (1,030,187) |
| Library Collections                    | (27,132)  | (6,932)      | 6,293        | (27,771)       |
| Equipment, Furniture, Fixtures         | (202,935)   | (20,867)     | 17,378       | (206,424)      |
| Total Accumulated Depreciation         | \$ (1,200,779)  | \$ (87,284)  | \$ 23,681    | \$ (1,264,382) |
| Total Capital Assets Depreciated, Net  | \$ 1,206,941  | \$ 152,680   | \$ (484)     | \$ 1,359,137   |
| Business-type Act. Capital Assets, Net | \$ 1,462,138  | \$ 347,764   | \$ (214,019) | \$ 1,595,883   |

| Primary Government<br>Capital Asset Activity<br>Fiduciary Funds<br>Year Ended June 30, 2009<br>(In Thousands) |            |            |            |             |
|---|------------|------------|------------|-------------|
|   | Beginning  | Additions  | Deductions | Ending      |
| Fiduciary Funds   |            |            |            |             |
| Capital Assets not Depreciated:   |            |            |            |             |
| Land  | \$ 429     | \$ -       | \$ -       | \$ 429      |
| Total Capital Assets not Depreciated  | \$ 429     | \$ -       | \$ -       | \$ 429      |
| Capital Assets Depreciated:   |            |            |            |             |
| Buildings   | \$ 29,707  | \$ 30      | \$ -       | \$ 29,737   |
| Equipment, Furniture, Fixtures  | 5,498      | 314        | (300)      | 5,512       |
| Total Capital Assets Depreciated  | \$ 35,205  | \$ 344     | \$ (300)   | \$ 35,249   |
| Accumulated Depreciation for:   |            |            |            |             |
| Buildings   | \$ (5,165) | \$ (757)   | \$ -       | \$ (5,922)  |
| Equipment, Furniture, Fixtures  | (4,228)    | (367)      | 264        | (4,331)     |
| Total Accumulated Depreciation  | \$ (9,393) | \$ (1,124) | \$ 264     | \$ (10,253) |
| Total Capital Assets Depreciated, Net   | \$ 25,812  | \$ (780)   | \$ (36)    | \$ 24,996   |
| Fiduciary Funds, Capital Assets, Net  | \$ 26,241  | \$ (780)   | \$ (36)    | \$ 25,425   |

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<br>Depreciation Expense<br>Government-wide<br>Year Ended June 30, 2009<br>(In Thousands) |            |
|---|------------|
| Governmental Activities:  |            |
| Public Safety and Corrections   | \$ 20,041  |
| Transportation  | 28,730     |
| Agricultural, Environmental & Energy Resources  | 8,049      |
| Economic and Workforce Development  | 1,012      |
| General Education   | 4,271      |
| Health and Human Services   | 21,829     |
| General Government  | 15,910     |
| Internal Service Funds  | 10,258     |
| Total Governmental Activities   | \$ 110,100 |
| Business-type Activities:   |            |
| State Colleges and Universities   | \$ 82,982  |
| Lottery   | 635        |
| Other   | 3,645      |
| Total Business-type Activities  | \$ 87,262  |

Prior Period Adjustment: During fiscal year 2009, non depreciable infrastructure and land increased by \$22,285,000 and \$72,373,000, respectively, as a result of capitalizing costs associated with the Northstar Rail project. These costs were incurred during fiscal year 2008; however, title will not transfer to Metropolitan Council (component unit) until fiscal year 2010.

Capital outlay expenditures in the governmental funds totaled \$746,955,000 for fiscal year 2009. Donations of general capital assets received during fiscal year 2009 were valued at \$3,169,000. Transfers were \$189,493,000 primarily from construction in progress. Additions in internal service funds were \$12,921,000, and \$531,000 in the Permanent School Fund.

General capital assets purchased with resources provided by outstanding capital lease agreements as of June 30, 2009, consisted of equipment with a cost of \$8,633,000 and buildings with a cost of \$180,005,000.

Authorizations and commitments as of June 30, 2009, for the largest construction in progress projects consisted of the following (in thousands):

| Primary Government<br>Project Authorizations and Commitments<br>As of June 30, 2009<br>(In Thousands) | Administration | Transportation |
|---|----------------|----------------|
|   | Authorization  | \$ 126,165     |
| Expended through June 30, 2009  | 118,991        | 670,154        |
| Unexpended Commitment   | 2,712          | 161,887        |
| Available Authorization   | \$ 4,462       | \$ 46,424      |

Land in the Permanent School Fund totaling 2,520,840 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, 2008, or June 30, 2009, as applicable:

|                                | Component Units<br>Capital Assets<br>As of December 31, 2008 or June 30, 2009<br>(In Thousands) |                         |                          |                          | Totals       |
|--------------------------------|---|-------------------------|--------------------------|--------------------------|--------------|
|                                | Major Component Units   | University of Minnesota | Nonmajor Component Units |                          |              |
| Land and Improvements          | Housing Finance Agency  | Metropolitan Council    | University of Minnesota  | Nonmajor Component Units | Totals       |
|                                | \$ -  | \$ 88,755               | \$ 82,364                | \$ 517                   | \$ 171,636   |
| Construction in Progress       | -   | 253,025                 | 445,495                  | -                        | 698,520      |
| Museums and Collections        | -   | -                       | 45,458                   | -                        | 45,458       |
| Buildings and Improvements     | -   | 2,884,431               | 2,662,354                | 2,400                    | 5,549,185    |
| Equipment                      | 7,667   | 641,346                 | 788,802                  | 2,099                    | 1,439,914    |
| Infrastructure                 | -   | -                       | 367,117                  | -                        | 367,117      |
| Total                          | \$ 7,667  | \$ 3,867,557            | \$ 4,391,590             | \$ 5,016                 | \$ 8,271,830 |
| Less: Accumulated Depreciation | \$ 5,082  | \$ 1,378,526            | \$ 1,924,607             | \$ 2,358                 | \$ 3,310,573 |
| Net Total                      | \$ 2,585  | \$ 2,489,031            | \$ 2,466,983             | \$ 2,658                 | \$ 4,961,257 |

(1) In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of \$28,983 as of June 30, 2009.

**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, 2009:

|                                    | Primary Government<br>Components of Accounts Payable<br>Government-wide<br>As of June 30, 2009<br>(In Thousands) |                        |  | Total        |
|------------------------------------|--|------------------------|--|--------------|
|                                    | General Fund   | Federal Fund           | Nonmajor Governmental Funds <sup>(1)</sup> |              |
| School Aid Programs                | \$ 755,894   | \$ 141,728             | \$ 897                                     | \$ 898,519   |
| Tax Refunds                        | 574,657  | -                      | -  | 574,657      |
| Medical Care Programs              | 348,234  | 617,794                | 76,419                                     | 1,042,447    |
| Grants                             | 206,804  | 133,495                | 124,177                                    | 464,476      |
| Salaries and Benefits              | 80,638   | 12,848                 | 59,666                                     | 153,152      |
| Vendors/Service Providers          | 61,935   | 57,728                 | 215,006                                    | 334,669      |
| Other                              | 34,382   | 7,688                  | 29,610                                     | 71,680       |
| Net Payables                       | \$ 2,062,544   | \$ 971,281             | \$ 505,775                                 | \$ 3,539,600 |
|                                    | Business-type Activities   |                        |  | Total        |
|                                    | State Colleges and Universities  | Unemployment Insurance | Nonmajor Enterprise Funds                  |              |
| Salaries and Benefits              | \$ 121,061   | \$ -                   | \$ 7,500                                   | \$ 128,561   |
| Vendors/Service Providers          | 52,967   | -                      | 3,766                                      | 56,733       |
| Other                              | 7,460  | 70,322                 | 20,488                                     | 98,270       |
| Net Payables                       | \$ 181,488   | \$ 70,322              | \$ 31,754                                  | \$ 283,564   |
| Total Government-wide Net Payables |  |                        |  | \$ 3,823,164 |

(1) Includes \$59,464 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 performs only a fiduciary role for other funds. 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, and Minnesota State Colleges and Universities (MnSCU), which publishes a stand-alone pension statement, 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 of MSRS, PERA and TRA. The address for MnSCU is included in the “Defined contribution Funds” section of this note.

| <u>Plan Administrator</u>                      | <u>Plans Covered</u>  |
|--|---|
| Minnesota State Retirement System (MSRS)       | State Employees Retirement Fund<br>Correctional Employees Retirement Fund<br>Elected State Officers Fund<br>Judicial Retirement Fund<br>Legislative Retirement Fund<br>State Patrol Retirement Fund<br>Unclassified Employees Retirement Fund<br>Postretirement Health Care Benefits Fund<br>State Deferred Compensation Fund<br>Hennepin County Supplemental Retirement Fund |
| Public Employees Retirement Association (PERA) | Public Employees Retirement Fund<br>Police and Fire Fund<br>Public Employees Correctional Fund<br>Defined Contribution Fund   |
| Teachers Retirement Association (TRA)          | Teachers Retirement Fund  |
| Minnesota State Colleges and Universities      | State Colleges and Universities Retirement Fund   |

**Basis of Accounting and Valuation of Investments**

The four plan administrators prepare financial statements using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which they are earned and become measurable. Expenses are recognized 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.

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing “units” in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund’s pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2009, this presentation resulted in a negative asset within the total investment pool participation.

**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. Thirty-three 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 average salary of the five highest paid successive years of service. Annual benefits increase equal to the percent increase of the Consumer Price Index (CPI-W), not to exceed 2.5 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and 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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent. 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. Eighty county 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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

The Public Employees Retirement Fund (PERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: “basic” for members not covered by the Social Security Act (closed to new members since 1968) and “coordinated” for members who are covered by the act. 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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Five hundred eighty employers participate in this plan. Normal retirement is age 65. As of June 30, 2006, the assets, liabilities, and membership of the Minneapolis Teachers Retirement Fund Association (MTRFA) were merged with TRF. Some former MTRFA members retain rights under a 'basic' plan. 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 the basic members is 2.5 percent of average salary. The Annuity formula for the coordinated members 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 for service rendered before July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

- 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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent.

The Elective State Officers Fund (ESOF) covers state constitutional officers elected prior to July 1, 1997. 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 prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.80 percent. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent.

The Legislative Retirement Fund (LRF) covers some members of the state's House of Representatives and Senate. Legislators newly elected since January 1997 are covered by the Unclassified Employee Retirement Fund (defined contribution fund). 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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent.

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. Annual benefits increase equal to the percent increase of CPI-W, not to exceed 2.5 percent.

**Statutory Contribution Rates  
Year Ended June 30, 2009**

|   | Single Employer |      |        | Multiple Employer |        |       |
|---|-----------------|------|--------|-------------------|--------|-------|
|   | CERF            | ESOF | JRF    | LRF               | SPRF   | TRF   |
| Statutory Authority,<br>Minnesota Chapter       | 352             | 352C | 490    | 3A                | 352B   | 352   |
| Required Contribution Rate of<br>Active Members | 7.00%           | N/A  | 8.00%  | 9.00%             | 9.80%  | 4.50% |
| Employer(s)                                     | 10,10%          | N/A  | 20,50% | N/A               | 14,60% | 4,50% |
|   |                 |      |        |                   |        | 5,50% |

**Multiple Employer Plan  
Required Contributions  
(In Thousands)**

| Required Contributions: | Multiple Employer Plan |            |            |
|-------------------------|------------------------|------------|------------|
|                         | SERF                   | LRF        | TRF        |
| Employee                | 2009 \$ 108,866        | \$ 212,043 | \$ 209,592 |
|                         | 2008 \$ 99,280         | \$ 199,869 | \$ 187,339 |
|                         | 2007 \$ 89,448         |            |            |
| Employer <sup>(1)</sup> | 2009 \$ 107,211        | \$ 220,268 | \$ 209,717 |
|                         | 2008 \$ 96,746         | \$ 187,339 | \$ 187,339 |
|                         | 2007 \$ 86,493         |            |            |

<sup>(1)</sup>Contributions were at least 100 percent of required contributions. Contribution rates are statutorily determined.

| Single Employer Plan Disclosures<br>As of June 30, 2009<br>(In Thousands) |           |            |            |             |
|---|-----------|------------|------------|-------------|
|   | CERF      | JRF        | LRP        | SPRF        |
| Annual Required Contributions (ARC) <sup>(1)</sup>                        | \$ 45,769 | \$ 10,186  | \$ 4,774   | \$ 21,215   |
| Interest on Net Pension Obligation (NPO) <sup>(1)</sup>                   | 2,914     | (641)      | (730)      | (2,508)     |
| Amortization Adjustment to ARC <sup>(1)</sup>                             | (1,954)   | 454        | 856        | 1,747       |
| Annual Pension Cost   | \$ 46,729 | \$ 9,999   | \$ 4,900   | \$ 20,454   |
| Contributions   | (34,158)  | (1,196)    | (1,517)    | (15,394)    |
| Increase (Decrease) in NPO  | \$ 12,571 | \$ (1,197) | \$ 3,383   | \$ 5,060    |
| NPO, Beginning Balance  | \$ 34,285 | \$ (7,535) | \$ (8,587) | \$ (29,511) |
| NPO, Ending (Asset)   | \$ 46,856 | \$ (8,732) | \$ (5,204) | \$ (24,451) |

<sup>(1)</sup>Components of annual pension cost.

| Single Employer Plan Disclosures<br>(In Thousands) |                |            |            |             |
|--|----------------|------------|------------|-------------|
|  | CERF           | JRF        | LRP        | SPRF        |
| Annual Pension Cost (APC)                          | 2009 \$ 46,729 | \$ 9,999   | \$ 4,900   | \$ 20,454   |
|  | 2008 \$ 45,815 | \$ 11,769  | \$ 3,475   | \$ 16,799   |
|  | 2007 \$ 39,289 | \$ 10,553  | \$ 2,973   | \$ 14,382   |
| Percentage of APC Contributed                      | 2009 73%       | 112%       | 31%        | 75%         |
|  | 2008 69%       | 92%        | 69%        | 83%         |
|  | 2007 61%       | 98%        | 68%        | 87%         |
| NPO (End of Year)                                  | 2009 \$ 46,856 | \$ (8,732) | \$ (5,204) | \$ (24,451) |
|  | 2008 \$ 34,285 | \$ (7,535) | \$ (8,587) | \$ (29,511) |
|  | 2007 \$ 19,868 | \$ (8,509) | \$ (9,665) | \$ (32,436) |

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| Schedule of Funding Status<br>(In Thousands)                    |            |            |           |            |
|---|------------|------------|-----------|------------|
|   | CERF       | JRF        | LRP       | SPRF       |
| Actual Valuation Date <sup>(1)</sup>                            | 7/1/2008   | 7/1/2008   | 7/1/2008  | 7/1/2008   |
| Actuarial Value of Plan Assets                                  | \$ 572,719 | \$ 147,542 | \$ 39,209 | \$ 595,082 |
| Actuarial Accrued Liability                                     | \$ 760,363 | \$ 231,623 | \$ 86,131 | \$ 693,686 |
| Total Unfunded Actuarial Liability                              | \$ 187,644 | \$ 84,081  | \$ 46,922 | \$ 98,604  |
| Funded Ratio  | 75%        | 64%        | 46%       | 86%        |
| Annual Covered Payroll  | \$ 194,391 | \$ 38,296  | \$ 1,993  | \$ 60,029  |
| Ratio of Unfunded Actuarial Liability to Annual Covered Payroll | 97%        | 220%       | 2354%     | 164%       |

<sup>(1)</sup>The July 1, 2008, Annual Valuation Report is the most recently issued report available.

Required Supplementary Information - Schedule of Funding Progress immediately following the notes presents multiyear trend information.

Actuarial Assumptions for Single Employer Plans

- The actuarial cost method used by all plans is the Individual Entry Age Normal Cost Method. The date of actuarial valuation is July 1, 2008.
- 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 as of June 30, 2008, less: 80 percent UAR for fiscal year 2008; 60 percent UAR for fiscal year 2007; 40 percent UAR for fiscal year 2006; and 20 percent UAR for fiscal year 2005.
- Expected net investment returns for pre-retirement and postretirement are 8.5 percent and 6.0 percent, respectively.
- Minnesota statutory valuation standards do not require an inflation rate assumption to cost the plans. Benefit increases after retirement are accounted for by the 6.0 percent postretirement investment return assumption that is 2.5 percent less than the pre-retirement investment return assumption. 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 amortization method uses level percentage of projected payroll growth, except for the ESOF plan, which uses the level dollar amortization method.
- Projected payroll growth is a level 4.5 percent except for JRF which is a level 4.0 percent.

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- The statutory amortization periods for CERF, ESORF, JRF, LRF, and SPRF are through July 1, of 2038, 2017, 2038, 2021, and 2036, respectively.
- The amortization periods are closed.

**Defined Contribution Funds**

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds. The benefits received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer or solely with employee contributions, depending on the fund. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial accrued benefit liability or actuarially required contribution.

**Plan Descriptions and Contribution Information**

The Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employee and employer contribution rate is 1.0 percent of the employee's salary. As of June 30, 2008, there were 2,192 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. As of June 30, 2008, there were 49,526 members in the plan.

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 various statutorily designated entities. 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. As of June 30, 2008, there were 3,303 members in the plan.

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. As of June 30, 2008, there were 6,882 members in the plan.

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. The employer and employee statutory contribution rates are 6.0 and 4.5 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 14,400.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) is the administrative agent for the State Colleges and Universities Retirement Fund. Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

|                        | Defined Contribution Plans Contributions |           |          |           |
|------------------------|--|-----------|----------|-----------|
|                        | HCSRF                                    | PHCBF     | UERF     | DCF       |
| Employee Contributions | \$ 570                                   | \$ 82,920 | \$ 4,660 | \$ 1,462  |
| Employer Contributions | \$ 570                                   | N/A       | \$ 6,514 | \$ 1,583  |
|                        |  |           |          | CURF      |
|                        |  |           |          | \$ 33,061 |
|                        |  |           |          | \$ 39,032 |

The Minnesota State Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457 of the Internal Revenue Code and Minnesota Statutes, Section 352.96. The plan is composed of employee pre-tax contributions. Employers do not contribute to this plan. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan. The plan has 88,616 participants from approximately 800 employers.

**Investment Trust Funds**

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are 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). These funds are investment pools for external participants. During the fiscal year, the investments of the Minneapolis Employees Retirement Plan were transferred to the State Board of Investment and are included in the Investment Trust Fund. Contributions from Minneapolis Employees Retirement Plan for the fiscal year ended June 30, 2009, were approximately \$965 million.

**Component Units**

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

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

**Note 9 – Termination and Postemployment Benefits**

**Primary Government – Termination Benefits**

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. A liability and expense for voluntary termination benefits are recognized when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated.

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Services Faculty contracts. Faculty members who meet a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation. Approximately 200 former faculty members currently receive this benefit. The cost of the benefits was \$3,421,000 during fiscal year ended June 30, 2009, with a remaining liability as of June 30, 2009, of \$5,886,000.

**Primary Government – Postemployment Benefits Other Than Pensions**

**Plan Description**

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes 43A.27 subdivision 3 and 471.61 subdivision 2a, and required under the terms of selected employment contracts. All pre-age 65 state retirees with at least 5 years of allowable pension service who are entitled at the time of retirement to receive an annuity under the state retirement program are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100% of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active state employees, resulting in an implicit rate subsidy. As of July 1, 2008, there were approximately 2,400 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age of 65. As of July 1, 2008, there were approximately 950 correctional and law enforcement retirees receiving an explicit rate subsidy. The state does not issue a separate financial report for its OPEB plan.

**Funding Policy**

The contribution requirement of plan members and the state are established and may be amended by the state legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2009, the state contributed \$28.0 million to the plan. Plan members receiving benefits through the implicit rate subsidy contributed \$14.4 million through their average required contribution of \$440 per month for retiree-only coverage and \$1,293 for retiree-family coverage.

**Annual OPEB Cost and Net OPEB Obligation**

The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.75% discount rate. For year ending June 30, 2009, the state's ARC is \$73,466,000.

The following table shows the components of the state's annual OPEB cost for the year ended June 30, 2009, the amount contributed to the plan, and the changes to the state's net OPEB obligation:

| <b>OPEB Disclosures<br/>As of June 30, 2009<br/>(In Thousands)</b> |                  |
|--|------------------|
| Annual Required Contributions (ARC) <sup>(1)</sup>                 | \$ 73,466        |
| Interest on Net OPEB Obligation (NOO) <sup>(1)</sup>               | 1,790            |
| Amortization Adjustment to ARC <sup>(1)</sup>                      | <u>(1,550)</u>   |
| Annual OPEB Cost (Expense)   | \$ 73,706        |
| Contributions  | <u>(28,001)</u>  |
| Increase in NOO  | \$ 45,705        |
| NOO, Beginning Balance   | <u>\$ 37,658</u> |
| NOO, Ending  | <u>\$ 83,363</u> |
| <sup>(1)</sup> Components of annual OPEB cost.                     |                  |

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009 and 2008 (the only years available) are as follows (in thousands):

| Fiscal Year Ended | <b>OPEB Disclosures<br/>(In Thousands)</b> |  |
|-------------------|--|--|
|                   | Annual OPEB Cost                           | Percentage of Annual OPEB Cost Contributed |
| June 30, 2009     | \$ 73,706                                  | 38%  |
| June 30, 2008     | \$ 66,282                                  | 43%  |
|                   |  | <b>Net OPEB Obligation</b>                 |
|                   |  | \$ 83,363                                  |
|                   |  | \$ 37,658                                  |



**Funded Status and Funding Progress**

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was \$759 million. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was \$2.8 billion, and the ratio of the UAAL to the covered payroll was 27 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, as the state operates on a pay-as-you-go basis, the actuarial value of plan assets is zero.

**Actuarial Methods and Assumptions**

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**Actuarial Assumptions for OPEB**

- The actuarial cost method used is the Entry Age Normal Cost method. The date of actuarial valuation is July 1, 2008.
- Expected investment return is 4.75 percent based on the estimated long-term investment yield on the general assets of the state.
- Projected salary increases are a level 4.0 percent.
- The annual health care cost trend rate is 8.97 percent initially, reduced by increments to an ultimate rate of 5.0 percent after 20 years. The annual dental cost trend rate is 5.0 percent.
- The amortization period for the unfunded actuarial accrued liability is 30 year level percent of pay.
- The amortization period is open.

See Note 12 – Long-Term Liabilities – Primary Government for the related liability amount accrued at the government-wide level.

**Component Units – Postemployment Benefits Other Than Pensions**

Metropolitan Council (MC) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care and life insurance plan to eligible retirees, their spouses, and dependents. MC does not fund its OPEB benefits in an irrevocable trust. However, it has separately invested \$49.3 million as of December 31, 2008, for this purpose. The annual required contribution for 2008 was \$28.4 million or 12.2 percent of annual covered payroll. As of December 31, 2008 and 2007, the net OPEB obligation was \$29.6 million and \$14.5 million, respectively. The actuarial accrued liability (AAL) for benefits was \$301.3 million as of December 31, 2008, all of which was unfunded. The covered payroll was \$232.2 million, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 129.7 percent.

University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible retiree, their spouses, and dependents and an academic disability plan for faculty and academic professional and administrative employees. U of M does not fund its OPEB benefits in an irrevocable trust. The annual required contribution for the year ended June 30, 2009, was \$18.5 million or 1.6 percent of annual covered payroll. As of June 30, 2009, the net OPEB obligation was \$22.5 million. The actuarial accrued liability (AAL) for benefits was \$78.9 million as of June 30, 2009, all of which was unfunded. The covered payroll was \$1.2 billion, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 6.8 percent.

**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 with the remaining resources provided by future bond proceeds, gas taxes, and motor vehicle registration revenues, and federal grants. Long-term commitments as of June 30, 2009, were as follows:

| <b>Primary Government<br/>Long-Term Commitments<br/>As of June 30, 2009<br/>(In Thousands)</b> |                     |
|--|---------------------|
| Special Revenue Fund:  |                     |
| Trunk Highway Fund   | \$ 661,283          |
| Capital Projects Funds:  |                     |
| General Projects Fund  | 6,989               |
| Transportation Fund  | 98,286              |
| Building Fund  | 608,253             |
| Enterprise Funds:  |                     |
| State Colleges and Universities  | 156,326             |
| Total Primary Government   | <u>\$ 1,531,137</u> |

**Petroleum Tank Environmental Cleanup**

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). As of November 2009, the Petrofund has reimbursed eligible applicants approximately \$400 million since program inception in 1987. Future expenditures from the Petrofund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at currently undiscovered leak sites. The estimated total payments from the program, which is scheduled to sunset on June 30, 2012, are between \$425 and \$465 million for investigative and cleanup costs.

**Remediation Fund**

The Remediation Fund (special revenue fund) is comprised of two accounts: the Metropolitan Landfill Contingency Action Trust Account and the Closed Landfill Investment Account. The Metropolitan Landfill Contingency Action Trust Account consists of revenue deposited in the account under Minnesota Statutes, Chapter 473.843, and interest earned on the account. Money in the account is appropriated for closure and post closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a 30 year period after closure if it is determined that the operator/owner will not take the necessary actions as directed by the agency.

The Closed Landfill Investment Account consists of money credited to the account plus interest and other earnings on the account. Money in the account may be spent after fiscal year 2020 for landfill abatement projects.

**Component Units**

As of June 30, 2009, the Housing Finance Agency (HFA) had committed approximately \$213 million for the purchase or origination of future loans or other housing assistance.

Metropolitan Council enters into contracts for various purposes such as transit services and construction projects. As of December 31, 2008, unpaid commitments for Metro Transit Bus services were approximately \$180.7 million. Future commitments for Metro Transit Light Rail were approximately \$54.3 million, while future commitments for Metro Transit Commuter Rail were approximately \$36.4 million. Finally, future commitments for Regional Transit and Environmental services were approximately \$133.1 million and \$21.1 million, respectively.

University of Minnesota (U of M) has construction projects in progress with an estimated completion cost of \$357 million. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2009, Public Facilities Authority (PFA) had committed approximately \$194 million for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed \$51 million for grants.

**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 fiscal year ended June 30, 2009, totaled approximately \$79,220,000 and \$21,016,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2008, totaled approximately \$480,000 for component units.

| Primary Government and Component Units<br>Future Minimum Lease Payments<br>(In Thousands) |                              |                       |                 |           |                           |          |
|---|------------------------------|-----------------------|-----------------|-----------|---------------------------|----------|
| Year Ended<br>June 30   | Primary Government<br>Amount | Year Ended<br>June 30 | Component Units |           | Year Ended<br>December 31 | Amount   |
|   |                              |                       | Year            | Amount    |                           |          |
| 2010  | \$ 72,077                    | 2010                  | \$              | 14,123    | 2009                      | \$ 542   |
| 2011  | 61,147                       | 2011                  |                 | 13,181    | 2010                      | 409      |
| 2012  | 53,421                       | 2012                  |                 | 12,416    | 2011                      | 275      |
| 2013  | 47,175                       | 2013                  |                 | 11,085    | 2012                      | 179      |
| 2014  | 33,083                       | 2014                  |                 | 6,750     | 2013                      | 152      |
| 2015-2019   | 65,057                       | 2015-2019             |                 | 2,489     | 2014-2018                 | 344      |
| 2020-2024   | 9,502                        | 2020-2024             |                 | -         | 2019-2023                 | 411      |
| 2025-2029   | 7,297                        | 2025-2029             |                 | -         | 2024-2029                 | -        |
| 2030-2034   | 419                          | 2030-2034             |                 | -         | 2030-2034                 | -        |
| Total   | \$ 349,188                   | Total                 |                 | \$ 60,044 | Total                     | \$ 2,312 |

**Note 12 – Long-Term Liabilities – Primary Government**

The following table is a summary of long-term liabilities as of June 30, 2009, and the changes during fiscal year 2009:

| Primary Government Long-Term Liabilities |                     | Year Ended June 30, 2009 |                     | (In Thousands)      |                   | Amounts Due Within One Year |
|--|---------------------|--------------------------|---------------------|---------------------|-------------------|-----------------------------|
| Governmental Activities                  | Beginning Balances  | Increases                | Decreases           | Ending Balances     |                   |                             |
| Liabilities For:                         |                     |                          |                     |                     |                   |                             |
| General Obligation Bonds                 | \$ 4,330,291        | \$ 887,337               | \$ 549,726          | \$ 4,667,902        | \$ 389,243        |                             |
| Loans                                    | 59,889              | 8,579                    | 14,810              | 53,658              | 16,862            |                             |
| Revenue Bonds                            | 14,500              | -                        | 785                 | 13,715              | 815               |                             |
| Claims                                   | 806,021             | 67,184                   | 108,228             | 764,977             | 90,395            |                             |
| Compensated Absences                     | 275,717             | 246,302                  | 234,556             | 287,463             | 31,419            |                             |
| Workers' Compensation                    | 95,741              | 15,540                   | 16,109              | 95,172              | 15,922            |                             |
| Capital Leases                           | 167,877             | -                        | 6,248               | 161,629             | 6,368             |                             |
| Pollution Remediation <sup>(1)</sup>     | 45,854              | 7,157                    | 14,370              | 38,641              | 10,546            |                             |
| Net Pension Obligation                   | 34,285              | 46,729                   | 34,158              | 46,856              | -                 |                             |
| Net Other Postemployment Obligation      | 31,327              | 60,007                   | 19,220              | 72,114              | -                 |                             |
| Due to Component Unit                    | 22,485              | 549                      | 3,569               | 19,465              | 3,747             |                             |
| <b>Total</b>                             | <b>\$ 5,883,987</b> | <b>\$ 1,339,384</b>      | <b>\$ 1,001,779</b> | <b>\$ 6,221,592</b> | <b>\$ 565,317</b> |                             |
| Business-type Activities                 |                     |                          |                     |                     |                   |                             |
| Liabilities For:                         |                     |                          |                     |                     |                   |                             |
| General Obligation Bonds                 | \$ 224,090          | \$ 34,537                | \$ 16,681           | \$ 241,946          | \$ 17,067         |                             |
| Loans                                    | 5,829               | 456                      | 703                 | 5,582               | 929               |                             |
| Revenue Bonds                            | 209,719             | 78,219                   | 9,692               | 278,246             | 15,630            |                             |
| Compensated Absences                     | 137,905             | 26,966                   | 20,758              | 144,113             | 14,634            |                             |
| Workers' Compensation                    | 5,412               | 2,517                    | 2,765               | 5,164               | 2,065             |                             |
| Capital Leases                           | 22,647              | 85                       | 2,408               | 20,324              | 2,253             |                             |
| Net Other Postemployment Obligation      | 6,331               | 9,458                    | 4,540               | 11,249              | -                 |                             |
| <b>Total</b>                             | <b>\$ 611,933</b>   | <b>\$ 152,238</b>        | <b>\$ 57,547</b>    | <b>\$ 706,624</b>   | <b>\$ 52,578</b>  |                             |

<sup>(1)</sup> As a result of implementing GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," the beginning balance has been increased by a change in accounting principle of \$45,854.

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:

| Resources for Repayment of Long-Term Liabilities | Governmental Activities |                       |                        | Business-type Activities | Total               |
|--|-------------------------|-----------------------|------------------------|--------------------------|---------------------|
|  | General Fund            | Special Revenue Funds | Internal Service Funds |                          |                     |
| Liabilities For:                                 |                         |                       |                        |                          |                     |
| General Obligation Bonds                         | \$ 3,810,506            | \$ 857,396            | \$ -                   | \$ 241,946               | \$ 4,909,848        |
| Loans  | -                       | 34,396                | 19,262                 | 5,582                    | 59,240              |
| Revenue Bonds                                    | -                       | 13,715                | -                      | -                        | 291,961             |
| Claims   | 23,164                  | 741,813               | -                      | -                        | 764,977             |
| Compensated Absences                             | 131,701                 | 149,708               | 6,054                  | 144,113                  | 431,576             |
| Workers' Compensation                            | 72,661                  | 22,511                | -                      | 5,164                    | 100,336             |
| Capital Leases                                   | 160,370                 | 1,259                 | -                      | 20,324                   | 181,953             |
| Net Pension Obligation                           | 46,856                  | -                     | -                      | -                        | 46,856              |
| Net Other Postemployment Obligation              | 71,736                  | -                     | 378                    | 11,249                   | 83,363              |
| Due to Component Unit                            | -                       | 19,465                | -                      | -                        | 19,465              |
| Pollution Remediation                            | -                       | 38,641                | -                      | -                        | 38,641              |
| <b>Total</b>                                     | <b>\$ 4,316,994</b>     | <b>\$ 1,878,904</b>   | <b>\$ 25,694</b>       | <b>\$ 706,624</b>        | <b>\$ 6,928,216</b> |

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans due to component unit, and capital leases. There are no payment schedules for claims, compensated absences, workers' compensation, Net Pension Obligation, or Net Other Postemployment Benefit Obligation.

| Year Ended June 30 | Governmental Activities |                     | Business-type Activities |                  | Total               |                     |
|--------------------|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
|                    | Principal               | Interest            | Principal                | Interest         | Principal           | Interest            |
| 2010               | \$ 389,243              | \$ 213,404          | \$ 17,067                | \$ 11,593        | \$ 406,310          | \$ 224,997          |
| 2011               | 365,055                 | 189,098             | 16,570                   | 10,349           | 381,625             | 199,447             |
| 2012               | 341,051                 | 171,836             | 16,599                   | 9,546            | 357,650             | 181,382             |
| 2013               | 348,369                 | 155,069             | 15,791                   | 8,750            | 364,160             | 163,819             |
| 2014               | 319,382                 | 138,239             | 15,708                   | 7,966            | 335,090             | 146,205             |
| 2015-2019          | 1,307,468               | 479,205             | 71,042                   | 28,588           | 1,378,510           | 507,793             |
| 2020-2024          | 915,091                 | 201,451             | 54,664                   | 12,500           | 969,755             | 213,951             |
| 2025-2029          | 386,129                 | 34,589              | 24,626                   | 2,318            | 410,755             | 36,907              |
| <b>Total</b>       | <b>\$ 4,371,788</b>     | <b>\$ 1,582,891</b> | <b>\$ 232,067</b>        | <b>\$ 91,610</b> | <b>\$ 4,603,855</b> | <b>\$ 1,674,501</b> |
| Bond Premium       | 296,114                 | -                   | 9,879                    | -                | 305,993             | -                   |
| <b>Total</b>       | <b>\$ 4,667,902</b>     | <b>\$ 1,582,891</b> | <b>\$ 241,946</b>        | <b>\$ 91,610</b> | <b>\$ 4,909,848</b> | <b>\$ 1,674,501</b> |

| Year Ended<br>June 30 | Primary Government<br>Revenue Bonds<br>Principal and Interest Payments<br>(In Thousands) |          |                          |            |            |            |
|-----------------------|--|----------|--------------------------|------------|------------|------------|
|                       | Governmental Activities  |          | Business-type Activities |            | Total      |            |
|                       | Principal  | Interest | Principal                | Interest   | Principal  | Interest   |
| 2010                  | \$ 815   | \$ 579   | \$ 15,630                | \$ 12,289  | \$ 16,445  | \$ 12,868  |
| 2011                  | 845  | 546      | 14,360                   | 11,890     | 15,205     | 12,436     |
| 2012                  | 880  | 511      | 13,475                   | 11,322     | 14,355     | 11,833     |
| 2013                  | 915  | 475      | 14,475                   | 10,759     | 15,390     | 11,234     |
| 2014                  | 955  | 438      | 14,970                   | 10,124     | 15,925     | 10,562     |
| 2015-2019             | 5,430  | 1,503    | 78,375                   | 39,825     | 83,805     | 41,328     |
| 2020-2024             | 3,875  | 267      | 68,190                   | 22,178     | 72,065     | 22,445     |
| 2025-2029             | -  | -        | 45,085                   | 7,602      | 45,085     | 7,602      |
| 2030-2034             | -  | -        | 10,669                   | 931        | 10,669     | 931        |
| Total                 | \$ 13,715  | \$ 4,319 | \$ 275,229               | \$ 126,920 | \$ 288,944 | \$ 131,239 |
| Bond Premium          | -  | -        | 3,017                    | -          | 3,017      | -          |
| Total                 | \$ 13,715  | \$ 4,319 | \$ 278,246               | \$ 126,920 | \$ 291,961 | \$ 131,239 |

| Year Ended<br>June 30 | Primary Government<br>Loans Payable and Due to Component Unit<br>Principal and Interest Payments<br>(In Thousands) |          |                          |          |           |          |
|-----------------------|--|----------|--------------------------|----------|-----------|----------|
|                       | Governmental Activities  |          | Business-type Activities |          | Total     |          |
|                       | Principal  | Interest | Principal                | Interest | Principal | Interest |
| 2010                  | \$ 20,609  | \$ 2,838 | \$ 929                   | \$ 250   | \$ 21,538 | \$ 3,088 |
| 2011                  | 16,567   | 1,697    | 961                      | 205      | 17,528    | 1,902    |
| 2012                  | 11,792   | 483      | 719                      | 161      | 12,511    | 644      |
| 2013                  | 7,515  | 369      | 604                      | 125      | 8,119     | 494      |
| 2014                  | 9,305  | 264      | 404                      | 99       | 9,709     | 363      |
| 2015-2019             | 6,536  | 486      | 1,378                    | 300      | 7,914     | 786      |
| 2020-2024             | 700  | 47       | 587                      | 53       | 1,287     | 100      |
| 2025-2029             | 99   | 7        | -                        | -        | 99        | 7        |
| Total                 | \$ 73,123  | \$ 6,191 | \$ 5,582                 | \$ 1,193 | \$ 78,705 | \$ 7,384 |

| Year Ended<br>June 30 | Primary Government<br>Capital Leases<br>Principal and Interest Payments<br>(In Thousands) |           |                          |          |            |           |
|-----------------------|---|-----------|--------------------------|----------|------------|-----------|
|                       | Governmental Activities   |           | Business-type Activities |          | Total      |           |
|                       | Principal   | Interest  | Principal                | Interest | Principal  | Interest  |
| 2010                  | \$ 6,368  | \$ 7,955  | \$ 2,253                 | \$ 1,021 | \$ 8,621   | \$ 8,976  |
| 2011                  | 6,461   | 7,707     | 1,669                    | 928      | 8,130      | 8,635     |
| 2012                  | 6,300   | 7,453     | 1,637                    | 894      | 7,937      | 8,347     |
| 2013                  | 6,469   | 7,176     | 1,162                    | 780      | 7,631      | 7,956     |
| 2014                  | 6,735   | 6,885     | 1,202                    | 726      | 7,937      | 7,611     |
| 2015-2019             | 38,807  | 28,932    | 6,521                    | 2,681    | 45,328     | 31,613    |
| 2020-2024             | 49,352  | 17,936    | 4,257                    | 1,047    | 53,609     | 18,983    |
| 2025-2029             | 41,137  | 4,626     | 1,024                    | 301      | 42,161     | 4,927     |
| 2030-2034             | -   | -         | 599                      | 40       | 599        | 40        |
| Total                 | \$ 161,629  | \$ 88,670 | \$ 20,324                | \$ 8,418 | \$ 181,953 | \$ 97,088 |

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 2009, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

| Primary Government<br>Transfers to Debt Service Fund<br>Year Ended June 30, 2009<br>(In Thousands) |            |
|--|------------|
| General Fund   | \$ 452,893 |
| Special Revenue Funds:   |            |
| Game and Fish Fund   | \$ 2       |
| Trunk Highway Fund   | 59,542     |
| Natural Resources Funds  | 10         |
| Maximum Effort School Loan Fund  | 1,828      |
| Miscellaneous Special Revenue Fund   | 329        |
| Total Special Revenue Funds  | \$ 61,711  |
| Capital Projects Funds:  |            |
| Building Fund  | \$ 4,307   |
| Transportation   | 1,465      |
| Total Capital Project Funds  | \$ 5,772   |
| Total Operating Transfers to Debt Service Fund   | \$ 520,376 |

General Obligation Bond Issues

On July 22, 2008, \$275,000,000 in general obligation state various purpose bonds were issued at a true interest rate of 4.10 percent, \$33,500,000 in general obligation state trunk highway bonds were issued at a true interest rate of 4.12 percent, and \$155,415,000 in general obligation state refunding bonds were issued at a true interest rate of 3.52 percent.

As a result of the advance refunding, the state reduced its total debt service requirements by \$9,906,000, which resulted in an economic gain of \$12,783,000. The balance outstanding for all extinguished debt as of June 30, 2009, was \$174,130,000, which is shown in the following table. The state remains contingently liable to pay the advance refunded general obligation bonds.

On January 2, 2009, \$325,000,000 in general obligation state various purpose bonds were issued at a true interest rate of 3.50 percent, \$70,000,000 in general obligation state trunk highway bonds were issued at a true interest rate of 3.48 percent, and \$5,000,000 general obligation taxable state bonds were issued at a true interest rate of 3.08 percent.

| Primary Government<br>General Obligation Bonds<br>Outstanding Defeased Debt<br>(In Thousands) |                  |                 |                                  |
|---|------------------|-----------------|----------------------------------|
| Refunding Date  | Refunding Amount | Refunded Amount | June 30, 2009 Outstanding Amount |
| July 22, 2008   | \$ 74,710        | \$ 75,000       | \$ 84,250                        |
| July 22, 2008   | 80,705           | 81,150          | 89,880                           |
|   | \$ 155,415       | \$ 156,150      | \$ 174,130                       |

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2009. This schedule includes general obligation bonds that were sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

| Primary Government<br>General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding<br>As of June 30, 2009<br>(In Thousands) |                         |                    |                          |
|---|-------------------------|--------------------|--------------------------|
| Purpose   | Authorized But Unissued | Amount Outstanding | Interest Rates Range - % |
| State Building  | \$ 698                  | \$ 210,715         | 5.00 - 5.62              |
| State Operated Community Services   | -                       | 2,634              | 5.00                     |
| State Transportation  | 32,560                  | 196,553            | 5.00 - 5.62              |
| Waste Management  | -                       | 1,075              | 5.00 - 5.50              |
| Water Pollution Control   | -                       | 15,700             | 5.00 - 5.62              |
| Maximum Effort School Loan  | -                       | 60,585             | 5.00 - 5.25              |
| Rural Finance Authority   | 3,500                   | 59,100             | 5.00 - 5.60              |
| Refunding Bonds   | -                       | 824,551            | 4.00 - 5.00              |
| Municipal Energy Building   | -                       | 165                | 5.00                     |
| Trunk Highway   | 1,766,585               | 585,730            | 3.25 - 5.25              |
| Landfill  | -                       | 385                | 5.50 - 5.62              |
| Various Purpose   | 1,329,902               | 2,646,662          | 5.00 - 5.62              |
| Total   | \$ 3,133,245            | \$ 4,603,855       |                          |

**Capital Leases**

In 2006, the state entered into capital lease agreements with St. Paul Port Authority (SPPA - not part of the state's reporting entity) to purchase two newly constructed buildings on state owned land for \$180,005,000. Lease payments are scheduled over 20 years and approximate the debt service payments of SPPA. The state has other 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 that transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase the buildings under a bargain purchase option and the equipment at any time during the lease period.

**Loans Payable and Due to Component Unit**

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of \$34,396,000 were from local government entities to finance certain trunk highway projects. In addition, \$19,465,000 in loans from the Public Facilities Authority (component unit - Due to Component Unit) were outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

Business-type activities loans are loans to purchase equipment and loans from energy companies to improve energy efficiencies in the colleges and universities.

**Revenue Bonds Payable**

On July 26, 2006, \$15,145,000 of revenue bonds were issued to provide grants to school districts located in the state's taconite assistance area (as defined in statute) and for bond administrative costs. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the Commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. To repay the bonds, the Iron Range Resources and Rehabilitation Agency has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue funds). These tax distributions, totaling \$33,718,000 for fiscal year 2009, have averaged about one third of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. The interest rates on the bonds are 4.00% (7 years) and 4.50% (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014, are subject to optional redemption. For fiscal year 2009, principal and interest paid by the Iron Range Resources and Rehabilitation Agency on the bonds was \$1,396,000. The total principal and interest remaining to be paid as of June 30, 2009, is \$18,034,000, payable through November 2021.

The state is authorized by Minnesota Statutes, Section 403.275 and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, \$35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. On November 13, 2008, \$42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. The state has pledged future 911 fee revenues to repay the debt. The debt service on these bonds is payable solely from the revenues derived from the 911 fee assessed on wireless and wire-line telephone service. Annual principal and interest payments on the bonds are expected to require less than 25 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2009, is \$90,263,000, payable through June 2024. Principal and interest paid during fiscal year 2009 and total 911 fee revenues were \$7,817,000 and \$52,677,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$200,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 3.25 to 6.5 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 17.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$287,174,000. Principal and interest paid for the current year and total customer net revenues were \$9,907,000 and \$93,781,000, respectively.

Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,696,000. For the current year, principal and interest paid and total customer net revenues were \$207,000 and \$394,000, respectively. These revenue bonds have a variable interest rate of 2.50 to 5.75 percent.

Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,350,000. For the current year, principal and interest paid and total customer net revenues were \$86,000 and \$214,000, respectively. These revenue bonds have a fixed interest rate of 6 percent.

On November 1, 2000, \$16,000,000 in revenue bonds were issued for financing expansion of the Giants Ridge Recreational Area at a true interest rate of 7.48 percent. In addition, \$3,710,000 in bonds were refunded. The original refunded bonds have been eliminated, and the new advance refunding bonds have been added to the Giants Ridge Fund (enterprise fund). The Iron Range Resources and Rehabilitation Agency has pledged the gross revenues from the operation of the Giants Ridge Recreational Facilities, including greens fees and ski lift ticket receipts, to repay the debt. The debt service on these bonds is payable solely from these sources. The total principal and interest remaining to be paid on the bonds as of June 30, 2009 is \$20,681,000, payable through November 2025. Principal and interest paid during fiscal year 2009, and net Giants Ridge Fund available revenues were \$1,669,000 and \$4,195,000, respectively.

**Giants Ridge  
Outstanding Defeased Debt  
(In Thousands)**

| Refunding Date   | Refunding Amount | Refunded Amount | Outstanding Amount | Refunded Bond Call Date |
|------------------|------------------|-----------------|--------------------|-------------------------|
| November 1, 2000 | \$ 3,710         | \$ 3,710        | \$ 2,610           | November 1, 2025        |
|                  |                  |                 |                    | June 30, 2009           |

**Claims**

Municipal solid waste landfill liability of \$200,777,000 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 \$44,200,000 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).

The remaining claim amount of \$520,000,000 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, discounted (5.00%) 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 2050 for supplementary benefits and 2033 for second injuries.

**Compensated Absences**

The compensated absences liability for governmental activities and business-type activities of \$287,463,000 and \$144,113,000, respectively, are 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 activities and business-type activities liability for workers' compensation of \$95,172,000 and \$5,164,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2009, 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 2009, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

**Revenue Bonds Payable – Fiduciary Funds**

On June 1, 2000, the state of Minnesota issued revenue bonds totaling \$29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. The revenue bonds have a variable interest rate of 5.38 to 6.00 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds. The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2009, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was \$2,079,000. The total principal and interest remaining to be paid as of June 30, 2009, is \$44,130,000, payable through 2030.

| Long-Term Debt Repayment Schedule<br>Fiduciary Funds<br>Revenue Bonds – SERF, TRF, and PERF<br>(In Thousands) |           |          |        |
|---|-----------|----------|--------|
| Year Ended<br>June 30   | Principal | Interest |        |
| 2010  | \$ 625    | \$       | 1,446  |
| 2011  | 675       |          | 1,413  |
| 2012  | 700       |          | 1,376  |
| 2013  | 750       |          | 1,338  |
| 2014  | 775       |          | 1,297  |
| 2015-2019   | 4,650     |          | 5,774  |
| 2020-2024   | 6,250     |          | 4,257  |
| 2025-2029   | 8,450     |          | 2,178  |
| 2030-2034   | 2,054     |          | 122    |
| Total   | \$ 24,929 | \$       | 19,201 |

**Note 13 – Long-Term Liabilities – Component Units**

**Revenue and General Obligation Bonds**

**Component Units**

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 \$5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2009, net of unamortized premium, was \$2,473,733,000.

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 \$1,177,160,000 in general obligation bonds outstanding, net of unamortized premium, and \$6,279,000 of revenue bonds outstanding on December 31, 2008.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2009, the principal amount of revenue bonds outstanding was \$144,761,000 and the principal amount of general obligation bonds outstanding was \$473,160,000.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2009, the principal amount of revenue bonds outstanding was \$9,885,000.

Office of Higher Education (OHE) 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 released or discharged bonds, shall not exceed \$850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2009, the outstanding principal of revenue bonds was \$627,000,000.

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 \$1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2009, net of unamortized premium, was \$988,490,000.

| Year Ended  | MC <sup>(1)</sup> |            | U. of M.   |            |
|---|-------------------|------------|------------|------------|
|   | Principal         | Interest   | Principal  | Interest   |
| 2010  | \$ 90,040         | \$ 43,085  | \$ 210,427 | \$ 56,318  |
| 2011  | 81,203            | 39,638     | 18,403     | 7,717      |
| 2012  | 82,832            | 36,308     | 112,043    | 12,965     |
| 2013  | 65,975            | 34,518     | 5,073      | 6,624      |
| 2014  | 62,760            | 29,650     | 5,284      | 6,420      |
| 2015-2019   | 358,631           | 116,815    | 29,541     | 28,958     |
| 2020-2024   | 301,339           | 52,921     | 35,806     | 21,578     |
| 2025-2029   | 114,648           | 9,948      | 43,774     | 10,413     |
| 2030-2034   | -                 | -          | 12,809     | 1,989      |
|   | \$ 1,157,428      | \$ 362,883 | \$ 473,160 | \$ 152,982 |
| Unamortized Discounts/Premiums and Issuance Costs | 19,732            | -          | -          | -          |
| Total   | \$ 1,177,160      | \$ 362,883 | \$ 473,160 | \$ 152,982 |

<sup>(1)</sup>MC fiscal year ends December 31.

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

| Year Ended  | HFA         |              | MC <sup>(2)</sup> |          | U of M <sup>(1)</sup> |           |
|---|-------------|--------------|-------------------|----------|-----------------------|-----------|
|   | Principal   | Interest     | Principal         | Interest | Principal             | Interest  |
| 2010  | \$ 446,815  | \$ 84,688    | \$ 1,135          | \$ 252   | \$ 5,524              | \$ 6,600  |
| 2011  | 47,680      | 81,966       | 1,185             | 199      | 5,669                 | 6,341     |
| 2012  | 49,345      | 80,002       | 1,245             | 138      | 5,564                 | 6,086     |
| 2013  | 59,910      | 77,682       | 1,305             | 81       | 5,769                 | 5,840     |
| 2014  | 54,340      | 75,312       | 1,365             | 27       | 5,789                 | 5,590     |
| 2015-2019   | 274,255     | 341,974      | -                 | -        | 29,569                | 24,042    |
| 2020-2024   | 289,370     | 280,853      | -                 | -        | 37,274                | 16,336    |
| 2025-2029   | 391,285     | 212,856      | -                 | -        | 47,184                | 6,421     |
| 2030-2034   | 440,690     | 128,972      | -                 | -        | 2,419                 | 60        |
| 2035-2039   | 380,490     | 46,359       | -                 | -        | -                     | -         |
| 2040-2044   | 18,065      | 3,555        | -                 | -        | -                     | -         |
| 2045-2049   | 17,765      | 979          | -                 | -        | -                     | -         |
|   | \$2,470,010 | \$ 1,415,198 | \$ 6,235          | \$ 697   | \$144,761             | \$ 77,316 |
| Unamortized Discounts/Premiums and Issuance Costs | 3,723       | -            | 44                | -        | -                     | -         |
| Total   | \$2,473,733 | \$ 1,415,198 | \$ 6,279          | \$ 697   | \$144,761             | \$ 77,316 |

<sup>(1)</sup>Does not include foundation issued bonds.  
<sup>(2)</sup>MC fiscal year ends December 31.



Office of Higher Education

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

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

**Bond Defeasances**

In prior years, 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 1982 and 1996 Series A was \$271,635,000 with \$171,625,000 outstanding as of June 30, 2009. Neither the outstanding indebtedness, nor the related trust account assets for these bonds are included in the U of M's financial statements as of June 30, 2009.

Public Facilities Authority had \$139,000,000 of various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2009.

**Note 14 – Pollution Remediation and Landfill Postclosure Obligations**

**Primary Government**

The state of Minnesota is financially responsible to remediate certain known pollution present on either state owned or non-state owned land. In most cases, the state voluntarily assumes responsibility for site assessment and clean-up activities when the responsible party cannot be found or is financially unable to perform the remediation. Pollution remediation obligation liabilities as of June 30, 2009, were \$38,641,000. Of this total, \$29,200,000 was the liability for remediation on sites designated pursuant to state or federal superfund laws. The pollution remediation amounts are estimated through an analysis of existing polluted sites. The liabilities are based on the weighted average of the pollution remediation outlays expected to be incurred to settle those liabilities. Because the liabilities are measured at their current value, they are subject to change due to inflation, technology improvements, or changes to applicable laws and regulations. Funding for the state's pollution remediation primarily comes from the Remediation Fund (special revenue fund), which was established under Minnesota Statute, Section 116.155 and the Petroleum Tank Fund (special revenue fund), which was established under Minnesota Statute Section 115C.08.

| Year Ended  | AEDB      |          | OHE        |            | PFA        |            |
|---|-----------|----------|------------|------------|------------|------------|
|   | Principal | Interest | Principal  | Interest   | Principal  | Interest   |
| 2010  | \$ 1,075  | \$ 545   | -          | \$ 5,671   | \$ 49,200  | \$ 46,897  |
| 2011  | 885       | 495      | -          | 5,671      | 46,980     | 44,731     |
| 2012  | 930       | 447      | -          | 5,671      | 58,105     | 42,492     |
| 2013  | 990       | 395      | -          | 5,671      | 58,280     | 39,727     |
| 2014  | 1,035     | 341      | -          | 5,670      | 61,215     | 36,840     |
| 2015-2019   | 3,920     | 897      | -          | 28,355     | 348,305    | 134,858    |
| 2020-2024   | 1,050     | 70       | -          | 28,355     | 274,995    | 52,305     |
| 2025-2029   | -         | -        | -          | 28,355     | 66,486     | 6,654      |
| 2030-2034   | -         | -        | -          | 28,355     | -          | -          |
| 2035-2039   | -         | -        | 387,000    | 22,120     | -          | -          |
| 2040-2044   | -         | -        | 240,000    | 4,668      | -          | -          |
|   | \$ 9,885  | \$ 3,190 | \$ 627,000 | \$ 168,562 | \$ 983,566 | \$ 404,504 |
| Unamortized Discounts/Premiums and Issuance Costs | -         | -        | -          | -          | 24,924     | -          |
| Total   | \$ 9,885  | \$ 3,190 | \$ 627,000 | \$ 168,562 | \$ 988,490 | \$ 404,504 |

**Variable Rate Debt**

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M has entered into six separate interest rate swaps. All of these are pay-fixed and receive variable interest rate swaps, which effectively changes U of M's variable interest rate bonds to synthetic fixed-rate bonds.

The state is also responsible for the long-term care of certain closed municipal solid waste facilities. Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. The state is responsible, in perpetuity, for performing cleanup and final closure work, as well as all maintenance and monitoring, at qualifying sites. There are currently 109 closed sites in the program. Funding for the state's perpetual obligation at these landfills comes from the Remediation Fund (special revenue fund). The Remediation Fund includes revenues from insurance recovery proceeds and financial assurance from previous owners and operators, as well as transfers in from the Environmental Fund (special revenue fund). Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, are used for design and construction work at the publicly-owned landfills in the program. Estimated landfill postclosure obligation liabilities as of June 30, 2009, were \$200,777,000, including planned response actions, future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and administrative costs. Since costs are estimated at current value, actual costs could be different because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

See Note 12 – Long-Term Liabilities – Primary Government for liability amounts accrued at the government-wide statement of net assets. As a result of implementing GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the beginning net asset balance on the government-wide statement of activities has been decreased by \$45,854,000, due to a change in accounting principle.

#### Component Unit

The University of Minnesota (U of M) also implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, for the fiscal year ended June 30, 2009. U of M's pollution remediation liability was \$4,737,000 as of June 30, 2009, and the beginning net assets decreased by \$11,290,000 as a result of implementing this change in accounting principle.

#### Note 15 – Segment Information

|  | Primary Government                         |                           |                        |              |              |  |
|--|--|---------------------------|------------------------|--------------|--------------|--|
|  | Segment Information Financial Data         |                           |                        |              |              |  |
|  | Year Ended June 30, 2009<br>(In Thousands) |                           |                        |              |              |  |
|  | Revenue Fund                               | Vermilion Modular Housing | Itasca Residence Halls | Giants Ridge | 911 Services |  |
| Condensed Statement of Net Assets  |  |                           |                        |              |              |  |
| Assets:  |  |                           |                        |              |              |  |
| Current Assets   | \$ 62,038                                  | \$ 35                     | \$ 52                  | \$ 6,922     | \$ 36,201    |  |
| Restricted Assets  | 122,997                                    | 140                       | 264                    | 1,600        | -            |  |
| Capital Assets   | 192,177                                    | 865                       | 3,664                  | 21,106       | -            |  |
| Total Assets   | \$ 377,212                                 | \$ 1,040                  | \$ 3,980               | \$ 29,628    | \$ 36,201    |  |
| Liabilities:   |  |                           |                        |              |              |  |
| Current Liabilities  | \$ 20,912                                  | \$ 86                     | \$ 141                 | \$ 1,800     | \$ 10,551    |  |
| Noncurrent Liabilities   | 195,194                                    | 225                       | 2,103                  | 11,500       | 62,745       |  |
| Total Liabilities  | \$ 216,106                                 | \$ 311                    | \$ 2,244               | \$ 13,300    | \$ 73,296    |  |
| Net Assets:  |  |                           |                        |              |              |  |
| Invested in Capital Assets, Net of Related Debt                          | \$ 87,118                                  | \$ 641                    | \$ 1,481               | \$ 10,270    | \$ -         |  |
| Restricted   | 73,988                                     | 66                        | 264                    | -            | -            |  |
| Unrestricted   | -  | 22                        | (9)                    | 6,058        | (37,095)     |  |
| Total Net Assets   | \$ 161,106                                 | \$ 729                    | \$ 1,736               | \$ 16,328    | \$ (37,095)  |  |
| Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets |  |                           |                        |              |              |  |
| Assets   |  |                           |                        |              |              |  |
| Operating Revenues - Customer Charges                                    | \$ 93,781                                  | \$ 214                    | \$ 394                 | \$ 4,091     | \$ 52,677    |  |
| Depreciation Expense   | (10,043)                                   | (36)                      | (119)                  | (1,091)      | -            |  |
| Other Operating Expenses   | (69,867)                                   | (119)                     | (227)                  | (5,796)      | (23,225)     |  |
| Operating Income (Loss)  | \$ 13,871                                  | \$ 59                     | \$ 48                  | \$ (2,796)   | \$ 29,452    |  |
| Nonoperating Revenues (Expenses):  |  |                           |                        |              |              |  |
| Interest Income  | \$ 2,467                                   | \$ 1                      | \$ 9                   | \$ 117       | \$ 642       |  |
| Interest Expense   | (7,091)                                    | (19)                      | (127)                  | (905)        | (2,311)      |  |
| Other  | 108  | -                         | -                      | (3)          | (17,555)     |  |
| Transfers-In (Out)   | -  | -                         | -                      | 4,821        | (42,558)     |  |
| Change in Net Assets   | \$ 9,355                                   | \$ 41                     | \$ (70)                | \$ 1,234     | \$ (32,330)  |  |
| Beginning Net Assets   | 151,751                                    | 688                       | 1,806                  | 15,094       | (4,765)      |  |
| Ending Net Assets  | \$ 161,106                                 | \$ 729                    | \$ 1,736               | \$ 16,328    | \$ (37,095)  |  |
| Condensed Statement of Cash Flows  |  |                           |                        |              |              |  |
| Net Cash Provided (Used) By:   |  |                           |                        |              |              |  |
| Operating Activities   | \$ 22,605                                  | \$ 82                     | \$ 184                 | \$ (1,365)   | \$ 30,198    |  |
| Noncapital Financing Activities  | -  | -                         | -                      | 4,821        | (24,476)     |  |
| Capital and Related Financing Activities                                 | (9,389)                                    | (86)                      | (207)                  | (3,350)      | -            |  |
| Investing Activities   | 3,079                                      | 1                         | 9                      | 105          | 642          |  |
| Net Increase (Decrease)  | \$ 16,295                                  | \$ (3)                    | \$ (14)                | \$ 211       | \$ 6,362     |  |
| Beginning Cash and Cash Equivalents                                      | \$ 149,637                                 | \$ 143                    | \$ 305                 | \$ 6,491     | \$ 25,827    |  |
| Ending Cash and Cash Equivalents   | \$ 165,932                                 | \$ 140                    | \$ 291                 | \$ 6,702     | \$ 31,889    |  |

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

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.
- MnSCU Vermilion Modular Housing accounts for the construction and operation of student housing at Vermilion Community College.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- Giants Ridge Fund is a four-season recreation facility with golfing, as well as downhill and Nordic skiing.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.

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**

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 state is not liable for any additional portion of the unfunded liability without legislative action. 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):

| Fund                                      | Primary Government<br>Contingent Liabilities<br>(In Thousands) |                       |
|---|--|-----------------------|
|   | Liability as of  | Unfunded<br>Liability |
| Minneapolis Employee Retirement Fund      | June 30, 2009  | \$ 694,878            |
| St. Paul Teachers Retirement Fund         | June 30, 2009  | \$ 404,360            |
| Duluth Teachers Retirement Fund           | June 30, 2008  | \$ 64,977             |
| Local Police and Fire Fund <sup>(1)</sup> | December 31, 2008  | \$ 234,791            |

<sup>(1)</sup>The Local Police and Fire Fund consists of four local plans.

**Component Units**

Since January 18, 2000, Metropolitan Council (MC) has been contingently liable for Carver County Housing and Redevelopment Authority Revenue Bonds. The bond issue was for \$2,696,000, 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.

On December 31, 1996, University of Minnesota Hospital and Clinic operations and certain assets and liabilities were transferred to University of Minnesota Medical Center, Fairview (Fairview). Fairview and the University of Minnesota also agreed to affiliate with each other in support of research, education, and patient care missions of the University of Minnesota's Academic Health Center. Under this affiliation agreement, the University of Minnesota shares equally with Fairview in any unfunded education costs at the teaching hospital.

Workers' Compensation Assigned Risk Plan (WCARP) contracts with six 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, 2008, was less than \$4 million.

**Note 17 – Equity**

**Restricted Net Assets – Government-wide Statement of Net Assets**

The following table identifies the primary government's restricted net assets in greater detail than is presented on the face of the financial statements.

| Restricted For:                    | Primary Government<br>Restricted Net Asset Balances<br>As of June 30, 2009<br>(In Thousands) |  |                        |
|------------------------------------|--|--|------------------------|
|                                    | Restricted by<br>Constitution  | Restricted by<br>Enabling<br>Legislation | Restricted by<br>Other |
| Capital Projects                   | \$ 36,933  | \$ -                                     | \$ -                   |
| Debt Service                       | 425,915  | -  | -                      |
| Transportation                     | 330,880  | 461,654                                  | -                      |
| Environmental Resources            | -  | 493,484                                  | 153                    |
| Economic and Workforce Development | -  | 100,766                                  | 6,058                  |
| School Aid - Nonexpendable         | 624,361  | -  | -                      |
| School Aid - Expendable            | 5,862  | 72,651                                   | -                      |
| Health & Human Services            | -  | -  | 16,506                 |
| State Colleges and Universities    | -  | -  | 364,804                |
| Unemployment Benefits              | -  | -  | 317,218                |
| Other Purposes                     | -  | -  | 32,814                 |
| <b>Total Restricted Net Assets</b> | <b>\$ 1,423,951</b>  | <b>\$ 1,128,555</b>                      | <b>\$ 737,553</b>      |
|                                    |  |  | <b>\$ 3,290,059</b>    |

**Fund Balances – Primary Government**

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

|  | General             | Federal       | Nonmajor Governmental |
|--|---------------------|---------------|-----------------------|
| <b>Fund Balances:</b>                  |                     |               |                       |
| Reserved for Encumbrances              | \$ 68,727           | \$ -          | \$ 276,967            |
| Reserved for Inventory                 | -                   | -             | 25,202                |
| Reserved for Long-Term Receivables     | 42,455              | -             | 230,150               |
| Reserved for Long-Term Commitments     | -                   | -             | 317,339               |
| Reserved for Trust Principal           | -                   | -             | 1,008,778             |
| Reserved for Other                     | -                   | 153           | -                     |
| <b>Total Reserved Fund Balances</b>    | <b>\$ 111,182</b>   | <b>\$ 153</b> | <b>\$ 1,858,436</b>   |
| <b>Unreserved Fund Balances:</b>       |                     |               |                       |
| Designated for Appropriation Carryover | \$ -                | \$ -          | \$ 233,452            |
| Designated for Fund Purposes           | -                   | -             | 1,729,229             |
| <b>Total Designated Fund Balance</b>   | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ 1,962,681</b>   |
| <b>Undesignated</b>                    | <b>(752,490)</b>    | <b>-</b>      | <b>347,356</b>        |
| <b>Total Unreserved Fund Balance</b>   | <b>\$ (752,490)</b> | <b>\$ -</b>   | <b>\$ 2,310,037</b>   |
| <b>Total Fund Balance</b>              | <b>\$ (641,308)</b> | <b>\$ 153</b> | <b>\$ 4,169,473</b>   |

**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 Other of \$153,000 in the Federal Fund consists 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.

Designated for Fund Purposes consists of fund balances for non-appropriated funds to be used for the following purposes:

|  | Special Revenue Funds | Debt Service Fund | Permanent Funds | Total               |
|--|-----------------------|-------------------|-----------------|---------------------|
| <b>Primary Government<br/>Fund Balance Designated for Fund Purposes<br/>As of June 30, 2009<br/>(In Thousands)</b> |                       |                   |                 |                     |
| <b>Designated For:</b>   |                       |                   |                 |                     |
| Public Safety and Corrections  | \$ 53,237             | \$ -              | \$ -            | \$ 53,237           |
| Transportation   | 477,333               | -                 | -               | 477,333             |
| Environmental Resources  | 203,216               | -                 | -               | 203,216             |
| Economic and Workforce Development   | 80,801                | -                 | -               | 80,801              |
| General Education  | 10,504                | -                 | 5,862           | 16,366              |
| Higher Education   | 1,212                 | -                 | -               | 1,212               |
| Health & Human Services  | 84,731                | -                 | -               | 84,731              |
| General Government   | 67,472                | 742,069           | -               | 809,541             |
| Intergovernmental Aids   | 2,792                 | -                 | -               | 2,792               |
| <b>Total</b>   | <b>\$ 981,298</b>     | <b>\$ 742,069</b> | <b>\$ 5,862</b> | <b>\$ 1,729,229</b> |

**Deficit Equity Balances**

A \$37,095,000 deficit total net asset balance in the 911 Services Fund (enterprise fund) is a result of revenue bonds issued for grants and improvements to the state's emergency communication system. The deficit will be resolved through future 911 fee revenues.

## Note 18 – 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 (internal service fund) which offers auto, liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All agencies that own state vehicles are required to purchase automobile liability coverage from the fund.

The property coverage offers a range of deductibles from \$1,000 through \$250,000 per loss. The fund covers the balance of the claim up to \$1,000,000. The reinsurance program provides coverage up to \$1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach \$4,000,000 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 \$400,000 bodily injury and property damage per person, and \$1,200,000 bodily injury and property damage per occurrence. Effective July 1, 2009, the per person limit increased to \$500,000 and the per occurrence limit increased to \$1,500,000. The casualty reinsurance program provides \$10,000,000 excess of a \$1,200,000 retention to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction. One exception is the casualty program for MnSCU auto, which provides \$10,000,000 excess of a \$1,500,000 retention.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state does not 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 covered by programs of the Risk Management Fund, by insurance policies purchased in the commercial market, or are uninsured and become the liability of the state.

#### Tort Claims

Tort claims against the state are limited to \$400,000 bodily injury and property damage per person, and \$1,200,000 bodily injury and property damage per occurrence as of June 30, 2009. Effective July 1, 2009, the per person limit increased to \$500,000 and the per occurrence limit increased to \$1,500,000. 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. 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. Tort claims brought outside Minnesota state jurisdiction and in Federal court have unlimited liability exposure.

### Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation program, including work place safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program 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 \$1,720,000.

The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a 'pay-as-you-go' revolving fund or a premium pool cost allocation fund. These costs are paid from each agency's operating budget.

The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits, related to the reported claim.

#### State Employee Group Insurance Program

The Minnesota State Legislature created the Employee Insurance Fund (internal service 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 Employee Insurance 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 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 had settlements of \$1,351,739 less than coverage during fiscal year ended June 30, 2009.

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. Beginning in fiscal year 1998, medical benefits, provided through PEIP, became a self-insured program.

PEIP's membership as of June 30, 2009, was 1,257 members and their dependents. The members of the pool include 9 school districts, 33 cities/townships, 2 counties, and 13 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 \$100,000.

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, 2008, and 2009:

|                                       | Primary Government<br>Self-Insured Claim Liabilities<br>(In Thousands) |   |                            |
|---------------------------------------|--|---|----------------------------|
|                                       | Beginning<br>Claims Liability  | Net Additions<br>and Changes<br>in Claims | Ending Claims<br>Liability |
| <b>Risk Management Fund</b>           |  |   |                            |
| Fiscal Year Ended 6/30/08             | \$ 9,060   | \$ 4,304                                  | \$ 4,363                   |
| Fiscal Year Ended 6/30/09             | \$ 9,001   | \$ 5,896                                  | \$ 5,556                   |
| <b>Tort Claims</b>                    |  |   |                            |
| Fiscal Year Ended 6/30/08             | \$ -   | \$ 1,420                                  | \$ 1,420                   |
| Fiscal Year Ended 6/30/09             | \$ -   | \$ 1,111                                  | \$ 1,111                   |
| <b>Workers' Compensation</b>          |  |   |                            |
| Fiscal Year Ended 6/30/08             | \$ 113,763   | \$ 6,004                                  | \$ 18,616                  |
| Fiscal Year Ended 6/30/09             | \$ 101,151   | \$ 17,842                                 | \$ 18,653                  |
| <b>State Employee Insurance Plans</b> |  |   |                            |
| Fiscal Year Ended 6/30/08             | \$ 39,836  | \$ 498,581                                | \$ 497,137                 |
| Fiscal Year Ended 6/30/09             | \$ 41,280  | \$ 533,762                                | \$ 529,652                 |

**Primary Government  
Public Employee Insurance Program  
Medical Claims  
(In Thousands)**

|  | Year Ended June 30 |           |
|--|--------------------|-----------|
|  | 2009               | 2008      |
| Unpaid Claims and Claim Adjustment Expenses, Beginning                               | \$ 975             | \$ 1,210  |
| Incurred Claims and Claim Adjustment Expenses:                                       |                    |           |
| Provision for Insured Events of Current Year   | \$ 8,806           | \$ 10,368 |
| Increases (Decreases) in Provision for Insured Events of Prior Years                 | (15)               | (55)      |
| Total Incurred Claims and Claim Adjustment Expenses                                  | \$ 8,791           | \$ 10,313 |
| Payments:  |                    |           |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year | \$ 7,921           | \$ 9,403  |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years  | 950                | 1,145     |
| Total Payments   | \$ 8,871           | \$ 10,548 |
| Total Unpaid Claims and Claim Adjustment Expenses, Ending                            | \$ 895             | \$ 975    |

**Component Units**

**Housing Finance Agency**

Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. HFA manages these risks through the primary government's insurance plans including the primary government's Risk Management Fund and through purchased insurance coverage. HFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years. HFA participates in the State Employee Group Insurance Plan (SEGIP), which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations. HFA also participates in the primary government's Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims.

**Metropolitan Council**

Metropolitan Council (MC) is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and 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. MC has not had any settlements in excess of commercial coverage for the past three years.

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 \$400,000 per claim and \$1,200,000 per occurrence for a claim arising on or after January 1, 2008. For claims arising earlier, the limits are \$300,000 per claim and \$1,000,000 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.

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 3.44 percent. The self-insurance retention limit for workers' compensation is \$1,720,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

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 using a discount rate of 6 percent.

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's liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

U of M's medical (health) and dental coverage for faculty and staff are self-insured programs. Under the plans, U of M pays claims, while the administration of the program is handled by independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of the U of M's liability is established for incurred but not reported claims.

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2007, and 2008, or June 30, 2008, and 2009, as applicable:

|   | Component Units<br>Claims Liabilities<br>(In Thousands) |   |                      |                            |
|---|---|---|----------------------|----------------------------|
|   | Beginning<br>Claims<br>Liability                        | Net Additions<br>and Changes<br>in Claims | Payment of<br>Claims | Ending Claims<br>Liability |
| Metropolitan Council - Workers' Compensation    |   |   |                      |                            |
| Fiscal Year Ended 12/31/07                      | \$ 17,332   | \$ 4,247                                  | \$ 5,648             | \$ 15,931                  |
| Fiscal Year Ended 12/31/08                      | \$ 15,931   | \$ 6,180                                  | \$ 6,793             | \$ 15,318                  |
| University of Minnesota – RUMINCO, Ltd.         |   |   |                      |                            |
| Fiscal Year Ended 6/30/08                       | \$ 6,490  | \$ 5,253                                  | \$ 1,986             | \$ 9,757                   |
| Fiscal Year Ended 6/30/09                       | \$ 9,757  | \$ 1,011                                  | \$ 2,848             | \$ 7,920                   |
| University of Minnesota – Workers' Compensation |   |   |                      |                            |
| Fiscal Year Ended 6/30/08                       | \$ 7,953  | \$ 3,180                                  | \$ 3,759             | \$ 7,374                   |
| Fiscal Year Ended 6/30/09                       | \$ 7,374  | \$ 10,633                                 | \$ 3,875             | \$ 14,132                  |
| University of Minnesota – Medical/Dental        |   |   |                      |                            |
| Fiscal Year Ended 6/30/08                       | \$ 13,753   | \$ 197,161                                | \$ 194,752           | \$ 16,162                  |
| Fiscal Year Ended 6/30/09                       | \$ 16,162   | \$ 219,327                                | \$ 217,232           | \$ 18,257                  |

**Note 19 – 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 basis of accounting for the General Fund is provided in the following table.

| <b>General Fund<br/>Reconciliation of GAAP Basis Fund Balance<br/>to Budgetary Fund Balance<br/>As of June 30, 2009<br/>(In Thousands)</b> |                     |
|--|---------------------|
| GAAP Basis Fund Balance:   | \$ (641,308)        |
| Less: Reserved Fund Balance  | 111,182             |
| Undesignated Fund Balance  | <u>\$ (752,490)</u> |
| Basis of Accounting Differences:   |                     |
| Revenue Accruals/Adjustments:  |                     |
| Taxes Receivable   | \$ (405,361)        |
| Tax Refunds Payable  | 511,702             |
| Human Services Receivable  | (18,127)            |
| Unearned Revenue   | 18,735              |
| Escheat Asset  | (8,464)             |
| Other Receivables  | (36,473)            |
| Permanent School Fund Reimbursement  | (4,400)             |
| Investments at Market  | 3,290               |
| Expenditure Accruals/Adjustments:  |                     |
| Medical Care Programs  | 348,234             |
| Human Services Grants Payable  | 40,316              |
| Education Aids   | 673,128             |
| Police and Fire Aid  | 78,014              |
| Other Payables   | 998                 |
| Fund Structure Differences:  |                     |
| Terminally Funded Pension Plans  | 7,574               |
| Perspective Differences:   |                     |
| Designated for Appropriation Carryover and Budgetary Reserve   | <u>(395,644)</u>    |
| Budgetary Basis:   |                     |
| Undesignated Fund Balance  | <u>\$ 61,032</u>    |

**Note 20 – 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 appropriations for each of the fiscal years ending June 30, 2009, 2010, and 2011 are \$761,000. The maximum limit of liability for tort claims arising out of a single occurrence in Minnesota on or before January 1, 2000, and before January 1, 2008, is \$1,000,000. The maximum limited liability for any one claim is \$300,000 for claims arising before August 1, 2007, and \$400,000 for claims arising on or after August 1, 2007, and before July 1, 2009. The maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, are \$1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are \$500,000 for any one claim and \$1,500,000 for any number of claims arising out of a single occurrence.

2) *I-35W Bridge Collapse.* On August 1, 2007, the I-35W interstate bridge over the Mississippi River collapsed. Thirteen people were killed, and approximately 145 injured. The bridge, which opened in 1967, was designed by a private contractor under contract with the state of Minnesota; it was inspected and maintained by the Minnesota Department of Transportation ("MnDOT"). The state has received 186 Notices of Tort Claim arising from the collapse of the I-35W bridge. The Minnesota Legislature enacted a compensation fund codified in Minn. Stat. § 3.7391 et seq. and appropriated \$36,640,000 for payments to representatives of decedents and claimants who were on the I-35W bridge at the time of the collapse. A panel of three attorneys determined the amount of payments. All 179 claimants accepted payments from the compensation fund and the emergency relief fund in the aggregate amount of about \$37 million on the condition that they waived the right to sue the state for additional recovery. However, the majority of those claimants have commenced litigation against the original bridge designer, an engineering firm that inspected the bridge under contract with the state, and a construction company that was performing work on the bridge at the time of the collapse. The state has been third-partied into this litigation which is venued in Hennepin County state court. Although the state's position is that its exposure in this litigation is capped at \$1 million, the constitutionality of this cap may be challenged. The state has brought third party claims against the other defendants seeking recovery of the \$37 million paid to claimants by the statutory compensation fund, the emergency relief fund, and for state's damages associated with the collapse. The state's claim against the construction company performing work on the bridge at the time of the collapse has been settled for \$1 million.

3) 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 \$15 million in excess of current levels.

a) At any one time, there are hundreds of MnDOT 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 \$15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund (special revenue fund). MnDOT has agreed to acquire properties for the Metropolitan Council's (component unit) Central Corridor light rail transit project. This project is likely to involve eminent domain actions. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds \$15 million. Liability arising out of decisions unfavorable to the state may impact funding to be provided to MnDOT by the Metropolitan Council.



b) *ACS State and Local Solutions, Inc. v. State of Minnesota, through its Commissioner of the Department of Human Services* (DHS) entered into a software development contract with an entity known as SSI North America. Under the contract, SSI was to develop and deliver a web-based software program known as "HealthMatch," intended to combine and automate certain evaluation and decision-making tasks regarding eligibility for several health care assistance programs administered by DHS. The HealthMatch contract was subsequently assigned to Albion, Inc., which was owned by SSI, and later, the assets of Albion, Inc., including the HealthMatch contract, were purchased by ACS State and Local Solutions, Inc. Initially, the contract was to continue until May 2005, but as difficulties arose with regard to completion of the software, it was eventually extended to May 2008. In March 2008, DHS determined that satisfactory progress toward completion was not being made and terminated the contract. ACS filed suit on September 9, 2008, claiming damages in excess of \$50,000 based on breach of contract, quantum meruit (just compensation for work performed), and unjust enrichment. While denying liability, DHS estimates that a decision favorable to plaintiff ACS could result in an impact on the General Fund in excess of \$15 million. The court granted in part DHS's motion for summary judgment and dismissed ACS's claims for quantum meruit and unjust enrichment. The court has set the case on for trial during a three week block beginning on August 16, 2010.

c) *Alliance Pipeline, L.P. v. Commissioner of Revenue* (Minnesota Tax Court). Alliance operates a natural gas pipeline company and owns and operates property throughout 13 Minnesota counties. In mid-October 2009, Alliance filed an appeal in Minnesota Tax Court challenging the Commissioner's 2009 assessment of Alliance's natural gas pipeline property in Minnesota. The legal issues in this appeal are very similar to the legal challenges raised in the MERC 2008 and 2009 appeals below. Alliance challenges the assessment asserting that the Commissioner has failed to correctly determine the market value of the property as defined by Minn. Stat. § 272.03, subd. 8. Alliance also challenges Minn. Rule 8100 to the extent it exceeds the Commissioner's statutory authority arguing that it creates a valuation process which does not value utility property at its fair market value. Alliance also challenges the rule as unconstitutional in violation of the Equal Protection Clause, the Uniformity Clause, and the Due Process Clause of the Minnesota Constitution and the Equal Protection and Due Process Clauses of the U.S. Constitution. Alliance also alleges the Commissioner's assessment violates the Commerce Clause of the U.S. Constitution.

d) *Brayton, et al. v. Pawlenty, et al.* (Ramsey County District Court No. 62-CV-09-11693). On October 29, 2009, six named plaintiffs who receive Minnesota Supplemental Aid (MSA) Special Diet funding, three of whom also regularly apply for and receive a renters' property tax refund, challenged allotment of approximately \$5.33 million in funding for the MSA Special Diet program effective November 1, 2009, through June 30, 2011, and the allotment of approximately \$50.8 million for the 2009 renters' property tax refunds payable starting July 2010, by reducing the portion of the rent used to calculate the 2009 refund from 19 to 15 percent. Plaintiffs have styled the action as a class action, but have not yet sought class certification. Plaintiffs seek injunctive and declaratory relief alleging, inter alia, that allotment at the beginning of a biennium and extending beyond a fiscal year is inconsistent with Minn. Stat. § 16A.152; that allotment to reduce the statutorily prescribed amount of rent used to calculate the renters' property tax refund from 19 to 15 percent is unlawful and violates the Minnesota Constitution doctrine of separation of powers; and that allotment at the beginning of the biennium, rather than using line-item veto to reduce appropriations before the beginning of the biennium, violates separation of powers. The Minnesota House of Representatives filed a brief as Amicus Curiae in support of plaintiff's motion for a temporary restraining order.

e) *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry* (Ramsey County District Court). The Home Insurance Company ("Home") seeks a declaration that it is entitled to reimbursement from the Special Compensation Fund (special revenue fund) for certain workers' compensation payments Home has made. Home, which is in liquidation, seeks the reimbursement to which it claims it is entitled under the state's workers' compensation scheme, and without recourse to the General Fund. Defendants Minnesota Department of Labor and Industry and Special Compensation Fund have denied Home's requests for reimbursement, raising various statutory defenses and that Home is not entitled to reimbursement under the law. Home claims it is entitled to \$21 million in past and future reimbursements. The Complaint and Answer have been filed. Defendants expect to bring a summary judgment motion in late 2009. Plaintiffs ask for reimbursement from the Special Compensation Fund.

f) *McLane Minnesota, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff challenges the Minnesota tobacco tax (tax on tobacco products other than cigarettes) imposed by Minn. Stat. § 297F.05, subd. 3. Plaintiff requests nullification of an assessment for \$178,327 and seeks a \$5.6 million refund of tax previously paid. Plaintiff asserts that the tax violates the Commerce Clause of the United States Constitution and federal and state equal protections principles. Plaintiff also contends that the tax should be computed on the price tobacco manufacturers charge their own sales companies (rather than the price the sales companies charge to distributors like McLane), and should be computed on the price after applicable discounts. The Department of Revenue estimates that a decision favorable to Plaintiff would have an impact in excess of \$15 million. The parties submitted cross-motions for summary judgment, and the Court ruled in favor of the Commissioner of Revenue. The Minnesota Supreme Court ruled in the Commissioner's favor on September 20, 2009. McLane moved for reconsideration which the Commissioner opposed. McLane has until January 19, 2010, to file a petition for certiorari to the U.S. Supreme Court.

g) *Merrill Lynch Pierce Fenner & Smith, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff engages in securities transactions sometimes on a commission basis and sometimes as a principal. Plaintiff's principal contention is that the Department of Revenue erred in using net rather than gross receipts in the apportionment formula sales factor for principal transactions. Plaintiff also alleges that the Department of Revenue erred in the method used to "source" receipts from principal and commission transactions involving Minnesota customers and in excluding certain intangibles from the apportionment formula property factor denominator. Finally, Plaintiff alleges, on various grounds, that the Department of Revenue's approach violates the Equal Protection, Uniformity and Due Process clauses of the Minnesota or Federal Constitutions and the Commerce Clause of the Federal Constitution. The Department of Revenue estimates that a decision favorable to Plaintiff would have an industry-wide impact in excess of \$15 million. In February 2009, the parties stipulated to facts eliminating the need for a trial and tentatively settled the matter pending the outcome of an audit by the Department of Revenue.

h) *Minnesota Energy Resources Corp. v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation appeals the 2007 and 2008 assessment of the real, personal, and operating property of its pipeline that is subject to assessment in 53 counties in Minnesota. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in Minn. Stat. § 272.03, subd. 8) of the pipeline's property in Minnesota and in its determination has employed methods which overstate the market value and arrived at a value in excess of market value; and (2) that the pipeline's property in Minnesota was unfairly and unequally assessed compared to property in the same class and the property of similarly situated taxpayers in violation of Minn. Stat. § 273.11, the Equal Protection Clause; the Uniformity of Taxation Clause (art. X, sec. 1) and the Due Process clause of the Minnesota Constitution and the Equal Protection and Due Process Clause of U.S. Constitution. The apportionable 2008 market value for this property is \$126 Million. In August 2009, MERC filed a new appeal in the Minnesota Tax Court challenging the 2009 assessment of their natural gas pipeline. In this new appeal, MERC objects to both the old and new Rules. Specifically, MERC disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not



State of Minnesota

## 2009 Comprehensive Annual Financial Report Required Supplementary Information

### Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this 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 3,000 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.

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included in depreciation, the weighting of cost factors, and claim that the property tax assessments are not applied evenly throughout Minnesota. The Commissioner's Return and Answer has been filed in early October 2009 for the new appeal (2009 tax year). The Commissioner has prepared and served MERC with discovery requests.

- i) *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, challenged 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 alleged 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. Plaintiffs brought declaratory and injunctive relief prohibiting enforcement and collection of the tax. The Department of Revenue estimated a determination in plaintiffs' favor could result in revenue collection losses of \$30 million when applied to plaintiffs and other railroad common carriers operating in Minnesota that paid the fuel tax and have timely filed claims for refunds. On August 22, 2006, the United States District Court filed a decision rejecting plaintiffs' challenges and upholding enforcement and collection of the tax. On November 6, 2007, the Eighth Circuit Court of Appeals reversed the decision and remanded the case to the District Court to enjoin the Commissioner from continuing to enforce the tax. The Commissioner of the Minnesota Department of Revenue filed a motion for a rehearing en banc to the United States Eighth Circuit Court of Appeals, which was denied. The Commissioner of the Department of Revenue then chose not to appeal this denial to the United States Supreme Court, and has been denying the outstanding refund claims. The Department of Revenue is awaiting an order from the District Court pursuant to the remand. It is expected that additional litigation will be initiated by all of the railroads that have outstanding refund claims, with these claims expected to be \$20,000,000 to \$30,000,000.

### Note 21 – Subsequent Events

#### Primary Government

On August 26, 2009, the state sold \$192,275,000 of general obligation state various purpose bonds Series 2009D, \$297,750,000 of general obligation state various purpose refunding bonds 2009F, \$80,000,000 general obligation state trunk highway bonds Series 2009E, and \$28,360,000 of general obligation state trunk highway refunding bonds Series 2009G at a true interest rate of 3.01 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On September 1, 2009, the state sold \$74,980,000 of certificates of participation Series 2009 at a true interest rate of 2.88 percent. These bonds will provide funding for the development, acquisition, installation, and implementation of a new statewide accounting and procurement system and integrated tax software. These bonds are payable from the rental payments made pursuant to the Technology Systems Lease Purchase Agreement.

On October 22, 2009, the state sold \$60,510,000 of 911 revenue bonds at a true interest rate of 3.17 percent. These bonds will provide funding for implementation of a statewide 911 public safety radio communications systems project. The revenue bonds are secured by a monthly statewide 911 surcharge applied to subscribers of any basic telephone service capable of originating a 911 emergency telephone call.

On November 5, 2009, the state sold \$443,000,000 of general obligation state various purpose bonds Series 2009H, \$100,395,000 general obligation state various purpose refunding bonds Series 2009K, and \$7,000,000 general obligation taxable state bonds Series 2009J at a true interest rate of 3.25 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On November 5, 2009, the state sold \$25,000,000 of general obligation state trunk highway bonds Series 2009I at a true interest rate of 3.35 percent. These bonds are backed by the full faith and credit and taxing power of the state.

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**Assessed Conditions**

The state assesses condition on 100 percent of the pavement surfaces at least once every two years.

|      | Principal Arterial<br>Average PQI | Non-Principal Arterial<br>Average PQI |
|------|-----------------------------------|---------------------------------------|
| 2008 | 3.28                              | 3.15                                  |
| 2007 | 3.34                              | 3.16                                  |
| 2006 | 3.37                              | 3.21                                  |

**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 2,985 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).

| Rating | Description   |
|--------|---|
| 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:

| Rating | Description   |
|--------|---|
| Good   | If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.  |
| Fair   | If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.   |
| 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. |

**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**

|                    | 2008  | 2007  | 2006  |
|--------------------|-------|-------|-------|
| Principal Arterial | 93.5% | 97.6% | 96.8% |
| Fair to Good       |       |       |       |

|                   | 2008  | 2007  | 2006  |
|-------------------|-------|-------|-------|
| All Other Systems | 90.2% | 93.2% | 95.3% |
| Fair to Good      |       |       |       |

**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 (in thousands):

| Fiscal Year Ended   | Costs to be Capitalized |            |             |           | Maintenance of System |            |             |  | Total Construction Program |
|---------------------|-------------------------|------------|-------------|-----------|-----------------------|------------|-------------|--|----------------------------|
|                     | Bridges                 | Pavement   | Total Costs |           | Bridges               | Pavement   | Total Costs |  |                            |
| Budget 2009         | \$ 153,692              | \$ 357,479 | \$ 511,171  | \$ 12,312 | \$ 250,415            | \$ 262,727 | \$ 773,898  |  |                            |
| 2008                | 183,449                 | 308,443    | 491,892     | 10,836    | 223,926               | 234,762    | 726,654     |  |                            |
| 2007                | 148,320                 | 480,900    | 629,220     | 63,835    | 223,476               | 287,311    | 916,531     |  |                            |
| 2006 <sup>(1)</sup> |                         |            | 773,735     |           |                       | 301,852    | 1,075,587   |  |                            |
| 2005 <sup>(1)</sup> |                         |            | 393,467     |           |                       | 200,765    | 594,232     |  |                            |
| Actual 2009         | \$ 175,274              | \$ 257,489 | \$ 432,763  | \$ 37,994 | \$ 408,090            | \$ 446,084 | \$ 868,694  |  |                            |
| 2008                | 252,306                 | 279,664    | 531,970     | 35,341    | 364,939               | 400,280    | 932,250     |  |                            |
| 2007                | 150,497                 | 253,040    | 403,537     | 15,125    | 312,567               | 327,692    | 731,229     |  |                            |
| 2006 <sup>(1)</sup> |                         |            | 451,935     |           |                       | 360,835    | 812,770     |  |                            |
| 2005 <sup>(1)</sup> |                         |            | 465,960     |           |                       | 223,809    | 689,769     |  |                            |

<sup>(1)</sup> Due to system limitations, bridge and pavement costs are combined for the years ended June 30, 2006, and 2005.

During fiscal year 2005, the state implemented a new system, Cash Forecasting Information Tool (CFIT), to capture the estimated budget for projects during a specific year. This system allows for a comparison of the annual budget with the actual amounts spent. Comparisons can be made between budget and actual expenditures to maintain and improve the system. For multiyear projects, only the portion to be spent in the fiscal year is shown in the budgeted amount for the year. Future expenditures on the project will be budgeted in the year they are to be spent. This reporting change will be used in future reports.

#### 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)

| Actuarial Valuation Date  | CERF       |            | JRF        |           | LRF       |           | SPRF       |            |
|---|------------|------------|------------|-----------|-----------|-----------|------------|------------|
|   | 7/1/2008   | 7/1/2007   | 7/1/2008   | 7/1/2007  | 7/1/2008  | 7/1/2007  | 7/1/2008   | 7/1/2007   |
| 2008 <sup>(1)</sup>   |            |            |            |           |           |           |            |            |
| 2007  |            |            |            |           |           |           |            |            |
| 2006  |            |            |            |           |           |           |            |            |
| Actuarial Value of Plan Assets                                  | \$ 572,719 | \$ 147,542 | \$ 147,542 | \$ 39,209 | \$ 39,209 | \$ 44,869 | \$ 595,082 | \$ 617,901 |
| 2008  | \$ 559,852 | \$ 153,562 | \$ 153,562 | \$ 44,869 | \$ 44,869 | \$ 48,504 | \$ 618,990 | \$ 618,990 |
| 2007  | \$ 535,357 | \$ 151,850 | \$ 151,850 | \$ 86,131 | \$ 86,131 | \$ 86,449 | \$ 693,686 | \$ 673,444 |
| 2006  | \$ 760,363 | \$ 231,623 | \$ 231,623 | \$ 86,131 | \$ 86,131 | \$ 81,361 | \$ 641,479 | \$ 641,479 |
| Actuarial Accrued Liability                                     | \$ 708,292 | \$ 214,297 | \$ 214,297 | \$ 46,922 | \$ 46,922 | \$ 41,580 | \$ 98,604  | \$ 98,604  |
| 2008  | \$ 647,480 | \$ 202,301 | \$ 202,301 | \$ 41,580 | \$ 41,580 | \$ 32,858 | \$ 55,543  | \$ 55,543  |
| 2007  | \$ 187,644 | \$ 84,081  | \$ 84,081  | \$ 32,858 | \$ 32,858 | \$ 46,922 | \$ 22,489  | \$ 22,489  |
| 2006  | \$ 148,440 | \$ 60,735  | \$ 60,735  | \$ 46,922 | \$ 46,922 | \$ 41,580 | \$ 98,604  | \$ 98,604  |
| Total Unfunded Actuarial Liability                              | \$ 112,123 | \$ 50,451  | \$ 50,451  | \$ 46,922 | \$ 46,922 | \$ 32,858 | \$ 22,489  | \$ 22,489  |
| 2008  |            |            |            |           |           |           |            |            |
| 2007  |            |            |            |           |           |           |            |            |
| 2006  |            |            |            |           |           |           |            |            |
| Funded Ratio <sup>(2)</sup>                                     | 75%        | 64%        | 64%        | 46%       | 46%       | 52%       | 86%        | 86%        |
| 2008  | 79%        | 72%        | 72%        | 52%       | 52%       | 60%       | 92%        | 92%        |
| 2007  | 83%        | 75%        | 75%        | 60%       | 60%       | 60%       | 96%        | 96%        |
| 2006  |            |            |            |           |           |           |            |            |
| Annual Covered Payroll  | \$ 194,391 | \$ 38,296  | \$ 38,296  | \$ 1,993  | \$ 1,993  | \$ 2,380  | \$ 60,029  | \$ 60,029  |
| 2008  | \$ 167,727 | \$ 36,195  | \$ 36,195  | \$ 2,380  | \$ 2,380  | \$ 2,894  | \$ 61,498  | \$ 61,498  |
| 2007  | \$ 145,879 | \$ 36,529  | \$ 36,529  | \$ 2,894  | \$ 2,894  | \$ 2,894  | \$ 57,765  | \$ 57,765  |
| 2006  |            |            |            |           |           |           |            |            |
| Ratio of Unfunded Actuarial Liability to Annual Covered Payroll | 97%        | 220%       | 220%       | 2354%     | 2354%     | 1747%     | 164%       | 164%       |
| 2008  | 89%        | 168%       | 168%       | 1747%     | 1747%     | 1135%     | 90%        | 90%        |
| 2007  | 77%        | 138%       | 138%       | 1135%     | 1135%     |           | 39%        | 39%        |
| 2006  |            |            |            |           |           |           |            |            |

<sup>(1)</sup>The July 1, 2008, Annual Valuation Report is the most recently issued report available.

<sup>(2)</sup>Actuarial value of assets as a percent of actuarial accrued liability.

### Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit health care plan.

| Required Supplementary Information<br>Schedule of Funding Progress<br>(In Thousands) |  | 2009 <sup>(1)</sup><br>2008 | 7/1/2008<br>7/1/2006 |
|--|--|-----------------------------|----------------------|
| Actuarial Valuation Date   |  |                             |                      |
| Actuarial Value of Plan Assets   |  | \$ -                        | \$ -                 |
| Actuarial Accrued Liability  |  | \$ 754,801                  | \$ 659,044           |
| Total Unfunded Actuarial Liability   |  | \$ 754,801                  | \$ 659,044           |
| Funded Ratio <sup>(2)</sup>  |  | 0%                          | 0%                   |
| Annual Covered Payroll   |  | \$ 2,785,335                | \$ 2,838,228         |
| Ratio of Unfunded Actuarial Liability to Annual Covered Payroll                      |  | 27%                         | 23%                  |

<sup>(1)</sup>The July 1, 2008, Annual Valuation Report is the most recently issued report available.  
<sup>(2)</sup>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 ten years.

|  | Fiscal Year Ended (In Thousands) |           |           |           |           |           |           |           |           |           |
|--|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | 2000                             | 2001      | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      |
| 1. Required Contribution and Investment Revenue:   |                                  |           |           |           |           |           |           |           |           |           |
| Earned   | \$ 10,995                        | \$ 18,005 | \$ 22,149 | \$ 23,458 | \$ 22,764 | \$ 19,177 | \$ 14,942 | \$ 13,219 | \$ 13,439 | \$ 12,286 |
| Ceded  | 1,091                            | 1,972     | 2,243     | 2,331     | 2,231     | 1,736     | 1,491     | 1,347     | 1,298     | 1,218     |
| Net Earned   | \$ 9,904                         | \$ 16,033 | \$ 19,906 | \$ 21,127 | \$ 20,533 | \$ 17,441 | \$ 13,451 | \$ 11,872 | \$ 12,141 | \$ 11,068 |
| 2. Unallocated Expenses  | \$ 1,983                         | \$ 2,635  | \$ 2,715  | \$ 2,628  | \$ 2,296  | \$ 1,904  | \$ 1,638  | \$ 1,547  | \$ 1,505  | \$ 1,534  |
| 3. Estimated claims and Expenses End of Policy Year:   |                                  |           |           |           |           |           |           |           |           |           |
| Incurred   | \$ 9,972                         | \$ 16,550 | \$ 21,055 | \$ 19,715 | \$ 19,486 | \$ 16,499 | \$ 12,551 | \$ 11,206 | \$ 10,748 | \$ 9,473  |
| Ceded  | 772                              | 760       | 2,513     | 1,570     | 1,980     | 1,913     | 1,382     | 1,782     | 1,368     | 807       |
| Net Incurred   | \$ 9,200                         | \$ 15,790 | \$ 18,542 | \$ 18,145 | \$ 17,506 | \$ 14,586 | \$ 11,169 | \$ 9,424  | \$ 9,380  | \$ 8,666  |
| 4. Net Paid (Cumulative) as of:  |                                  |           |           |           |           |           |           |           |           |           |
| End of Policy Year   | \$ 7,944                         | \$ 13,228 | \$ 15,824 | \$ 15,848 | \$ 15,699 | \$ 12,909 | \$ 10,055 | \$ 8,226  | \$ 9,403  | \$ 7,821  |
| One Year Later   | 9,240                            | 15,908    | 18,091    | 17,572    | 17,367    | 14,141    | 11,282    | 9,352     | 10,415    |           |
| Two Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    | 11,301    | 9,358     |           |           |
| Three Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    | 11,301    |           |           |           |
| Four Years Later   | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    |           |           |           |           |
| Five Years Later   | 9,243                            | 15,963    | 18,034    | 17,579    | 17,696    |           |           |           |           |           |
| Six Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    |           |           |           |           |           |           |
| Seven Years Later  | 9,243                            | 15,963    | 18,034    |           |           |           |           |           |           |           |
| Eight Years Later  | 9,243                            | 15,963    |           |           |           |           |           |           |           |           |
| Nine Years Later   | 9,243                            | 15,963    |           |           |           |           |           |           |           |           |
| 5. Re-estimated Ceded Claims and Expenses  | \$ 772                           | \$ 760    | \$ 2,513  | \$ 1,570  | \$ 1,980  | \$ 1,913  | \$ 1,382  | \$ 1,782  | \$ 380    | \$ 667    |
| 6. Re-estimated Net Incurred Claims and Expenses:  |                                  |           |           |           |           |           |           |           |           |           |
| End of Policy Year   | \$ 9,200                         | \$ 15,790 | \$ 18,542 | \$ 18,145 | \$ 17,486 | \$ 14,586 | \$ 11,169 | \$ 9,424  | \$ 10,368 | \$ 8,606  |
| One Year Later   | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    | 11,301    | 9,352     | 10,425    |           |
| Two Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    | 11,301    | 9,358     |           |           |
| Three Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    | 11,301    |           |           |           |
| Four Years Later   | 9,243                            | 15,963    | 18,034    | 17,579    | 17,764    | 14,139    |           |           |           |           |
| Five Years Later   | 9,243                            | 15,963    | 18,034    | 17,579    | 17,696    |           |           |           |           |           |
| Six Years Later  | 9,243                            | 15,963    | 18,034    | 17,579    |           |           |           |           |           |           |
| Seven Years Later  | 9,243                            | 15,963    | 18,034    |           |           |           |           |           |           |           |
| Eight Years Later  | 9,243                            | 15,963    |           |           |           |           |           |           |           |           |
| Nine Years Later   | 9,243                            | 15,963    |           |           |           |           |           |           |           |           |
| 7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year | \$ 43                            | \$ 173    | \$ (508)  | \$ (666)  | \$ 210    | \$ (447)  | \$ 132    | \$ (66)   | \$ 57     | \$ -      |

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 G

### **Continuing Disclosure Undertaking**

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## 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 September 8 2010 (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 the Municipal Securities Rulemaking Board ("MSRB"), 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 2010 (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 MMB 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 filed with the SEC or have been made available to the public on the MSRB's internet web site. 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.*

(1) The Commissioner agrees to make available to the MSRB, in an electronic format as prescribed by the MSRB from time to time, the information described in paragraph (b).

(2) The Commissioner further agrees to make available, by electronic transmission, overnight delivery, mail or other means, as appropriate, 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 subparagraph (1) of this paragraph (c) or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(3) All documents provided to the MSRB pursuant to this paragraph (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(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.

(3) 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.

(4) 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.

In the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

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## APPENDIX H Forms of Legal Opinions

The Honorable Tom J. Hanson  
Commissioner of Management and Budget  
658 Cedar Street  
400 Centennial Office Building  
Saint Paul, Minnesota 55155

Re: \$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D  
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of \$687,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2010D, dated September , 2010 (the "Series 2010D Bonds"). The Series 2010D 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 Series 2010D 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 Series 2010D 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 the federal alternative minimum tax.

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 Series 2010D 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 Series 2010D Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2010D Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2010D 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 Series 2010D Bonds. No provision has been made for an increase in the interest payable on the Series 2010D 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 Series 2010D Bonds.

Dated: September , 2010.

Very truly yours,

The Honorable Tom J. Hanson  
Commissioner of Management and Budget  
658 Cedar Street  
400 Centennial Office Building  
Saint Paul, Minnesota 55155

Re: \$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E  
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of \$220,670,000 General Obligation State Trunk Highway Refunding Bonds, Series 2010E, dated September , 2010 (the "Series 2010E Bonds"). The Series 2010E 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 Series 2010E 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.

2. The principal of and interest on the Series 2010E Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, 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.

3. Interest on the Series 2010E 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 the federal alternative minimum tax.

The opinions expressed in paragraph 3 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 Series 2010E 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 Series 2010E Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2010E Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2010E 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 Series 2010E Bonds. No provision has been made for an increase in the interest payable on the Series 2010E 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 Series 2010E Bonds.

Dated: September , 2010.

Very truly yours,