NEW ISSUES – BOOK ENTRY ONLY

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

In the opinion of Kutak Rock LLP, Bond Counsel, under existing federal and Minnesota laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2015A Bonds, the Series 2015B Bonds, the Series 2015D Bonds and the Series 2015E Bonds (collectively, the "Bonds") is excludable from gross income for federal income tax purposes and from 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 a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating federal alternative minimum taxable income. The interest to be paid on the Series 2015C Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. For a discussion of tax matters see "TAX MATTERS" herein.

$1,076,980,000
STATE OF MINNESOTA
General Obligation State Bonds
consisting of

$368,225,000 General Obligation State Various Purpose Bonds, Series 2015A

$310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B

$7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C

$376,655,000 General Obligation State Various Purpose Refunding Bonds, Series 2015D

$14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E

(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 Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, and of the State Attorney General as to the validity of the Bonds, and of Kutak Rock LLP as to the tax exemption of the interest on the Bonds. Delivery will be made on or about Wednesday, August 19, 2015.

Dated: August 5, 2015

$1,076,980,000
State of Minnesota
General Obligation State Bonds

Maturities, Amounts, Interest Rates, Prices or Yields and Initial CUSIPs

$368,225,000 General Obligation State Various Purpose Bonds, Series 2015A

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A	Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2016	$18,190,000	2.000%	0.254%	DS9	2026	$18,185,000	5.000%	2.420%*	EC3
2017	18,190,000	5.000	0.700	DT7	2027	18,185,000	5.000	2.500*	ED1
2018	18,190,000	5.000	0.970	DU4	2028	18,185,000	5.000	2.580*	EE9
2019	18,190,000	5.000	1.140	DV2	2029	18,185,000	5.000	2.640*	EF6
2020	22,690,000	5.000	1.400	DW0	2030	18,185,000	5.000	2.700*	EG4
2021	18,185,000	5.000	1.670	DX8	2031	18,185,000	5.000	2.770*	EH2
2022	18,185,000	5.000	1.930	DY6	2032	18,185,000	5.000	2.820*	EJ8
2023	18,185,000	5.000	2.050	DZ3	2033	18,185,000	5.000	2.860*	EK5
2024	18,185,000	5.000	2.190	EA7	2034	18,185,000	5.000	2.900*	EL3
2025	18,185,000	5.000	2.300	EB5	2035	18,185,000	5.000	2.940*	EM1

$310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A	Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2016	$15,500,000	3.000%	0.270%	CW1	2026	$15,500,000	3.500%	2.530%*	DG5
2017	15,500,000	4.000	0.650	CX9	2027	15,500,000	2.950	2.950	DH3
2018	15,500,000	4.000	0.970	CY7	2028	15,500,000	3.100	3.100	DJ9
2019	15,500,000	5.000	1.170	CZ4	2029	15,500,000	3.250	3.250	DK6
2020	15,500,000	5.000	1.440	DA8	2030	15,500,000	4.000	3.080*	DL4
2021	15,500,000	5.000	1.760	DB6	2031	15,500,000	4.000	3.150*	DM2
2022	15,500,000	5.000	2.000	DC4	2032	15,500,000	4.000	3.200*	DN0
2023	15,500,000	5.000	2.120	DD2	2033	15,500,000	4.500	3.160*	DP5
2024	15,500,000	5.000	2.250	DE0	2034	15,500,000	3.250	98.000	DQ3
2025	15,500,000	5.000	2.360	DF7	2035	15,500,000	3.375	3.460	DR1

$7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A	Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2016	$720,000	1.000%	0.450%	CL5	2021	$720,000	2.250%	2.250%	CR2
2017	720,000	1.250	0.860	CM3	2022	720,000	2.550	2.550	CS0
2018	720,000	1.500	1.260	CN1	2023	720,000	2.750	2.750	CT8
2019	720,000	1.750	1.610	CP6	2024	720,000	2.900	2.900	CU5
2020	720,000	2.000	1.920	CQ4	2025	720,000	3.000	3.000	CV3

*Priced at the stated yield to the August 1, 2025 optional redemption date at a price of 100%. See “THE BONDS – Optional Redemption” herein.

**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.

$376,655,000 General Obligation State Various Purpose Refunding Bonds, Series 2015D

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A	Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2018	$38,400,000	5.000%	1.000%	EP4	2023	$37,600,000	5.000%	2.070%	EU3
2019	38,255,000	5.000	1.150	EQ2	2024	37,415,000	5.000	2.200	EV1
2020	38,105,000	5.000	1.420	ER0	2025	37,220,000	5.000	2.310	EW9
2021	37,945,000	5.000	1.700	ES8	2026	37,060,000	5.000	2.430*	EX7
2022	37,780,000	5.000	1.950	ET6	2027	36,875,000	5.000	2.510*	EY5

$14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A	Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2016	$1,175,000	2.000%	0.350%	EZ2	2022	$1,345,000	5.000%	1.900%	FF5
2017	30,000	2.000	0.700	FA6	2023	1,350,000	5.000	2.050	FG3
2018	1,450,000	2.000	0.900	FB4	2024	1,350,000	5.000	2.200	FH1
2019	1,425,000	2.000	1.100	FC2	2025	1,350,000	5.000	2.300	FJ7
2020	1,395,000	2.000	1.380	FD0	2026	1,345,000	3.000	2.550*	FK4
2021	1,365,000	2.000	1.650	FE8	2027	1,320,000	3.000	2.800*	FL2

*Priced at the stated yield to the August 1, 2025 optional redemption date at a price of 100%. See “THE BONDS – Optional Redemption” herein.
**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.

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STATE OF MINNESOTA OFFICIALS

GOVERNOR	Mark Dayton
LIEUTENANT GOVERNOR	Tina Smith
SECRETARY OF STATE	Steve Simon
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF MANAGEMENT AND BUDGET

Myron Frans

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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)

Issuer:	State of Minnesota
Offering:	$368,225,000 General Obligation State Various Purpose Bonds, Series 2015A (the "Series 2015A Bonds") $310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B (the "Series 2015B Bonds") $7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C (the "Series 2015C Bonds") $376,655,000 General Obligation State Various Purpose Refunding Bonds, Series 2015D (the "Series 2015D Bonds") $14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E (the "Series 2015E Bonds") *(collectively referred to as the "Bonds")*
Principal Amounts:	The principal amounts of each serial maturity of the Bonds are set forth on the inside cover pages.
Interest:	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, 2016.
Dated Date:	Date of Delivery, expected to be August 19, 2015.
Security:	General obligations of the State of Minnesota to which its full faith, credit and taxing powers are pledged.
Book-Entry Bonds:	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.
Redemption:	The Series 2015A Bonds, the Series 2015B Bonds, the Series 2015D Bonds and the Series 2015E Bonds are subject to optional redemption by the State on and after August 1, 2025. The Series 2015C Bonds are not subject to optional redemption prior to their maturity date. See "Optional Redemption" herein for additional information.
Continuing Disclosure:	See "CONTINUING DISCLOSURE" and Appendix G.

Bond Ratings:	The Bonds described herein have been rated "AA+" by Fitch Ratings, "Aa1" by Moody's Investors Service Inc. and "AA+" by Standard & Poor's Ratings Group.
Registrar/Paying Agent/ Escrow Agent:	The Bank of New York Mellon Trust Company, N.A.
Verification Agent:	The Arbitrage Group, Inc.
Legal Opinions:	The Bonds are approved as to validity by the State Attorney General and Kutak Rock LLP, Omaha, Nebraska as Bond Counsel. Only Kutak Rock LLP will provide the Opinion regarding the tax exemption of interest on the Series 2015A Bonds, the Series 2015B Bonds, the Series 2015D Bonds and the Series 2015E Bonds.
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 \$6.7 billion. The total amount of general obligation bonds authorized but unissued as of the date of issuance of the Bonds, will be approximately \$1.2 billion. See Appendix C, pages C-1 and C-2.
Additional Information:	Questions regarding this Official Statement should be directed to Kristin Hanson, Assistant Commissioner, Minnesota Management and Budget, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8030, email kristin.hanson@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 or Thomas Huestis, Public Resources Advisory Group, telephone (610) 565-5990, email thuestis@pragadvisors.com. Questions regarding legal matters should be directed to Curtis L. Christensen, Kutak Rock LLP, 1650 Farnam Street, Omaha, Nebraska 68102, telephone (402) 346-6000, email curtis.christensen@kutakrock.com.

STATE OF MINNESOTA
$1,076,980,000
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$14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E

(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 the $368,225,000 General Obligation State Various Purpose Bonds, Series 2015A (the "Series 2015A Bonds"), the $310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B (the "Series 2015B Bonds"), the $7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C (the "Series 2015C Bonds") the $376,655,000 General Obligation State Various Purpose Refunding Bonds, Series 2015D (the "Series 2015D Bonds"), and the $14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E (the "Series 2015E Bonds") (collectively referred to as 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 2015A Bonds in the aggregate principal amount of $368,225,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises.

The Series 2015B Bonds in the principal amount of $310,000,000 are being issued for the purpose of financing the cost of construction, improvement and maintenance of programs and projects of the State trunk highway system.

The Series 2015C Bonds in the principal amount of $7,200,000 are being issued for the purpose of transportation projects.

The Series 2015D Bonds in the principal amount of 376,655,000 are being issued for the purpose of refunding $420,475,000 in principal amount of certain 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 2015E Bonds in the principal amount of $14,900,000 are being issued for the purpose of refunding $14,050,000 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 public debt to be incurred for (a) the acquisition and betterment of public land, buildings and other improvements of a capital nature, or for appropriations or loans to State agencies or political subdivisions for this purpose, as the Legislature by a three-fifths vote of both the House of Representatives and the Senate may direct; (b) repelling invasion or suppressing insurrection; (c) borrowing temporarily; (d) refunding outstanding bonds of the State or its agencies; (e) the construction of improvements to and maintenance of the State's trunk highway system; (f) promoting forestation and preventing and abating forest fires; (g) the construction, improvement and operation of airports and other air navigation facilities; (h) the development of the agricultural resources of the State by extending credit on real estate security; and (i) improving and rehabilitating railroad rights-of-way and other rail facilities; all as the Legislature may direct. Article XI requires all such debt to be evidenced by the issuance of State bonds maturing within 20 years of their date of issue, for which the full faith and credit and taxing powers of the State are irrevocably pledged. Public debt is defined by Article XI, Section 4 to include any obligation payable directly, in whole or in part, from a tax of statewide application on any class of property, income, transaction or privilege, but does not include any obligation which is payable from revenues other than taxes. The Minnesota Constitution places no limitation on the interest rate of bonds that may be authorized for these purposes.

Statutory Provisions.

The Series 2015A Bonds, the Series 2015C Bonds, and the Series 2015D Bonds are authorized by Minnesota Statutes, Sections 16A.631 through 16A.675. The Series 2015B Bonds and the Series 2015E Bonds are authorized by Minnesota Statutes, Sections 167.50 through 167.52.

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 2015D Bonds was approved by resolutions of the State Executive Council on June 5, 2013 and May 29, 2014. The issuance of the Series 2015E Bonds was approved by resolution of the State Executive Council on September 29, 2009.

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Session Law Provisions.

Session laws authorizing the issuance of the Series 2015A Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	Bonds This Issue[2]
Session 2005, Chapter 20	$ 250,000
Session 2006, Chapter 258	3,300,000
Session 2008, Chapter 365	1,200,000
Session 2009, Chapter 93	4,500,000
Session 2010, Chapter 189	4,700,000
Session X2010, Chapter 1	5,100,000
Session X2011, Chapter 12	5,400,000
Session 2012, Chapter 293	61,000,000
Session X2012, Chapter 1	14,000,000
Session 2013, Chapter 136	35,000,000
Session 2014, Chapter 294	253,800,000
Session X2015, Chapter 5	44,550,000
Total:	$ 432,800,000

Session laws authorizing the issuance of the Series 2015B Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	Bonds This Issue
Session 2008, Chapter 152	$ 160,000,000
Session 2009, Chapter 36	5,500,000
Session 2010, Chapter 388	16,500,000
Session 2012, Chapter 287	2,000,000
Session X2012, Chapter 1	9,000,000
Session 2013, Chapter 117	50,000,000
Session X2015, Chapter 5	67,000,000
Total:	$ 310,000,000

Session laws authorizing the issuance of the Series 2015C Bonds and the amounts included in this issue are set forth below.

Law Authorizing	Bonds This Issue
Session 2014, Chapter 294	$7,200,000

[1] See also the table of General Obligation Bonds Authorized, Issued and Unissued on page C-2 and the Project Description included in Appendix D.

[2] Including net premium deposited into the Capital Projects Fund.

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 to Bondholders as of the 15th day of the preceding month semiannually on each February 1 and August 1 to maturity or prior redemption, if any, commencing February 1, 2016. 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 Series 2015A, Series 2015B Bonds, Series 2015D Bonds and Series 2015E Bonds maturing on or before August 1, 2025 will not be subject to redemption prior to their stated maturity dates. The Series 2015A, Series 2015B Bonds, Series 2015D Bonds and Series 2015E Bonds maturing on or after August 1, 2026 will be subject to redemption and prepayment by the State at its option on August 1, 2025 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each maturity at a price of par plus accrued interest to the date specified for redemption.

The Series 2015C Bonds are not subject to redemption prior to their stated maturity date.

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[1]

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State 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-1) 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 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.

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[1] 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.

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.

ESTIMATED SOURCES AND USES OF FUNDS

Various Purpose Bonds

Sources:	**Series 2015A Bonds**	**Series 2015C Bonds**	**Series 2015D Bonds**	**Total**
Par Amount of Bonds	$368,225,000.00	$7,200,000.00	$376,655,000.00	$752,080,000.00
Net Premium on Bonds	66,034,349.35	20,678.40	72,906,605.35	138,961,633.10
Transfer from State Bond Fund			13,444,875.00	13,444,875.00
Total Sources	$434,259,349.35	$7,220,678.40	$463,006,480.35	$904,486,508.10
Uses:				
Capital Projects Fund	$432,585,574.00	$7,196,103.00	$ -	$439,781,677.00
Deposit to Escrow Fund			458,306,775.61	458,306,775.61
Deposit to State Bond Fund	1,178.35	1,858.32	3,079,682.84	3,082,719.51
Underwriters' Discount	1,458,171.00	18,820.08	1,348,424.90	2,825,415.98
Cost of Issuance	214,426.00	3,897.00	271,597.00	489,920.00
Total Uses	$434,259,349.35	$7,220,678.40	$463,006,480.35	$904,486,508.10

Trunk Highway Bonds

Sources:	Series 2015B Bonds	Series 2015E Bonds	Total
Par Amount of Bonds	$310,000,000.00	$14,900,000.00	$324,900,000.00
Net Premium on Bonds	29,762,635.00	1,447,764.20	31,210,399.20
Transfer from State Bond Fund		628,737.50	628,737.50
Total Sources	$339,762,635.00	$16,976,501.70	$356,739,136.70
Uses:			
Capital Projects Fund	$309,814,472.00	$ -	$309,814,472.00
Deposit to Escrow Fund		15,472,801.04	15,472,801.04
Deposit to State Bond Fund	29,124,035.00	1,379,457.31	30,503,492.31
Underwriters' Discount	638,600.00	71,691.35	710,291.35
Cost of Issuance	185,528.00	52,552.00	238,080.00
Total Uses	$339,762,635.00	$16,976,501.70	$356,739,136.70

FUTURE FINANCINGS

The State anticipates the issuance of the following transactions by the State and State entities within the next six months that are backed by State general fund appropriations:

Pursuant to Minnesota Statutes, Section 462A.37, the Minnesota Housing Finance Agency (MHFA) received additional authorization by the 2014 Legislature to issue up to $80,000,000 of housing infrastructure bonds that are supported by a state appropriation. MHFA issued $37,570,000 of the State Appropriation (Housing Infrastructure Bonds) in February of 2015 and anticipates issuing the remaining $42,430,000 in August or September of 2015.

Pursuant to Minnesota Statutes, Section 137.54, the Regents of the University of Minnesota plans to issue refunding bonds to refinance the outstanding par amount of $99,220,000 of the originally issued $137,250,000 Special Purpose Revenue Bonds (State Supported Stadium Debt), Series 2006. In addition, the Regents of the University of Minnesota plan to issue up to $10 million in bonds to finance the predesign and design of improved health education and clinical research facilities for the Medical School and the Academic Health Center. The University of Minnesota anticipates issuing these bonds in August of 2015.

See "Appendix C - STATE DEBT, CONTINGENT LIABILITIES, State Continuing 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 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct Participants and Indirect Participants (collectively, the "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Payments of principal, redemption price 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, redemption price 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 Tax-Exempt Bonds

General. In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing federal and Minnesota laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants described below, the interest to be paid on the Series 2015A, the Series 2015B, the Series 2015D and the Series 2015E (collectively, the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes and from 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 a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. The interest to be paid on the Tax-Exempt Bonds is included in adjusted current earnings of corporations in determining the alternative minimum taxable income of such corporations for purposes of the federal alternative minimum tax.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

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 Tax-Exempt Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Tax-Exempt 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 Tax-Exempt Bond proceeds and the facilities and activities financed or refinanced therewith and certain other matters. The documents authorizing the issuance of the Tax-Exempt Bonds include provisions which, if complied with by the State, are designed to 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 Tax-Exempt Bonds. However, no provision is made for redemption of the Tax-Exempt Bonds or for an increase in the interest rate on the Tax-Exempt Bonds in the event that interest on the Tax-Exempt Bonds becomes subject to federal or Minnesota income taxation.

Discount Bonds. The Series 2015B Bonds having a stated maturity in the years 2034 and 2035 (the "Discount Bonds") are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the applicable Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of: (1) the product of (a) one-half of the yield to maturity on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable on such Discount Bond for such semiannual accrual period. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Discount Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount.

Purchasers of Discount Bonds should consult their own tax advisors with respect to computation and accrual of original issue discount and with respect to the state and local tax consequences of owning and selling such Discount Bonds.

Premium Bonds. The Series 2015A Bonds having a stated maturity in the years 2016 through 2035, the Series 2015B Bonds having a stated maturity in the years 2016 through 2026 and 2030 through 2033, the Series 2015D Bonds having a stated maturity in the years 2018 through 2027, and the Series 2015E Bonds having a stated maturity in the years 2016 through 2027 (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, redemption or payment at maturity 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. The amount of premium amortized in any period offsets a corresponding amount of interest for such period. Amortized premium is not deductible for federal or Minnesota income tax purposes. Purchasers of Premium Bonds should consult their own 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 Tax-Exempt Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds for this purpose even though not directly traceable to the purchase of the Tax-Exempt 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 Tax-Exempt Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Tax-Exempt Bonds may affect taxpayers otherwise entitled to claim the earned income credit under Section 32 of the Code.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership, disposition, or receipt of interest on the Tax-Exempt 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.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Tax-Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

The Taxable Bonds

General. The interest on the Series 2015C Bonds is included in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Purchasers of the Series 2015C Bonds should consult their own tax advisors as to the federal, state or local tax consequences of purchasing, owning or selling the Series 2015C Bonds.

Backup Withholding. Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the Series 2015C Bonds if the purchasers, upon issuance, fail to supply their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide a certified statement, under penalty of perjury, that they are not subject to backup withholding.

Changes in Federal and State Tax Law

From time-to-time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time-to-time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Kutak Rock LLP, Bond Counsel, and the State Attorney General. Kutak Rock LLP will offer an opinion as to tax status of interest on the Bonds. The forms of legal opinions to be issued by Kutak Rock 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. Selected statements from the State's most recent audited financial statements are included as Appendix F.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the State, overtly threatened any litigation against the State seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series Bonds, or in any manner questioning or affecting the validity of the Series 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, that 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 19 to the State Financial Statements for Fiscal Year Ended June 30, 2014, included as Appendix F hereto, and additional actions, if any, discussed 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 referenced Note 19 that have occurred and are subsequent to the date of the financial statements included in Appendix F hereto, and a description of additional actions which have been initiated against the State since the date of the financial statements included in Appendix I and are material for purposes of this Official Statement.

Harne v. State of Minnesota et al. (Ramsey County District Court). The Minnesota State Court of Appeals affirmed the dismissal of the Plaintiffs' suit in an unpublished decision. A petition for review with the Minnesota Supreme Court has been filed.

Kimberly-Clark Corporation & Subsidiaries v. Commissioner of Revenue (Minnesota Tax Court). As of February 2015, multiple corporate taxpayers had filed about $180 million in refund claims. The parties are filing cross-motions for summary judgment and the oral argument. On June 19, 2015 the Minnesota Tax Court granted summary judgment to the Commissioner of Revenue. The time for appeal has not yet past.

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.

The State did not timely file its Comprehensive Annual Financial Report ("CAFR") with EMMA for the fiscal year ending June 30, 2012 (the "2012 CAFR"). Under the terms of the continuing disclosure undertaking for each series of bonds for which the State is an obligated person, such filing was supposed to be made by December 31, 2012. Although the State did not timely file its 2012 CAFR, the State did notify holders of all general obligation bonds and all bonds supported by State appropriations, by a voluntary filing to EMMA on December 7, 2012, that the 2012 CAFR would be delayed. On December 28, 2012, the State filed a notice of failure to file annual financial information with respect to all general obligation bonds and all bonds supported by State appropriations. On February 13, 2013, the State updated its voluntary December 7, 2012 EMMA filing to notify investors that the estimated date of delivery the 2012 CAFR would be mid-March 2013. The 2012 CAFR was filed with EMMA on March 27, 2013. The filing of the 2012 CAFR was primarily delayed due to the implementation of a new State accounting and procurement software system. The State completed the posting of its 2013 and 2014 CAFR in a timely manner, and expects, in the future, to continue completing its annual CAFR and EMMA filings on or before December 31 of each year.

Prior to July, 2009, the State filed through Disclosure USA or by sending appropriate documents through mail or other courier services and thereafter on EMMA. The State did not timely file notices of ratings changes or the State's CAFR for the fiscal years ended June 30, 2007 through 2012 with respect to the following bonds, for which the State was an "obligated person" within the meaning of Rule 15c2-12: (i) the $31,165,000 Port Authority of the City of Saint Paul, Lease Revenue Bonds, Series 2002-10; (ii) the $79,665,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-12; (iii) the $23,695,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2002-9; (iv) the $58,580,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-11 Bonds, (collectively, the "St. Paul Bonds"); (v) the $6,395,000 City of Bemidji Lease Revenue Refunding Bonds, Series 2008 (the "2008 Bonds"); and (vi) the $8,275,000 City of Bemidji Lease Revenue Bonds dated April 1, 2000 (the "2000 Bonds"). On January 9, 2013, the State filed its CAFRs for the fiscal years ended June 30, 2007 through 2011 for the St. Paul Bonds with EMMA, and on March 27, 2013 filed its 2012 CAFR. On February 6, 2013, the State also made a detailed filing of the rating history by each rating agency that publishes a rating for the St. Paul Bonds, with respect to all previous rating changes for each series of the St. Paul Bonds. On January 9, 2013 the State filed its CAFRs for the fiscal years ended June 30, 2007 through 2009 for the 2000 Bonds. The 2000 Bonds were fully refunded in October 2008. The State filed notice of a 2003 rating change on the 2000 Bonds in July 2014. On January 9, 2013, the State filed its CAFRs for the 2008 Bonds for the fiscal years ended June 30, 2007 through 2011 with EMMA, and on March 27, 2013 filed its 2012 CAFR.

The State did not timely file certain required notices of rating changes for the insurance entities and underlying ratings related to the following bonds: (i) the $35,000,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2006, insured by MBIA; (ii) the $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008, insured by Assured Guaranty; (iii) the $60,510,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2009, insured by Assured Guaranty; and (iv) the $345,000,000 State of Minnesota General Obligation State Bonds dated August 1, 2006, in which the August 1, 2026 maturity, $14,585,000, is insured by MBIA. The State has posted on EMMA the appropriate notices of Material Events.

The State did not timely file certain CAFR and Operating data ("Financials") for the (i) $35,000,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2006 (2006 Financials show as filed on January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed on February 9, 2009, 2010 Financials posted on EMMA on March 11, 2011); (ii) $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008 (2008 Financials show as filed on February 9, 2009, 2010 Financials show as filed on EMMA on March 11, 2011); (iii) $557,960,000 State of Minnesota General Obligation Bonds Series 2005 (2005 Financials show as filed on January 25, 2006, 2006 Financials show as filed on January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed on February 9, 2009); and (iv) $345,000,000 State of Minnesota General Obligation Bonds Series 2006 (2006 Financials show as filed on January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed February 9, 2009).

MUNICIPAL ADVISOR

Public Resources Advisory Group, New York, New York, is serving as Municipal Advisor to the State in connection with the issuance of the Bonds. The Municipal 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 Municipal 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 were verified by The Arbitrage Group, Inc.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Series 2015A Bonds at public sale to Citigroup Global Markets Inc. ("Citi"), as Series 2015A Underwriter, for a price of $432,801,178.35, with the Series 2015A Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2015B Bonds at public sale to Bank of America Merrill Lynch ("BAML"), as Series 2015B Underwriter, for a price of $339,124,035.00, with the Series 2015B Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2015C Bonds at public sale to Wells Fargo Bank, National Association ("Wells"), as Series 2015C Underwriter, for a price of $7,201,858.32, with the Series 2015C Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2015D Bonds at public sale to Barclays Capital Inc. ("Barclays"), as Series 2015D Underwriter, for a price of $448,213,180.45, with the Series 2015D Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2015E Bonds at public sale to Robert W. Baird & Co. Inc. ("Baird"), as Series 2015E Underwriter, for a price of $16,276,072.85, with the Series 2015E Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

Citi, BAML, Wells, Barclays, and Baird, collectively are referred to as the Underwriters, herein.

RATINGS

The Bonds described herein have been rated "AA+" by Fitch Ratings, "Aa1" by Moody's Investors Service Inc. and "AA+" 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.

/s/ Myron Frans
Commissioner of Management and Budget
State of Minnesota

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APPENDIX A

STATE GOVERNMENT AND FISCAL ADMINISTRATION

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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, Lieutenant 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 Minnesota Management and Budget ("Management and Budget" or "MMB") was formed in 2008 upon the merger of the departments of Finance and Employee Relations, which had been in existence since 1973 and 1981, respectively.

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 two 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.

Fiscal Administration

The Commissioner of MMB 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. The Commissioner is also responsible for human resource management, employee insurance and collective bargaining on behalf of the State as an employer. Included in the financial duties of the Commissioner of Management and Budget 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 bonds, certain revenue bonds and certain State appropriation bonds, general obligation certificates of indebtedness, certificates of participation and equipment lease purchase financings.
- Preparation of periodic and special reports on the financial affairs of the State.
- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- To receive and account for all moneys paid into the State treasury to ensure they are 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 of Management and Budget 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 of Management and Budget to administer the payroll of all employees of the executive branch of government.

The accounting system is organized on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Funds are established for the purpose of carrying on specific activities or objectives in accordance with legal requirements.

Financial Reporting

State law requires the Commissioner of Management and Budget 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 Fiscal Year 2014 basic financial statements are presented in APPENDIX F and general long-term debt unaudited schedules are presented in APPENDIX C. The State implemented GASB Statement 67 – Financial Reporting for Pensions in Fiscal Year 2014 and intends to implement the related GASB Statement 68 -- Accounting and Financial Reporting for Pensions in Fiscal Year 2015.

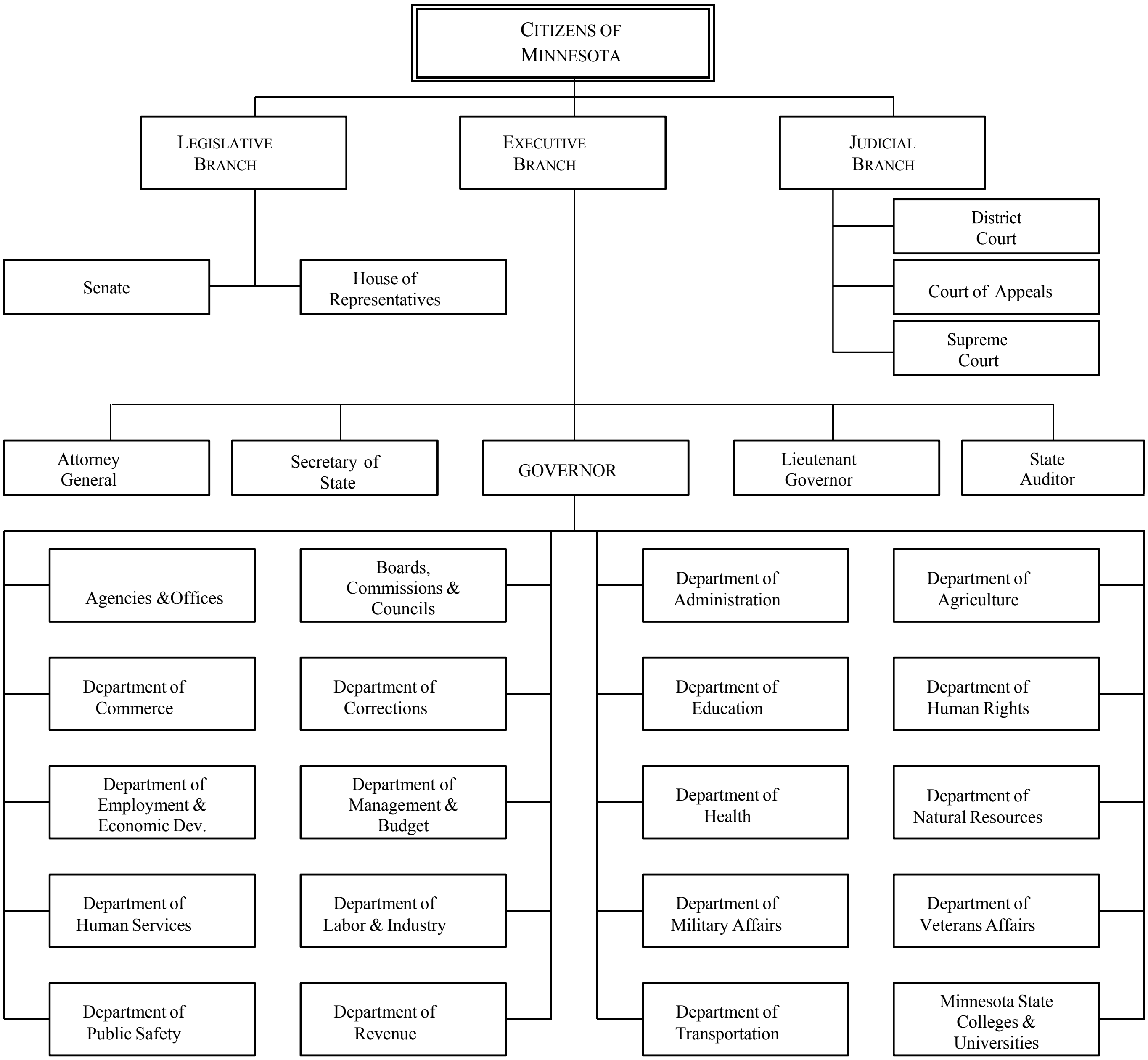
Investments

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 Treasury Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the State 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.

See "APPENDIX B – STATE FINANCES - MINNESOTA DEFINED BENEFIT PENSION PLANS", for information on the investment of State sponsored pension plans and retirement funds.

A general organization chart of the 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.



Revenues

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 due to the State by collecting, among others, individual income and corporation taxes, sales and use taxes, estate 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 whose labor contracts are negotiated and maintained by the Minnesota State Colleges and Universities System ("MnSCU"). Each odd-numbered year, the Department of Management and Budget 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 union. All contracts and compensation plans are subject to review and approval by the Legislature. The following is a summary that shows the number of employees assigned to State bargaining units.

INFORMATION ON STATE BARGAINING UNITS

UNIT **Union or Association**	**Employees as of** **April 2015**
American Federation of State, County and Municipal Employees (AFSCME)	
(7 bargaining units)	16,760
MN Association of Professional Employees (MAPE)	13,450
Middle Management Association (MMA)	2,960
MN Government Engineers Council (MGEC)	990
MN Nurses Association (MNA)	760
MN Law Enforcement Association (MLEA)	690
State Residential Schools Education Association (SRSEA)	200
State College Faculty Association (MSCF)	5,110
State University Interfaculty Organization (IFO)	3,720
State University Admin and Service Faculty (MSUAF)	820
Total Represented Employees	45,460
Total State Employment	52,042
Percent of All Executive Branch Employees Unionized	87%

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2015. By statute, these contracts remain in effect until subsequent agreements are reached or contracts are cancelled when the right to strike matures. As of the date of this Official Statement, the State has reached tentative agreements with most of the AFSCME bargaining units for the Current Biennium, as well as with MAPE. These contracts are awaiting ratification by their members. Negotiations have also commenced with AFSCME Unit 8, MMA, and MLEA. MNA negotiations will begin in late August 2015 and SRSEA negotiations are set to begin in September 2015. No dates have been set for negotiations with MGEC, MSUAF, MSCF, ICO or AFSCME Unit 25 and the one unit remaining in AFSCME. It is expected that negotiations for these contracts will commence sometime in the summer or early fall 2015.

APPENDIX B

STATE FINANCES

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APPENDIX B

STATE FINANCES

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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, 2014, 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. The revenues and expenditures presented consistent with Generally Accepted Accounting Principles for Fiscal Years 2012 through 2014 are summarized on page B-6.

Past Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2014 and prior years are available at www.mn.gov/mmb.

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. Special sessions may be called by the Governor.

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 then current biennium 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 revise 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 revise 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 Generally Accepted Accounting Principles ("GAAP") based Comprehensive Annual Financial Report ("CAFR") (see APPENDIX F) for three primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. In the modified accrual basis used in the CAFR, expenditures are recognized when goods or services are received regardless of the year encumbered. Second, on a budgetary basis, encumbrances are recognized as expenditures in the year encumbered. Third, as a result of implementing GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", several funds are included in the GAAP fund balance, which are not included in the budgetary fund balance, as these funds are not appropriated funds with legislatively enacted budgets. 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. See "BIENNIUM BUDGETS, End of 2015 Legislative Sessions – Current Biennium, *Reserves*" below.

Stadium General Reserve Account

A stadium general reserve account (the "Stadium Reserve Account") was established in the General Fund by the 2012 Legislature pursuant to Minnesota Laws 2012, Chapter 299 ("Stadium Legislation"). Available revenues as defined in the Stadium Legislation (including certain excise taxes and gambling revenues) are deposited in the Stadium Reserve Account pursuant to Minnesota Statutes, Section 297E.021, Subdivision 2. In the 2013 Legislative Session, as part of the cigarette and tobacco products tax increase, the Legislature provided a one-time deposit of the cigarette floor stocks tax (up to $26.5 million) into the Stadium Reserve Account. The projected Stadium Reserve Account balance is $30 million at the end of FY 2015 and $7 million at the end of the Current Biennium due to stadium related spending outpacing available revenue. Amounts in the Stadium Reserve Account are appropriated as necessary for application against any shortfall in the amounts deposited to the General Fund under Minnesota Statutes, Section 297A.994. After consultation with the Legislative Commission on Planning and Fiscal Policy amounts in the Stadium Reserve Account are also available for other uses related to the professional football stadium authorized under Minnesota Statutes Chapter 473J.

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 standard 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 of Management and Budget (the "Commissioner") shall use funds 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 "unalloting."

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

The IHS 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 forecast. If the Council determines that the IHS 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 forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The IHS forecasts are then entered into a model of Minnesota's economy developed and maintained by MMB. State forecasts of employment by major industry sector as well as wage and aggregate earnings are obtained from this model. Non-wage income, itemized deductions and other adjustments to income are in general forecast using national data allocated to Minnesota. The forecasts of income, deductions and adjustments are input to a micro-simulation of the State's individual income tax liability. 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 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. These sources account for less than 20 percent of General Fund revenues. As a group, the revenues in this category do not present as large a forecasting risk to the General Fund as do the major taxes. Most are relatively stable and less sensitive to the business cycle than the major tax types. Moreover, many are forecast by agencies with specific knowledge about the magnitude and timing of revenues.

The February 2015, baseline forecast from IHS, the scenario which IHS considered to be the most likely at the time it was made, was used for MMB's February 2015, revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. IHS estimates potential GDP growth to average about 1.9 percent over the 2013 to 2017 period. Real GDP is projected to exceed potential over the 2013-2017 period as the economy expands. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS FEBRUARY 2015
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2013 Actual %	Calendar Year 2014 Forecast %	Calendar Year 2015 Forecast %	Calendar Year 2016 Forecast %	Calendar Year 2017 Forecast %
REAL GDP Growth Rate	2.2	2.4	3.0	2.7	2.8
GDP DEFLATOR (Inflation)	1.5	1.5	1.4	1.8	1.9
NOMINAL GDP Growth Rate	3.7	3.9	4.5	4.6	4.8

A report is published with each forecast and is available at www.mn.gov/mmb. The February 2015 Budget and Economic Forecast was released February 27, 2015, (the "February 2015 Forecast"). See "FINANCIAL INFORMATION" in this APPENDIX. The November 2015, IHS Baseline will be used as the baseline for the next revenue and expenditure forecast.

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ended June 30, 2012, through 2014. For the Fiscal Years ended June 30, 2012, through 2014 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. 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. In past official statements, the State presented comparative cash based, unaudited numbers for the most recent fiscal year and the prior fiscal year. The State's new financial system is accrual based and cannot provide cash based numbers for comparison.

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STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
($ in Thousands)
UNAUDITED

	Fiscal Year Ended June 30 [1]		
	2012	2013	2014
NET REVENUES:			
Individual Income Taxes	$ 8,267,608	$ 9,257,352	$ 9,859,403
Corporation Income Taxes	996,524	1,273,112	1,302,563
Sales Taxes	4,574,768	4,737,002	4,980,503
Property Taxes	813,723	817,895	830,759
Motor Vehicle Excise Taxes	220,065	239,735	260,503
Other Taxes [2]	1,464,448	1,561,621	1,750,926
Tobacco Settlement	166,861	170,060	175,399
Federal Revenues	546	2,753	3,670
Licenses and Fees	225,681	214,374	205,965
Departmental Services	171,451	191,006	200,708
Investment/Interest Income	38,282	97,283	138,728
All Other Revenues [3]	306,889	391,775	213,123
NET REVENUES	$ 17,246,846	$ 18,953,968	$ 19,922,250
EXPENDITURES:			
Current:			
Agricultural, Environmental and Energy Resources	$ 204,553	$ 246,882	$ 245,734
Economic and Workforce Development	118,676	145,280	178,859
General Education [4] [5]	7,171,507	7,415,750	8,243,607
General Government	628,869	722,829	694,465
Health and Human Services	5,644,629	5,683,366	5,644,686
Higher Education [6]	712,363	745,965	823,664
Intergovernmental Aid	1,358,142	1,268,609	1,290,612
Public Safety and Corrections	546,974	583,556	592,058
Transportation	277,690	295,195	400,551
Total Current Expenditures	$ 16,663,403	$ 17,107,432	$ 18,114,236
Capital Outlay	14,476	26,952	28,182
Debt Service	56,876	52,099	34,722
TOTAL EXPENDITURES	$ 16,734,755	$ 17,186,483	$ 18,177,140
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ 512,091	$ 1,767,485	$ 1,745,110
OTHER FINANCING SOURCES (USES)			
Revenue Bond Issuance	$ -	$ -	$ 37,830
Bond Issue Premium	-	-	241
Transfer-In	485,353	585,104	366,779
Transfer-Out	(1,099,056)	(1,001,068)	(1,657,555)
NET OTHER FINANCING SOURCES (USES)	$ (613,703)	$ (415,964)	$ (1,252,705)
NET CHANGE IN FUND BALANCES	$ (101,612)	$ 1,351,521	$ 492,405

(1) For FY 2012, FY 2013 and FY 2014, the schedule of revenues and expenditures includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30.

(2) During FY 2014, Other Taxes revenue increased due to an increase in cigarette excise taxes and an expansion of the tax to little cigars.

(3) During FY 2014, All Other Revenues decreased due to an increase in expected claims to be paid out for unclaimed property related to additional outreach and education programs.

(4) During FY 2013, General Education function spending increased due to a 1% per pupil increase and an

(5) During FY 2014, General Education function spending increased due to a $78 per pupil increase and an

(6) During FY 2014, Higher Education function spending increased due to an increase in grants to the University of Minnesota and the Office of Higher Education.

BIENNIUM BUDGETS

The biennium that began on July 1, 2013, and ended on June 30, 2015, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2015, and will end on June 30, 2017, is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2017, and will end on June 30, 2019, is referred to herein as the "Next Biennium." An individual fiscal year is referred to herein as "FY" or "Fiscal Year."

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.

February 2015 Forecast – Previous Biennium

The February 2015 forecast updated general fund revenues and expenditures projected for the Previous Biennium. Forecast revenues were expected to be $39.438 billion, up $67 million (0.2 percent) higher from November 2014 estimates. Forecast spending was expected to be $39.300 billion, $39 million (0.1 percent) lower than November 2014 estimates. These changes, coupled with a $2 million Stadium Reserve Account balance increase resulted in a forecast balance of $476 million.

Revenues: General Fund revenues for the Previous Biennium were forecast to be $39.438 billion, $67 million (0.2 percent) higher than the November 2014 estimate. Total tax revenues for the Previous Biennium were forecast to be $37.625 billion, exceeding the prior estimate by $40 million (0.1 percent).

The forecast for the four major taxes (individual income, sales, corporate, and statewide property tax levy) increased by $40 million (0.1 percent). Projected individual income tax receipts were $90 million higher than prior projections largely due to higher forecast income growth. Sales tax receipts were $6 million higher due to higher forecast gross tax receipts that were partially offset by higher than expected refunds. A reduced forecast for gross corporate franchise tax payments and higher expected corporate refunds combined to lower forecast corporate tax revenues for the Previous Biennium by $41 million (1.6 percent) from the November 2014 estimate. The forecast for the statewide property tax levy was down $15 million.

Expenditures: General fund spending estimates for the Previous Biennium were slightly lower than prior estimates for the biennium. Expenditures in the Previous Biennium were expected to be $39.300 billion, a reduction of $38 million (0.1 percent) from November 2014 forecast estimates. Expenditure estimates were reduced slightly across E-12 education, property tax aids and credits and health and human services. This was due primarily to lower actual K-12 pupil counts, reduced Medical Assistance payments and lower actual participation in the homeowner property tax refund program.

Reserves: General Fund reserves totaled $1.344 billion. This amount represented 3.4 percent of total General Fund Revenue estimated for the Previous Biennium. The reserves include $350 million in the Cash Flow Account and $994 million in the Budget Reserve Account. The balance in the Stadium Reserve Account was $30 million, $2 million higher than prior projections due to higher than previously projected gambling tax receipts.

2015 Legislative Sessions – Previous Biennium

The regular legislative session adjourned on May 18, 2015, after passing appropriation bills for all major spending areas. The Governor vetoed three appropriation bills and called a special legislative session on June 12, 2015. The special session adjourned on June 13, 2015, after enacting the three appropriation bills and two other fiscal bills that were subsequently signed into law by the Governor. The enacted budget bills for the Current Biennium impacted projected expenditures in the Previous Biennium. Projected spending for the Previous Biennium is now expected to be $39.729 billion, $429 million (1.1 percent) higher than forecast. A $455 million transfer from the General Fund to the Health Care Access Fund to pay for shifted costs in the Current Biennium accounted for the increase, offset slightly by cancellations in transportation and higher education expenditures. General Fund revenues and reserves were unchanged for the Previous Biennium leaving a projected end of sessions balance of $47 million.

Previous Biennium Estimates – Revenues and Expenditures

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Previous Biennium based on the end of the 2015 Legislative Sessions. Authorized expenditures are presented on a budgetary basis.

PREVIOUS BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2015 LEGISLATIVE SESSIONS
($'s in Thousands)[1]

	Fiscal Year 2014	Fiscal Year 2015	Previous Biennium
Forecast Resources			
Prior Year Ending Balance	$1,711,915	$1,885,866	$1,711,915
Net Non-dedicated Revenues	19,275,145	19,808,246	39,083,391
Dedicated Revenues	505	500	1,005
Transfers From Other Funds	187,906	67,427	255,333
Prior Year Adjustments	58,702	40,000	98,702
Subtotal Current Resources	$19,522,258	$19,916,173	$39,438,432
Total Revenues Plus Prior Year Ending Balance	$21,234,173	$21,802,039	$41,150,347
Authorized Expenditures & Transfers			
K-12 Education	$8,429,970	$8,188,426	$16,618,396
Higher Education	1,381,461	1,452,927	2,834,388
Health & Human Services	5,429,890	6,218,652	11,648,542
Environment, Energy & Natural Resources	153,782	234,483	388,265
Economic Development	191,814	240,830	432,644
State Government	437,347	539,572	976,919
Transportation	148,201	96,819	245,020
Public Safety	943,905	1,036,629	1,980,534
Property Tax Aids & Credits	1,320,534	1,635,335	2,955,869
Debt Service	619,935	623,060	1,242,995
Capital Projects	281,913	129,360	411,273
Other	9,555	(275)	9,280
Cancellation Adjustment	0	(15,000)	(15,000)
Total Expenditures and Transfers	$19,348,307	$20,380,818	$39,729,125
Balance Before Reserves	1,885,867	1,421,221	1,421,222
Cash Flow Account	350,000	350,000	350,000
Budget Reserve Account	660,992	994,339	994,339
Stadium Reserve Account	39,780	29,977	29,977
Appropriations Carried Forward	178,751	0	
Budgetary Balance	$656,344	$46,905	$46,906

(1) Totals may not foot due to rounding.

The following table sets forth by source the forecasted amounts of non-dedicated revenues allocable to the General Fund for the Previous Biennium, presented on a budgetary basis.

PREVIOUS BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF NONDEDICATED REVENUES
END OF 2015 LEGISLATIVE SESSIONS
($'s in Thousands) [(1)]

	Fiscal Year 2014	Fiscal Year 2015	Previous Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	$9,659,554	$10,045,497	$19,705,051
Income Tax - Corporate	1,278,208	1,317,112	2,595,320
Sales Tax	5,042,687	5,161,706	10,204,393
Statewide Property Tax	835,554	824,287	1,659,841
Estate Tax	177,433	136,500	313,933
Liquor, Wine & Beer	83,931	84,870	168,801
Cigarette & Tobacco	607,119	592,010	1,199,129
Mining	15,785	16,321	32,106
Mortgage Registry Tax	93,404	101,360	194,764
Deed Transfer Tax	87,161	96,844	184,005
Gross Earnings Taxes	347,349	366,939	714,288
Controlled Substance Tax	1	5	6
Lawful Gambling Taxes	43,259	46,350	89,609
Medical Assistance Surcharges	287,554	286,423	573,977
Motor Vehicle Registration Tax	670	650	1,320
Tobacco Settlements	175,399	162,823	338,222
Investment Income	6,702	10,000	16,702
DHS MSOP Collections	9,789	10,845	20,634
DHS SOS Collections	51,130	60,550	111,680
Lottery Revenue	55,741	57,269	113,010
Departmental Earnings	192,149	187,250	379,399
Fines & Surcharges	76,683	81,826	158,509
County Nursing Home, Public Hospital IGT	6,792	6,792	13,584
All Other Nondedicated Revenue	146,913	159,872	306,785
Tax & Non-Tax Refunds	(5,822)	(5,855)	(11,677)
Total Net Nondedicated Revenues	$19,275,145	$19,808,246	$39,083,391

(1) Totals may not foot due to rounding.

February 2015 Forecast – Current Biennium

The November 2014 forecast provided the first official forecast for the Current Biennium, as well as revenue and expenditure planning estimates for the Next Biennium. In November 2014 a balance of $1.037 billion was projected for the current biennium. Revisions in the February 2015 Forecast increased the projected balance to $1.869 billion. General Fund revenue for the Current Biennium were forecast to be $42.497 billion, $3.058 billion (7.8 percent) higher than the Previous Biennium. General Fund expenditures for the Current Biennium were expected to be $41.128 billion, $1.830 billion (4.7 percent) higher than the Previous Biennium.

Revenues: Tax revenue was estimated to be $3.147 billion (8.4 percent) higher than the previous biennium. The forecast for individual income tax receipts is $2.352 billion higher than in Previous Biennium primarily resulting from forecast income growth in tax years 2015 and 2016. Projected higher gross tax receipts and lower refunds resulted in $715 million higher sales tax receipts than the previous biennium. The statewide property tax was expected to be $39 million higher. Biennial growth in tax revenues was offset slightly by reductions in non-tax revenues and other resources.

Expenditures: Expenditures were expected to grow from $39.298 billion in FY 2014-15 to $41.128 billion in the Current Biennium. The vast majority of that growth ($1.591 of $1.830 billion) is within Health and Human Services programs, in which costs are driven especially by health care enrollment and costs. Expenditures for property tax aids and credits spending were $405 million (13.7 percent) over estimated spending in the Previous Biennium. Driving this increase is full implementation of policy and aid payment changes made in the 2013 and 2014 Legislative Sessions. Growth in expenditures in health and human services and tax aids and credits were offset by a net decrease of $167 million in all other areas of state government from the Previous Biennium to the Current Biennium.

Reserves: The reserve amounts for the Current Biennium were unchanged from levels in the Previous Biennium. Total General Fund reserves were $1.344 billion: $994 million in the Budget Reserve Account and $350 million in the Cash Flow Account. The projected Stadium Reserve Account balance was reduced to $7 million by the end of the Current Biennium. Higher estimated stadium related spending compared to forecast annual revenues resulted in a projected draw-down of the reserve in the Current Biennium.

2015 Legislative Sessions – Current Biennium

During the 2015 regular and special legislative sessions the Legislature enacted a number of revenue and expenditure measures in the General Fund for the Current Biennium. The 2015 Legislative Sessions concluded June 13, 2015, with a balanced budget for the Current Biennium. The enacted budget included increased net General Fund revenues of $132 million and appropriated an additional $705 million over the February 2015 Forecast base spending amount; changes were not made to the reserves. After accounting for all revenue and expenditure changes enacted for the Current Biennium, the General Fund balance at the end of the biennium is estimated to be $865 million.

Revenues in Enacted Budget: The approved budget reflected changes in General Fund revenues from the February 2015 Forecast for the Current Biennium. Net General Fund Revenues now total $42.629 billion, $132 million higher than February's estimates.

<u>Tax Revenues:</u> The Legislature enacted minor tax changes in the 2015 Legislative Sessions. In total, net tax revenues are projected to be $30 million higher than forecast. Accounting for this change is a $10 million increase is individual income tax due to a law change disallowing the working family credit for non-residents and a $20 million increase in sales tax resulting in a delay in the exemption for special taxing districts.

<u>Non-Tax and Other Revenues</u>: Legislation enacted in the 2015 Legislative Sessions impacted transfers, fees, fine, surcharges and other non-dedicated General Fund revenues. Total non-tax revenue is projected to be $1.426 billion, $23 million higher than February's forecast. Other revenue is projected to be $400 million, $79 million higher than previously estimated. Accounting for this change are significant increases to transfers-in to the General fund including a $63 million transfer-in from the Closed Landfill Investment Fund and an $8 million transfer-in from the Metro Landfill Contingency Action Trust Fund.

Expenditures in Enacted Budget General Fund expenditures in the Current Biennium are now expected to total $41.834 billion, $705 million (1.7 percent) higher than forecast estimates. Appropriations in state and local programs were made across all areas of the state budget. Significant appropriations were provided to K-12 education, higher education, public safety and judiciary, environment and agriculture, and economic development. One time cost shifting in health and human services partially offset increases in other areas of the budget.

K-12 education expenditures are estimated to be $17.236 billion, $526 million (3.2 percent) higher than previously forecast. K-12 education spending represents 41 percent of total General Fund expenditures. The Legislature enacted major appropriations in education finance including a 2 percent increase in the basic education formula in each year ($346 million), and increases in early childhood education programs, including increases to Early Learning Scholarships ($48 million), School Readiness ($31 million), and Head Start ($10 million).

Higher education spending is now projected to be $3.067 billion, $174 million (6.0 percent) higher than February's projections. An additional $22 million was provided to the University of Minnesota, and an additional $100 million was provided to MnSCU. A $30 million appropriation was also made to the University of Minnesota medical school.

Reductions of $291 million (2.3 percent) to Health and Human Services set the Current Biennium spending in the area at $12.481 billion. Health and human services is projected to account for 30 percent of total general fund spending. One-time shifting of medical assistance spending from the General Fund to the Health Care Access fund in the Current Biennium resulted in savings of $538 million. Offsetting this savings is increased funding for nursing facilities ($138 million), increased spending for child protection to support grants to counties for child protection staffing costs and activities ($52 million), and increased funding for private and state-operated mental health and chemical dependency programs ($73 million).

Public safety and Judiciary spending is now estimated to total $2.122 billion in the Current Biennium, an increase of $115 million (5.8 percent) over February 2015 Forecast. Significant increases in appropriations to the court operations account for the majority of the change.

Jobs and economic development spending is expected to be $402 million in the Current Biennium, an increase of $51 million. Appropriations for the "Border-to-Border Broadband Development Grant Program", workforce housing and the creation of a propane pre-purchase program to purchase heating fuels in the off season account for the increase.

Increased appropriations of $39 million result in a total spending of $377 million for environment and agriculture in the Current Biennium. Accounting for the increase are appropriations for parks and trails and funding for the State response to the avian influenza outbreak. One-time appropriations in the environment bill area are offset by a cancellations of the repayment from the General Fund to the Closed Landfill Investment Fund; provided sufficient balances, repayment will occur with the *2015 November Budget and Economic Forecast* under the enacted budget.

Reserves in Enacted Budget: The reserve amounts for the Current Biennium are unchanged from levels projected in the February 2015 Forecast. Total General Fund reserves in the enacted budget are $1.344 billion: $994 million in the Budget Reserve Account and $350 million in the Cash Flow Account. The Stadium Reserve Account balance was reduced to $7 million by the end of the Current Biennium.

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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 end of the 2015 Legislative Sessions. Authorized expenditures are presented on a budgetary basis.

CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2015 LEGISLATIVE SESSIONS
($'s in Thousands)[(1)]

	Fiscal Year 2016	Fiscal Year 2017	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	$1,421,221	$1,813,716	$1,421,221
Net Non-dedicated Revenues	20,665,422	21,563,065	42,228,487
Dedicated Revenues	500	500	1,000
Transfers From Other Funds	191,833	137,505	329,338
Prior Year Adjustments	35,000	35,000	70,000
Subtotal Current Resources	$20,892,755	$21,736,070	$42,628,825
Total Revenues Plus Prior Year Ending Balance	$22,313,976	$23,549,786	$44,050,046
Authorized Expenditures & Transfers			
K-12 Education	$8,478,203	$8,757,983	$17,236,186
Higher Education	1,530,668	1,536,256	3,066,924
Health & Human Services	5,967,131	6,513,513	12,480,644
Environment, Energy & Natural Resources	196,045	180,525	376,570
Economic Development	209,067	193,012	402,079
State Government	486,075	500,998	987,073
Transportation	139,347	135,792	275,139
Public Safety	1,049,759	1,072,165	2,121,924
Property Tax Aids & Credits	1,667,647	1,684,854	3,352,501
Debt Service	632,513	634,946	1,267,459
Capital Projects	148,805	138,427	287,232
Cancellation Adjustment	(5,000)	(15,000)	(20,000)
Total Expenditures and Transfers	$20,500,260	$21,333,471	$41,833,731
Balance Before Reserves	1,813,716	2,216,315	2,216,315
Cash Flow Account	350,000	350,000	350,000
Budget Reserve Account	994,339	994,339	994,339
Stadium Reserve Account	13,873	6,840	6,840
Budgetary Balance	$455,504	$865,136	$865,136

(1) Totals may not foot due to rounding.

The following table sets forth by source the forecasted amounts of non-dedicated revenues allocable to the General Fund for the Current Biennium, presented on a budgetary basis.

CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF NONDEDICATED REVENUES
END OF 2015 LEGISLATIVE SESSIONS
($'s in Thousands)[1]

	Fiscal Year 2016	Fiscal Year 2017	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	$10,735,768	$11,331,319	$ 22,067,087
Income Tax - Corporate	1,298,850	1,276,705	2,575,555
Sales Tax	5,328,451	5,611,323	10,939,774
Statewide Property Tax	841,883	856,696	1,698,579
Estate Tax	152,500	151,200	303,700
Liquor, Wine & Beer	86,550	88,290	174,840
Cigarette & Tobacco	597,110	600,950	1,198,060
Mining	17,000	17,000	34,000
Mortgage Registry Tax	103,461	108,367	211,828
Deed Transfer Tax	105,312	112,028	217,340
Gross Earnings Taxes	383,968	398,267	782,235
Controlled Substance Tax	5	5	10
Lawful Gambling Taxes	47,750	49,150	96,900
Medical Assistance Surcharges	258,334	255,830	514,164
Motor Vehicle Registration Tax	650	650	1,300
Tobacco Settlements	162,370	161,957	324,327
Investment Income	10,000	10,000	20,000
DHS MSOP Collections	14,388	15,190	29,578
DHS SOS Collections	53,557	54,105	107,662
Lottery Revenue	60,242	59,878	120,120
Departmental Earnings	192,299	191,083	383,382
Fines & Surcharges	81,237	80,405	161,642
County Nursing Home, Public Hospital IGT	6,792	6,792	13,584
All Other Nondedicated Revenue	133,300	132,230	265,530
Tax & Non-Tax Refunds	(6,355)	(6,355)	(12,710)
Total Net Nondedicated Revenues	$20,665,422	$21,563,065	$42,228,487

(1) Totals may not foot due to rounding.

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Biennial Comparison – Previous and Current Biennium

General Fund revenues for the Current Biennium are now projected to be $42.629 billion, $3.190 billion (8.1 percent) higher than the Previous Biennium. Projected current law spending is now expected to be $41.834 billion, $2.105 billion (5.3 percent) higher than Previous Biennium spending.

Revenues: Tax revenues are $3.178 billion (8.4 percent) higher than the Previous Biennium. Biennial growth for tax revenues in the February 2015 Forecast was expected to be $3.147 billion due to higher expected income tax liabilities and sales tax growth. Accounting for the difference were minor legislative changes to income and sales tax exemptions. Non-tax revenues and transfers-in are expected to be $12 million higher (0.7 percent).

Expenditures: After the 2015 Legislative Sessions, projected spending for the Current Biennium is expected to be $2.105 billion (5.3 percent) higher than spending in the Previous Biennium. The February 2015 Forecast estimated spending growth between the biennia to be $1.828 billion (4.7 percent). K-12 spending is expected to be $618 million higher in the Current Biennium (3.7 percent) due largely to $526 million in new investments made during the 2015 Legislative Sessions. Expenditures for health and human services are projected to be $832 million (7.1 percent) higher than Previous Biennium, $291 million lower than forecast projections due to one-time cost shifting in the enacted budget. The average annual growth for these areas since 2012 is 7.0 percent and 7.5 percent respectively.

Appropriations made in the 2015 Legislative Sessions also drive biennial growth estimates for higher education and public safety. Higher education expenditures in the Current Biennium are expected to be $3.067 billion, $233 million (8.2 percent) higher than the Previous Biennium. Public safety spending is expected to be $2.122 billion, $115 million higher than February estimates and $141 higher than the Previous Biennium. Expenditures for property tax aids and credits are $397 million higher in the Current Biennium than the Previous Biennium, the majority of this growth is due to increases made to programs in the 2014 Legislative Session becoming fully implemented in the Current Biennium.

July Revenue and Economic Update

Minnesota's net General Fund receipts for FY 2015 were estimated to total $20.363 billion, $555 million (2.8 percent) higher than projected in the February 2015 Forecast. General Fund revenues for the final quarter of Fiscal Year 2015 were $455 million more than forecast. Higher than expected individual and corporate income tax receipts accounted for nearly all of the additional revenue variance for Fiscal Year 2015. General Fund revenues in Fiscal Year 2015 were estimated to be 5.6 percent greater than in Fiscal Year 2014.

About three-quarters of the $369 million individual income tax variance appears to be due to higher than expected tax year 2014 liability. Payments accompanying final 2014 tax returns and extensions were about $237 million more than forecast, and individual income tax refunds were about $42 million less than prior estimates. MMB economists believe the additional revenue is primarily due to larger than expected capital gains realizations and other non-wage income in 2014. Individual income tax withholding receipts exceeded the forecast by $25 million, and estimated tax payments were $29 million more than expected. These amounts are payments for 2015 tax liability. Variances in receipts from non-resident partners, non-resident S-Corp shareholders, and fiduciaries explain the remainder of the individual income tax variance.

Corporate tax receipts for Fiscal Year 2015 were $124 million (9.4 percent) more than projected. Gross tax payments in excess of the forecast and lower than expected refunds both contribute to the positive corporate tax variance. Other revenues for Fiscal Year 2015 exceeded the forecast by $61 million. Higher than anticipated cigarette and tobacco tax receipts contributed half of that additional revenue. Net general sales tax receipts ended Fiscal Year 2015 less than $1 million above forecast. Gross sales tax receipts exceeded projections by $36 million (0.7 percent), but these were offset by higher than anticipated sales tax refunds.

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 2015 Legislative Sessions estimates.

HISTORICAL AND PROJECTED REVENUE GROWTH
JUNE 2015 GENERAL FUND FORECAST
($'s in Millions)

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
Individual Income Tax	$ 7,972	$ 9,013	$ 9,660	$ 10,045	$ 10,736	$ 11,331	
$ change	443	1,041	647	385	691	595	
% change	**5.9%**	**13.1%**	**7.2%**	**4.0%**	**6.9%**	**5.5%**	**7.1%**
Sales Tax	4,669	4,760	5,043	5,162	5,328	5,611	
$ change	266	91	283	119	166	283	
% change	**6.0%**	**1.9%**	**5.9%**	**2.4%**	**3.2%**	**5.3%**	**4.1%**
Corporate Tax	1,044	1,281	1,278	1,317	1,299	1,277	
$ change	119	237	(3)	39	(18)	(22)	
% change	**12.9%**	**22.7%**	**-0.2%**	**3.1%**	**-1.4%**	**-1.7%**	**5.9%**
Statewide Property Tax	799	811	836	824	842	857	
$ change	32	12	25	(12)	18	15	
% change	**4.2%**	**1.5%**	**3.1%**	**-1.4%**	**2.2%**	**1.8%**	**1.9%**
Other Tax Revenue	1,167	1,282	1,738	1,722	1,746	1,775	
$ change	(64)	115	456	(16)	24	29	
% change	**-5.2%**	**9.9%**	**35.6%**	**-0.9%**	**1.4%**	**1.7%**	**7.1%**
Total Tax Revenue	$ 15,651	$ 17,147	$ 18,554	$ 19,071	$ 19,951	$ 20,851	
$ change	796	1,496	1,407	517	880	900	
% change	**5.4%**	**9.6%**	**8.2%**	**2.8%**	**4.6%**	**4.5%**	**5.8%**
Non-Tax Revenues	774	798	721	737	714	712	
$ change	(34)	24	(77)	16	(23)	(2)	
% change	**-4.2%**	**3.1%**	**-9.6%**	**2.2%**	**-3.1%**	**-0.3%**	**-2.0%**
Transfers, All Other	660	711	247	108	227	173	
$ change	139	51	(464)	(139)	119	(54)	
% change	**26.7%**	**7.7%**	**-65.3%**	**-56.3%**	**110.2%**	**-23.8%**	**-0.1%**
Total Revenue	$ 17,085	$ 18,656	$ 19,522	$ 19,916	$ 20,893	$ 21,736	
$ change	901	1,571	866	394	977	843	
% change	**5.6%**	**9.2%**	**4.6%**	**2.0%**	**4.9%**	**4.0%**	**5.1%**

HISTORICAL AND PROJECTED SPENDING GROWTH
JUNE 2015 GENERAL FUND FORECAST
($'s in Millions)

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
K-12 Education	$ 6,616	$ 8,865	$ 8,430	$ 8,188	$ 8,478	$ 8,758	
$ change	538	2,249	(435)	(242)	290	280	
% change	**8.9%**	**34.0%**	**-4.9%**	**-2.9%**	**3.5%**	**3.3%**	**7.0%**
Higher Education	1,275	1,295	1,381	1,453	1,531	1,536	
$ change	(82)	20	86	72	78	5	
% change	**-6.0%**	**1.6%**	**6.6%**	**5.2%**	**5.4%**	**0.3%**	**2.2%**
Prop. Tax Aids & Credits	1,457	1,320	1,321	1,635	1,668	1,685	
$ change	56	(137)	1	314	33	17	
% change	**4.0%**	**-9.4%**	**0.1%**	**23.8%**	**2.0%**	**1.0%**	**3.6%**
Health & Human Services	5,385	5,208	5,430	6,219	5,967	6,514	
$ change	1,062	(177)	222	789	(252)	547	
% change	**24.6%**	**-3.3%**	**4.3%**	**14.5%**	**-4.1%**	**9.2%**	**7.5%**
Public Safety	883	958	944	1,037	1,050	1,072	
$ change	(63)	75	(14)	93	13	22	
% change	**-6.7%**	**8.5%**	**-1.5%**	**9.9%**	**1.3%**	**2.1%**	**2.3%**
Debt Service	192	223	620	623	633	635	
$ change	(209)	31	397	3	10	2	
% change	**-52.1%**	**16.1%**	**178.0%**	**0.5%**	**1.6%**	**0.3%**	**24.1%**
All Other	772	871	1,223	1,226	1,174	1,134	
$ change	(57)	99	352	3	(52)	(40)	
% change	**-6.9%**	**12.8%**	**40.4%**	**0.2%**	**-4.2%**	**-3.4%**	**6.5%**
Total Spending	$ 16,580	$ 18,739	$ 19,348	$ 20,381	$ 20,500	$ 21,333	
$ change	1,245	2,159	609	1,033	119	833	
% change	**8.1%**	**13.0%**	**3.2%**	**5.3%**	**0.6%**	**4.1%**	**5.7%**

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BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the February 2015 Forecast adjusted for legislative action. The planning projections contain revenue and expenditure estimates for the Next Biennium based on the most recent information about the national and state economic outlook, caseloads, enrollments and cost projections as amended to reflect legislative enactment of the budget for the Current Biennium. The longer-term estimates for the Next Biennium carry a higher degree of uncertainty and a larger range of potential error.

The actions taken during the 2015 Legislative Sessions to adopt the budget for the Current Biennium significantly affect the projections and estimates for the Next Biennium. General Fund revenues are now estimated to be $46.292 billion, $3.663 billion (8.6 percent) higher than estimates for the Current Biennium. Expected growth in two of the three largest General Fund revenue sources account for the $3.836 billion of the growth. Receipts for individual income taxes and sales tax are expected to grow 13.0 percent and 8.8 percent, respectively. Reductions in corporate franchise tax revenue, non-tax revenue and other resources partially offset the growth in income and sales tax.

Projected spending in the Next Biennium is now estimated to be $44.994 billion, $3.160 billion (7.6 percent) higher than estimates for the Current Biennium. Expected growth in the two largest areas of the budget accounts for the majority of the growth. K-12 education and health and human services are expected to grow $3.115 billion, 4.5 percent, and 18.8 percent, respectively. Spending projections only include increases incorporated in current law to education aids, health care, and local aid/property tax relief programs based on enrollment, caseload and current law formula provisions.

The budget in the Next Biennium is structurally balanced; projected revenues are expected to exceed estimated spending by $1.298 billion. The impact of inflation is not reflected in expenditure projections. Based on the February 2015 Forecast the consumer price index is projected to increase by 2.6 percent in FY 2018 and 2.6 percent in FY 2019. Annual expenditure inflation pressures, if recognized, would add approximately $580 million to FY 2018 spending estimates and more than $1.197 billion to FY 2019 spending estimates.

General Fund Reserve estimates in the Next Biennium total $1.344 billion, unchanged from Current Biennium estimates. The reserves include $350 million in the Cash Flow Account and $994 million in the Budget Reserve Account. The balance in the Stadium Reserve Account is projected to be $0.

Revenue, spending and reserve estimates for the Next Biennium will be updated in the November 2015 Forecast.

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 2015 consist of four income brackets having tax rates of 5.35 percent, 7.05 percent, 7.85 percent and 9.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the national consumer price index. 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 $1,415.00. 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. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income or AMTI (which is similar to federal alternative minimum taxable income) at a flat rate of 6.75 percent on AMTI in excess of an exemption amount, to the extent the minimum tax exceeds the regular tax.

SINGLE FILER

Taxable Income	Tax
on the first $25,070	5.35%
on all over $25,070 but not over $82,360	7.05%
on all over $82,360 but not over $154,950	7.85%
on all over $154,950	9.85%

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $36,650	5.35%
on all over $36,650, but not over $145,620	7.05%
on all over $145,620, but not over $258,260	7.85%
on all over $258,620	9.85%

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 $30,870	5.35%
on all over $30,870, but not over $124,040	7.05%
on all over $124,040, but not over $206,610	7.85%
on all over $206,610	9.85%

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 percent 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 percent. The 3/8 of 1 percent point increment will be in place through 2034. In the 2013 Legislative Session provisions were passed to expand the sales tax base to include: business equipment repair, cable television and communications equipment and business related warehousing and storage services. In the 2014 Legislative Session these three provisions were repealed. In the 2014 Legislative Session a provision was passed that changed the timing of the payment of June sales tax liability, the effect was a onetime revenue reduction. In the 2013 Legislative Session the Legislature changed a provision in law which gives a refund for sales taxes paid on certain capital equipment to an upfront exemption of the sales tax. In the 2014 Legislative Session the effective date of the aforementioned provision was delayed from September 1, 2014, to July 1, 2015.

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 percent is imposed on corporate taxable income. Beginning in 2014, corporations apportion their income to Minnesota solely on the basis of sales in Minnesota. Prior to 2014 a three factor formula of property, payroll and sales had been used. That formula was phased out between 2007 and 2014. 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 percent, to the extent the minimum tax exceeds the regular tax. In the 2013 Legislative Session numerous changes were made to the corporate income tax. Among the significant provisions were: 1) the repeal of special rules for foreign operating corporations, 2) the repeal of the exclusion for foreign royalties, 3) An increase in the minimum fee, 4) a broadened definition of sales to include the sales of no- nexus subsidiaries of corporations subject to Minnesota tax, 5) a change in the Research & Development credit from refundable to non-refundable, and 6) a provision that subjects the income of foreign entities who elect not to be treated as corporations, that are part of a unitary business taxable in Minnesota, and whose income is included in federal taxable to Minnesota tax.

Beginning in tax year 2002, Minnesota required 80 percent 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 2013 legislature adjusted the fee schedule and indexed the dollar amounts for inflation, based on the consumer price index. The fee schedule for tax year 2015 is shown below:

Fee Basis	Amount of Fee
Less than $960,000	$0
$960,000 to $1,929,999	$200
$1,930,000 to $9,649,999	$580
$9,650,000 to $19,299,999	$1,930
$19,300,000 to $38,589,999	$3,860
$38,590,000 or more	$9,650

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 homeowner's 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 percent motor vehicle sales tax. The tax is collected at the time of title registration or transfer. Beginning in Fiscal Year 2012, 100 percent of the collections are dedicated to transportation related funds.

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 percent by volume or less, and $4.60 per 31-gallon barrel for strong beer.

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

Cigarette and Tobacco Products Tax: Laws passed in the 2013 Legislative Session made significant changes to the Cigarette and Tobacco taxes. Effective July 1, 2013, the Cigarette tax is 2.83 per pack and adjusted annually to match changes in the average price of cigarettes sold in Minnesota (the tax rate for 2015 is $2.90 per pack). In addition a pack is subject to a tax in lieu of sales tax of 52.6 cents, which is adjusted annually to match changes in the average price of cigarettes sold in Minnesota. Effective July 1, 2013, the tax on tobacco products is 95 percent of the wholesale price. A one-time floor stocks tax is imposed on cigarettes in the inventory of wholesalers and retailers on July 1, 2013, equal to the increase in the tax enacted in 2013. An electronic cigarette or e-cigarette is a device that simulates smoking tobacco. Electronic cigarettes ("e-cigarettes") and e-juice (fluid in cartridges used with e-cigarettes, some containing nicotine) are considered tobacco products and are subject to the Tobacco tax.

Estate Tax: The tax base is the federal gross estate less various exemptions and deductions, multiplied by the percentage of the decedent's total property that has a Minnesota situs. In the 2013 Session the legislature imposed a gift tax to complement the estate tax; in the 2014 Session that provision was repealed retroactive to its effective date. Also in the 2014 Session, the legislature enacted a new estate tax rate schedule that unlike the old one is independent of pre-existing federal law. The new rate schedule has an exemption amount that rises in annual steps of $200,000 from $1.2 million for 2014 deaths to $2 million for 2018 deaths and tax rates ranging from 9 percent to 16 percent.

Mortgage Tax: A tax of 23 cents is imposed on each $100 dollars of debt secured by real property. 97 percent of the proceeds go to the State's General Fund and 3 percent to the county in which the property is located.

Deed Tax: A tax of .0033 percent 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. 97 percent of the proceeds go to the State's General Fund and 3 percent to the county in which the property is located.

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

The Stadium Legislation passed in 2012 substantially changed the State's gambling tax structure. The Stadium Legislation imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). The Stadium Legislation authorizes two new types of electronic charitable gambling: electronic linked bingo and electronic pull tabs.

The new tax structure is as follows**:**

Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels	8.5%
New Net Receipts Tax on All Pull-tabs, All Tip boards Except Sports Tip boards, and Electronic Linked Bingo (taxed on an organization basis)	
Not over $87,500	9.0%
Over $87,500, but not over $122,500	18.0%
Over $122,500, but not over $157,500	27.0%
Over $157,500	36.0%
Sports-themed Tip boards	exempt

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 percent. 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 percent tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6 percent 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.

Under the Stadium Legislation, proceeds of certain special sales, liquor, lodging and restaurant taxes imposed by the City of Minneapolis under Minnesota Laws 1986, Chapter 396, as amended, are to be deposited in the General Fund each year from 2021 through 2046 in an aggregate present value amount of $150,000,000, plus certain specified amounts each year for the purpose of paying a portion of annual operating costs and contributions to a capital reserve for the stadium project authorized by the Stadium Legislation.

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement agreement as amended as of June 1, 2001, (the "Minnesota Agreement"), between the Attorney General of the State and the then-existing four largest United States cigarette manufacturers, Philip Morris, Reynolds Tobacco, Lorillard and B&W (collectively, the "Settling Defendants")[1], requires the Settling Defendants to make annual payments to the State. 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. Payments made pursuant to the Minnesota Agreement are made to an account designated in writing by the State, which is an account within the General Fund of the State Treasury. The increased use of e-cigarettes may have an impact on the tobacco revenues.

Pursuant to the Minnesota Agreement, the State agreed to settle all its past, present and future smoking-related claims against the Settling Defendants in exchange for agreements and undertakings by the Settling Defendants

[1] On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B&W with those of Reynolds Tobacco, which occurred on June 30, 2004. References herein to the "Settling Defendants" mean, for the period prior to June 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B&W and Lorillard and for the period on and after June 30, 2004, collectively Philip Morris, Reynolds American and Lorillard. On June 12, 2015, Reynolds American Inc. acquired Lorillard by way of merger, and in a related divestiture, certain of the settling Defendants' cigarette brands were sold to ITG Brands, LLC. ITG Brands, LLC has proposed to join the Minnesota Agreement with respect sales of cigarettes of the transferred brands. Discussions concerning joinder between ITG Brands, Inc., the State of Minnesota, and the remaining Settling Defendants are ongoing.

concerning a number of issues. These issues include, among others, making payments to the State, abiding by more stringent advertising restrictions, funding educational programs, ensuring public access to court documents and files and requiring disclosure of certain payments to lobbyists, all in accordance with the terms and conditions set forth in the Minnesota Agreement.

The Minnesota Agreement requires that the Settling Defendants make two types of payments, "Initial Payments" due in the years 1998 through 2003 and "Annual Payments due in 1998 and continuing in perpetuity, which historical payments are set forth in the table that follows, as well as certain court-administered payments. The base amount of these payments (with the exception of the up-front Initial Payments) are subject to certain adjustments (including those for inflation and volume), which could be material.

Payments required to be made by the Settling Defendants are calculated by reference to the Settling Defendants' respective share of sales of cigarettes (which in practice have been measured by shipments) by unit for consumption in the United States (excluding Puerto Rico). Payments to be made by the Settling Defendants are recalculated each year, based on the market share of each individual Settling Defendant for the prior year. A significant loss of market share by the Settling Defendants could have a material adverse effect on the payments by the Settling Defendants under the Minnesota Agreement. The Minnesota Agreement does not contain any terms providing for a process to dispute the calculation of Annual Payments or any adjustments to such payments. To date, neither the Settling Defendants nor the State have disputed any of the calculations of payments under the Minnesota Agreement.

As required, the Settling Defendants have made all of the Initial Payments and have made Annual Payments from 1998 through 2015 and certain other amounts pursuant to the Minnesota Agreement totaling approximately $3.991 billion to date.

	Unadjusted Minnesota Agreement Applicable Base Payment	**State's Actual Receipts***
Up-Front Initial Payment†	$240,000,000	$240,000,000
1999 Initial Payment†	220,800,000	220,800,000
2000 Initial Payment	242,550,000	221,784,750
2001 Initial Payment	242,550,000	220,885,523
2002 Initial Payment	242,550,000	215,007,990
2003 Initial Payment	121,550,000	107,669,822
FY1999 Annual Payment†	102,000,000	102,000,000
FY2000 Annual Payment	114,750,000	104,925,995
FY2001 Annual Payment	127,500,000	145,136,835**
FY2002 Annual Payment	165,750,000	161,022,719
FY2003 Annual Payment	165,750,000	157,711,642
FY2004 Annual Payment	204,000,000	168,566,764
FY2005 Annual Payment	204,000,000	175,488,332
FY2006 Annual Payment	204,000,000	180,789,740
FY2007 Annual Payment	204,000,000	183,911,438
FY2008 Annual Payment	204,000,000	184,410,711
FY2009 Annual Payment	204,000,000	179,854,486
FY2010 Annual Payment	204,000,000	168,297,369
FY2011 Annual Payment	204,000,000	169,375,081
FY2012 Annual Payment	204,000,000	166,861,093
FY2013 Annual Payment	204,000,000	170,060,090
FY2014 Annual Payment	204,000,000	175,398,533
FY2015 Annual Payment	204,000,000	170,746,036

† Not subject to the Inflation Adjustment or the Volume Adjustment. Deposited in a cessation account administered by the Court, as permitted in the Minnesota Agreement and required by the Consent Judgment, to provide cessation opportunities to Minnesota smokers.

* As reported by the State and to the best of the State's knowledge, amounts reflect the State's actual receipts including applicable adjustments.

** Includes $29,025,087 paid by the Settling Defendants on June 11, 2001 pursuant to the 2001 Amendment.

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 MnSCU, General Projects, Risk Management, Lottery Cash Flow and State Operated Services Funds.

The estimated vs. actual revenues and expenditures are monitored to ensure adequate cash flow. There are more than 80 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 tables on the following pages show the projections of monthly Statutory General Fund cash flows for FY 2015, FY 2016 and FY 2017 based on the February 2015 Forecast and preliminary end of 2015 Legislative Sessions budget estimates. The table for FY 2015 represents actual Statutory General Fund cash flow balances through June 30, 2015 and projected balances for the balance of the fiscal year. The tables for FY 2016 and FY 2017 represents projected Statutory General Fund cash flow balances for each of the fiscal years. The projected monthly cash flows analyses have been formatted to include transfers in and transfers out to more accurately reflect State operations. The payment of debt service is included in transfers out for each fiscal year. Please note that monthly cash flow projections are subject to a high level of variability. Projected Statutory General Fund cash flow for FY 2016 and FY 2017 indicates that the State will be able to maintain positive cash balances for the Current Biennium without special administrative actions or access to external borrowing.

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STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2015 LEGISLATIVE SESSIONS
ACTUALS FOR FISCAL YEAR ENDED JUNE 30, 2015
($'s in Thousands)

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	FY15 Total
	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	
Beginning Cash Balance	4,018,681	3,275,509	2,701,940	2,962,283	3,258,575	3,343,684	2,991,374	4,110,176	3,394,290	3,090,094	3,913,982	3,839,613	
Individual Income Tax	726,990	642,792	1,026,402	756,510	517,817	1,017,763	1,360,987	286,346	563,457	1,848,959	634,459	986,385	10,368,867
Corporate Tax	(61,529)	31,211	320,526	92,079	16,771	275,511	26,814	14,786	323,063	55,196	47,959	311,512	1,453,897
Sales Tax	170,279	488,952	454,618	485,336	438,647	405,819	547,651	370,738	332,976	415,237	412,882	753,260	5,276,394
Property Tax	17,235	24	0	178,337	165,808	25,229	5,781	406	0	36	229,963	215,901	838,719
Tobacco Tax	3,099	80,300	57,274	56,915	56,690	70,250	85,067	24,183	23,934	43,120	53,869	103,146	657,846
Insurance Tax	2,030	7,359	91,441	559	7,781	100,864	1,079	19,351	106,396	1,802	7,244	93,068	438,973
Excise Tax	125,864	118,190	72,125	165,908	86,114	87,649	162,727	99,542	99,640	175,749	114,130	119,275	1,426,914
Investment Earnings	1,499	70	3,235	1,692	1,104	1,811	1,775	2,064	2,121	1,914	461	1,881	19,629
Interagency Grants	10,068	13,581	22,536	12,961	12,993	17,512	15,052	12,252	33,854	14,191	5,805	10,114	180,919
Other Revenue	295,308	332,877	430,194	282,657	219,999	285,819	627,157	238,309	246,905	284,260	203,309	280,686	3,727,481
Total Revenue	1,290,842	1,715,356	2,478,350	2,032,954	1,523,723	2,288,227	2,834,090	1,067,977	1,732,344	2,840,465	1,710,081	2,875,227	24,389,638
Transfer In	1,365,884	237,717	105,144	118,131	95,691	220,513	94,563	99,252	106,640	158,430	120,741	568,586	3,291,294
Total Sources	2,656,727	1,953,074	2,583,494	2,151,085	1,619,414	2,508,740	2,928,653	1,167,229	1,838,985	2,998,895	1,830,822	3,443,814	27,680,932
Compensation	267,650	259,339	278,755	385,790	269,316	286,430	264,500	270,953	270,966	274,920	386,855	267,654	3,483,127
Agency Operations	225,648	178,398	161,396	169,772	120,533	172,398	193,797	112,318	188,781	157,236	102,867	214,921	1,998,065
Aid to Schools	208,929	1,124,783	750,259	478,879	166,055	645,449	819,005	794,230	1,005,822	935,921	770,546	386,768	8,086,645
Aid to Cities & Towns	273,260	21,550	140,636	13,309	10,559	224,994	8,513	7,289	11,774	10,324	5,070	8,371	735,648
Aid to Counties	170,002	28,474	38,135	22,593	28,232	122,836	14,320	20,405	13,677	29,316	19,641	12,663	520,296
Aid to Higher Ed	58,408	104,903	88,246	63,379	59,046	82,215	129,451	58,672	62,061	104,807	73,227	67,372	951,785
Aid to Non-Gov't	23,200	24,967	27,805	22,564	13,073	19,581	20,497	25,675	15,091	31,091	24,888	13,787	262,220
Aid to Other Gov't	12,581	4,722	35,405	12,912	8,518	9,436	9,610	12,354	9,098	9,011	(21,532)	6,998	109,114
DHS Payments to Individuals	614,890	322,666	441,599	418,192	694,598	439,173	240,941	464,345	435,515	455,950	386,348	263,136	5,177,353
Other Aid to Individuals	50,846	192,451	249,321	95,178	12,987	4,750	5,006	4,643	11,823	7,890	4,341	6,777	646,012
Other Expenditures	8,201	10,505	5,513	10,095	9,653	7,646	10,364	11,242	15,327	11,297	9,104	12,254	121,200
Total Expenditures	1,913,614	2,272,758	2,217,072	1,692,662	1,392,571	2,014,907	1,716,003	1,782,127	2,039,935	2,027,762	1,761,355	1,260,701	22,091,466
Transfer Out	1,486,285	253,884	106,078	162,131	141,734	223,083	93,847	100,988	103,247	147,245	143,837	571,506	3,533,865
Transfer Out Debt Service	0	0	0	0		623,060	0	0	0	0	0	0	623,060
Total Uses	3,399,899	2,526,642	2,323,150	1,854,793	1,534,305	2,861,050	1,809,851	1,883,115	2,143,181	2,175,007	1,905,191	1,832,207	26,248,391
Ending Cash Balance	3,275,509	2,701,941	2,962,283	3,258,576	3,343,684	2,991,374	4,110,176	3,394,290	3,090,093	3,913,982	3,839,613	5,451,220	
Minimum Monthly Balance	3,236,883	2,589,862	2,505,805	2,713,112	3,155,815	2,598,837	3,208,122	3,112,970	2,730,418	2,687,201	3,420,857	3,845,431	

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2015 LEGISLATIVE SESSIONS
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2016
($'s in Thousands)

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	FY16 Total
	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
Beginning Cash Balance	5,451,220	4,239,363	3,409,840	3,752,833	3,929,504	4,420,638	3,983,467	4,905,402	4,334,225	4,055,115	4,626,049	4,330,124	
Individual Income Tax	644,241	607,495	1,036,612	765,499	610,136	1,124,556	1,433,827	251,023	664,349	1,752,678	740,602	1,104,749	10,735,768
Corporate Tax	60,602	41,699	292,298	74,344	33,322	249,033	23,368	13,337	266,582	71,739	38,089	134,438	1,298,851
Sales Tax	221,835	514,334	466,123	488,303	462,813	430,717	547,945	404,002	349,629	420,542	421,995	681,586	5,409,824
Property Tax	16,654	0	0	174,865	183,192	20,817	4,251	0	1	(0)	221,052	221,052	841,883
Tobacco Tax	2,838	70,613	55,767	49,915	47,156	73,977	86,414	23,037	25,199	49,841	47,830	90,710	623,297
Insurance Tax	3,590	6,327	98,854	681	2,637	104,708	1,276	21,832	122,779	2,673	1,467	101,613	468,438
Excise Tax	120,859	104,442	67,060	167,239	96,223	88,166	163,831	111,210	92,227	192,392	84,666	141,651	1,429,965
Investment Earnings	148	1,913	836	2,106	1,349	1,271	1,248	1,249	1,295	1,448	1,309	1,325	15,496
Interagency Grants	22,334	8,386	12,931	37,981	10,364	11,709	9,835	13,917	26,626	16,469	8,947	14,290	193,790
Other Revenue	318,949	238,002	449,804	260,187	215,549	458,185	498,002	196,379	287,039	273,243	226,230	281,115	3,702,683
Total Revenue	1,412,050	1,593,211	2,480,285	2,021,120	1,662,740	2,563,140	2,769,998	1,035,985	1,835,726	2,781,024	1,792,186	2,772,528	24,719,993
Transfer In	897,295	145,810	90,182	87,915	62,624	78,224	59,986	90,763	67,657	101,255	96,875	193,637	1,972,222
Total Sources	2,309,345	1,739,021	2,570,467	2,109,035	1,725,364	2,641,364	2,829,983	1,126,748	1,903,383	2,882,278	1,889,062	2,966,166	26,692,216
Compensation	254,326	236,797	249,073	393,488	236,173	260,375	250,992	259,356	260,938	391,701	242,212	257,823	3,293,254
Agency Operations	255,179	226,330	189,362	207,738	51,333	224,852	183,231	113,298	234,722	165,924	142,466	195,706	2,190,141
Aid to Schools	244,439	1,236,927	804,416	456,031	195,221	664,921	828,369	820,994	1,017,827	989,648	817,193	395,155	8,471,141
Aid to Cities & Towns	280,125	22,096	20,084	80,172	7,709	280,837	12,623	4,311	4,486	3,127	2,637	5,089	723,297
Aid to Counties	157,613	10,228	22,868	42,704	13,298	146,679	9,246	13,480	7,737	20,193	10,857	3,528	458,431
Aid to Higher Ed	62,153	99,760	96,690	65,221	58,776	74,776	113,306	70,630	70,494	100,593	70,478	58,053	940,929
Aid to Non-Gov't	17,831	11,312	18,347	19,471	11,422	18,177	12,402	13,396	15,390	36,828	17,324	17,602	209,502
Aid to Other Gov't	10,934	7,359	28,383	20,517	1,518	10,488	7,697	14,755	18,055	428	8,096	7,919	136,149
DHS Payments to Individuals	1,174,027	249,599	436,598	456,173	496,928	656,880	412,730	280,126	452,594	480,603	724,556	313,777	6,134,591
Other Aid to Individuals	38,183	228,710	246,110	78,879	9,194	4,453	4,213	3,650	11,862	6,400	6,856	17,356	655,866
Other Expenditures	2,539	65,131	(6,435)	9,552	11,481	8,640	(2,787)	5,942	8,248	7,790	8,463	21,976	140,540
Total Expenditures	2,497,349	2,394,248	2,105,496	1,829,946	1,093,053	2,351,079	1,832,023	1,599,938	2,102,354	2,203,235	2,051,138	1,293,985	23,353,842
Transfer Out	1,023,853	174,296	121,978	102,417	141,177	94,944	76,025	97,987	80,139	108,109	133,848	214,500	2,369,274
Transfer Out Debt Service	0	0	0	0	0	632,513	0	0	0	0	0	0	632,513
Total Uses	3,521,202	2,568,543	2,227,473	1,932,363	1,234,230	3,078,536	1,908,048	1,697,925	2,182,492	2,311,344	2,184,987	1,508,485	26,355,630
Ending Cash Balance	4,239,363	3,409,840	3,752,833	3,929,504	4,420,638	3,983,467	4,905,402	4,334,225	4,055,115	4,626,049	4,330,124	5,787,805	
Minimum Monthly Balance	4,093,941	3,339,471	3,399,570	3,370,085	3,774,661	3,510,706	4,128,368	4,304,562	3,993,362	3,707,381	4,188,571	4,310,925	

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2015 LEGISLATIVE SESSIONS
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2017
($'s in Thousands)

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	FY17 Total
	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
Beginning Cash Balance	5,787,805	4,539,361	3,678,110	4,025,757	4,173,063	4,472,536	4,241,826	5,353,397	4,618,710	4,366,524	5,060,643	4,654,160	
Individual Income Tax	650,724	694,976	1,113,442	775,259	672,964	1,143,727	1,494,409	303,376	759,830	1,825,903	725,948	1,170,761	11,331,321
Corporate Tax	60,427	40,979	297,572	74,473	31,248	252,856	15,176	7,629	267,532	69,034	35,509	124,271	1,276,705
Sales Tax	209,023	544,008	494,218	516,542	489,262	457,093	580,161	424,446	371,492	443,027	444,038	721,431	5,694,740
Property Tax	17,004	0	0	178,542	187,044	21,255	4,313	0	4	(0)	224,269	224,269	856,699
Tobacco Tax	2,874	71,057	56,028	50,243	47,455	74,358	86,838	23,271	25,457	50,169	48,136	91,251	627,137
Insurance Tax	3,763	6,622	103,465	715	2,786	109,610	1,317	21,135	128,209	2,754	1,543	105,033	486,952
Excise Tax	128,598	105,273	65,996	171,573	97,953	89,728	170,846	132,291	92,814	167,338	106,614	147,254	1,476,279
Investment Earnings	148	1,913	836	2,107	1,349	1,271	1,248	1,248	1,296	1,448	1,309	1,325	15,498
Interagency Grants	22,535	8,461	13,071	38,389	10,476	11,833	9,939	12,915	27,952	15,018	10,398	14,809	195,796
Other Revenue	318,804	235,299	447,404	257,210	213,120	454,393	494,448	198,846	272,900	267,238	231,798	274,669	3,666,129
Total Revenue	1,413,900	1,708,589	2,592,032	2,065,053	1,753,657	2,616,124	2,858,695	1,125,157	1,947,485	2,841,927	1,829,562	2,875,073	25,627,254
Transfer In	910,974	147,048	92,069	91,973	64,371	82,250	61,459	94,332	69,928	110,256	97,392	191,489	2,013,541
Total Sources	2,324,874	1,855,637	2,684,101	2,157,026	1,818,028	2,698,374	2,920,154	1,219,490	2,017,413	2,952,182	1,926,953	3,066,562	27,640,796
Compensation	253,593	236,097	248,350	392,367	235,506	259,628	250,264	258,070	260,594	260,957	371,227	257,157	3,283,811
Agency Operations	247,427	218,797	183,978	201,196	51,792	216,995	177,662	104,578	224,307	163,444	134,695	199,203	2,124,075
Aid to Schools	252,719	1,277,882	831,063	471,139	201,833	687,350	855,912	848,281	1,051,662	1,022,452	844,372	408,350	8,753,014
Aid to Cities & Towns	281,241	21,987	17,787	83,548	9,800	281,963	12,563	4,180	4,530	2,926	2,823	4,981	728,329
Aid to Counties	157,082	10,432	22,805	43,674	13,211	146,470	9,177	11,461	9,619	13,773	17,056	3,566	458,324
Aid to Higher Ed	62,310	99,888	96,793	65,339	58,986	74,837	113,455	70,753	70,594	101,777	70,536	58,312	943,578
Aid to Non-Gov't	17,888	11,358	18,400	19,514	11,465	18,280	12,440	13,255	15,432	36,872	17,603	17,841	210,348
Aid to Other Gov't	10,934	7,359	28,383	20,517	1,518	10,488	7,697	14,755	10,317	8,167	8,096	7,919	136,149
DHS Payments to Individuals	1,137,157	310,719	509,145	523,042	801,278	497,292	300,693	530,086	532,666	522,809	719,407	375,991	6,760,286
Other Aid to Individuals	53,489	233,494	260,134	81,517	11,110	5,547	5,127	4,682	12,172	8,282	7,762	17,183	700,501
Other Expenditures	3,289	102,215	(2,539)	12,529	12,800	9,354	(236)	7,471	9,231	9,248	10,867	16,209	190,437
Total Expenditures	2,477,129	2,530,227	2,214,298	1,914,382	1,409,298	2,208,205	1,744,755	1,867,572	2,201,123	2,150,709	2,204,443	1,366,711	24,288,852
Transfer Out	1,096,190	186,660	122,156	95,337	109,258	85,933	63,828	86,604	68,477	107,354	128,994	272,337	2,423,129
Transfer Out Debt Service	0	0	0	0	0	634,946	0	0	0	0	0	0	634,946
Total Uses	3,573,319	2,716,887	2,336,454	2,009,720	1,518,556	2,929,084	1,808,583	1,954,176	2,269,600	2,258,063	2,333,437	1,639,049	27,346,927
Ending Cash Balance	4,539,360	3,678,111	4,025,757	4,173,063	4,472,536	4,241,826	5,353,397	4,618,710	4,366,524	5,060,643	4,654,160	6,081,673	
Minimum Monthly Balance	4,491,409	3,642,013	3,553,110	3,584,815	3,881,578	3,768,055	4,386,235	4,529,782	4,205,804	3,933,538	4,500,757	4,683,295	

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of approximately 12,000 miles of highways, 4,500 bridges of ten-foot spans or longer, and 1,064 maintenance, enforcement, service, and administrative buildings at 334 sites. Minnesota has 916 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 almost 143,000 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 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 percent of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62 percent to the Trunk Highway Fund, 29 percent to the County State Aid Highway Fund, and 9 percent to the Municipal State Aid Street Fund. The remaining 5 percent 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. In 2008 the legislature approved $1.8 billion in Trunk Highway bonds to be appropriated initially over a 10 year period, subsequently reduced to eight years in Laws of 2010, Chapter 190. The debt service on these bonds is to be paid from motor fuel tax increases which were phased in over several years. The final tax rate increase of a half cent was implemented on July 1, 2012, (for a total rate of 28.5 cents per gallon of which 3.5 cents is to be used for debt service) and is expected to be in place through Fiscal Year 2038, the anticipated duration of debt service on the Trunk Highway bonds. The following table shows the motor fuel tax rate changes passed by the 2008 Legislature:

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

Fiscal Year	Effective Date	Increase (Cents/Gallon)	New Effective Rate (Cents/Gallon)
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 $878 million to the Highway User Tax Distribution Fund in Fiscal Year 2014, after refunds. Of this amount, $502 million was transferred to the Trunk Highway Fund. MnDOT's current forecast estimates collections of $882 million, after refunds, in Fiscal Year 2015 to the Highway User Tax Distribution Fund, with a resulting transfer of $505 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 percent 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 $652 million in Fiscal Year 2014, after refunds, of which $379 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be $689 million in Fiscal Year 2015 to the Highway User Tax Distribution Fund, with a resulting transfer of $401 million to the Trunk Highway Fund.

The State of Minnesota levies a sales tax of 6.5 percent 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 Previous 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 2015 LEGISLATIVE SESSIONS
($'s in Millions)

	Highway User Tax Distribution Fund		**General Fund**		**Transit Assistance Fund**	
Year	**Percent**	**Forecasted Amount**	**Percent**	**Forecasted Amount**	**Percent**	**Forecasted 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%	216.7*	16.25%	74.1*	36.25%	162.8*
2011	54.50%	276.1*	6.25%	31.6*	39.25%	197.4*
2012	60.00%	335.4*	0.00%	0	40.00%	223.6*
2013	60.00%	358.7*	0.00%	0	40.00%	239.1*
2014	60.00%	384.2*	0.00%	0	40.00%	256.1*
2015	60.00%	419.5	0.00%	0	40.00%	279.7

*Actual

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

CURRENT BIENNIUM
END OF 2015 LEGISLATIVE SESSIONS
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
($'s in Thousands)

	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2017	Current Biennium
Estimated Resources			
Balance Forward from Prior Year	$152,880	$101,456	$152,880
Revenues			
Federal Grants	$409,975	$412,275	$822,250
Departmental Earnings	11,751	11,751	23,502
Investment Income	10,211	22,334	32,545
Other Income	32,532	32,537	65,069
Total Revenues	$464,469	$478,897	$943,366
Transfers from Other Funds			
General Fund Reimbursement	$3,355	$3,355	$6,710
Hwy Users Tax Distribution Fund	1,196,453	1,230,482	2,426,935
Plant Management Fund	1,304	1,304	2,607
Total Transfers	$1,201,112	$1,235,141	$2,436,252
Total Resources Available	$1,818,460	$1,815,494	$3,532,498
Estimated Uses			
Expenditures			
MnDOT	$1,430,663	$1,393,903	$2,824,566
Public Safety	98,461	100,521	198,982
Total Expenditures	$1,529,124	$1,494,424	$3,023,548
Transfers to Other Funds			
Debt Service Fund	$ 187,880	$ 221,699	$ 409,579
Total Transfers	187,880	221,699	409,579
Total Uses	$1,717,004	$1,716,123	$3,433,127
Undesignated Fund Balance	$101,456	$99,371	$99,371

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

Federal advance construction is a financing method authorized 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 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.

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 four years (Minnesota 20-Year State Highway Investment Plan, or "MnSHIP", most recently completed in 2013), 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.

See Appendix D for a list of bond authorizations to be included in the Series 2015B Bonds.

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

Legislature	Authorizations ($ in millions)	Purpose
2007	$ 20.0	Highway Flood Damage
2008	1,783.3	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 Capital Improvements
2012	16.1	Trunk Highway Capital Improvements
2012	35.0	Highway Flood Damage
2013	300.0	Corridors of Commerce
2015	140.0	Trunk Highway Capital Improvements
Total:	$ 2,463.6	

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
END OF 2015 LEGISLATIVE SESSIONS
TRUNK HIGHWAY IMPROVEMENT PROGRAM
ANTICIPATED ENCUMBRANCES
($'s in Millions)

Improvement Category	Trunk Highway and Federal Funds	Bond Funds	Total
Major Construction [(1)]	$1,197.3	$532.3	$1,729.5
Safety	105.6	-	105.6
Traffic Management	8.3	-	8.3
Municipal Agreements	21.7	-	21.7
Right of Way	67.1	-	67.1
Miscellaneous Agreements	163.9		163.9
Capital Construction and Improvements	0.0	-	0.0
Program Delivery	0.0	53.2	53.2
Total [(2)]	$1,563.8	$585.5	$2,149.3

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

(2) The total encumbrances, excluding the amount provided by bond funds, reflects forecast amounts of $776.9 million of State highway revenues and $786.9 million of federal funds. Totals may not foot due to rounding.

CURRENT BIENNIUM
TRUNK HIGHWAY AND TRUNK HIGHWAY BOND FUND
CASH EXPENDITURES FORECAST
($'s in Millions)

Category	Trunk Highway Fund	Trunk Highway Bond Fund	Total
Major Construction	$1,261.5	$643.7	$1,905.2
Safety	38.6	-	38.6
Traffic Management	3.3	-	3.3
Agreements and Miscellaneous	47.7	-	47.7
Right of Way	20.4	-	20.4
Capital Construction and Improvements	0.0	-	-
Program Delivery	0.0	64.4	64.4
Total[(1)]	$1,371.5	$708.0	$2,149.3

TRUNK HIGHWAY HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2012, through 2014. 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. Beginning balances or deficits are not included. The actual expenditures set forth in the table on the following page are presented by expenditure account.

TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF REVENUES, AND EXPENDITURES
($'s in Thousands)
UNAUDITED

	Fiscal Year Ended June 30 (1)		
	2012	**2013**	**2014**
Revenues:			
Taxes:(2)			
Motor Fuel	$502,134	$507,546	$514,385
Motor Vehicle	354,093	378,543	397,970
Motor Vehicle Sales Tax	197,521	211,257	226,741
Less: Revenue Refunds	(34,284)	(32,934)	(31,378)
Net Taxes	$1,019,463	$1,064,412	$1,107,717
Federal Grant Agreements	393,993	550,712	506,527
Penalties & Fines	3,421	4,673	4,958
Investment Income	3,078	3,565	3,441
Local Government Contracts	20,134	25,455	10,933
Other Revenue	15,536	22,967	19,505
TH Revenue Refunds	0	132	0
Total Revenues	$1,455,624	$1,671,917	$1,653,081
Expenditures:			
Personnel Services	$398,387	$428,663	$446,312
Purchased Services	97,168	139,292	128,158
Materials and Supplies	70,944	113,407	100,194
Capital Outlay:			
Equipment	13,467	54,095	27,931
Capital Outlay & Real Property(3)	595,524	905,967	732,026
Grants and Subsidies:			
Individuals	134	(23)	19
Counties	667	194	136
Cities	213	-	-
School Districts	5	274	0
Other Grants	172	932	939
All Other	32,412	20,838	25,575
Total Expenditures	$1,209,094	$1,663,641	$1,461,290
Transfers:			
Debt Service	72,601	120,305	136,488
Other Transfers (4)	(8,783)	(5,702)	(8,521)
Net Transfers	$63,818	$114,604	$127,968
Total Expenditures and Net Transfers Out	$1,272,912	$1,778,244	$1,589,258

(1) For Fiscal Years 2012, 2013 and 2014, the schedule of revenues and expenditures includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30. FY 2015 final data is not expected to be available until August 2015.

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

(3) 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 2012, 2013 and 2014, encumbrances have been included in Capital Outlay and Real Property totals.

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

HEALTH CARE ACCESS FUND

The Health Care Access Fund is a special revenue fund that was established to account for revenues and expenditures for initiatives that promote access to and contain the cost of health care. The MinnesotaCare® program, the largest expenditure in the fund, is a sliding-scale health insurance program for working Minnesotans. It was established by the 1992 Legislature to provide subsidized coverage for long term uninsured Minnesotans. The Legislature has modified program eligibility and benefits over time.

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 represent the primary revenues into the fund. Based on current tax levels, projected activity in the Health Care Access Fund for the Previous Biennium and Current Biennium are detailed below:

PREVIOUS BIENNIUM
HEALTH CARE ACCESS FUND*
($'s in Millions)

Resources	
Unreserved Balance at June 30, 2013	$ 52
Revenues	1,302
Transfers from Other Funds	505
Total Resources	$ 1,859
Expenditures	1,042
Projected Unreserved Balance Before Transfers	$ 817
Transfers to Other Funds	163
Projected Unrestricted Balance at June 30, 2015	$ 654

CURRENT BIENNIUM
HEALTH CARE ACCESS FUND*
($'s in Millions)

Resources	
Unreserved Balance at June 30, 2015	$ 654
Revenues	1, 497
Total Resources	$ 2,151
Expenditures	1,934
Projected Unreserved Balance Before Transfers	$ 217
Transfers to Other Funds	216
Projected Unrestricted Balance at June 30, 2017	$ 0

*Totals may not foot due to rounding.

In 2011, the Legislature enacted two major changes to the provider tax. The first is a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for the fund that year. The Commissioner is required to evaluate the projected ratio of revenues to expenditures as well as its cash flows in the fund for the current biennium. If revenues exceed expenditures by 25 percent for the biennium, and if the cash balance in the fund is adequate, the 2 percent tax on gross revenues of hospitals, health care providers and wholesale drug distributors will be reduced to the extent that the ratio is not more than 1.25 percent. Any changes to the rate expire each calendar year and are to be re-determined by the Commissioner. To date, the criteria for reducing the tax have not been met. The second major change is a repeal of the provider tax effective January 1, 2020.

Since January 1, 2015, MinnesotaCare® has operated as a Basic Health Program (BHP), an option available to states under the Affordable Care Act (ACA). A BHP allows Minnesota to use federal tax subsidies to support coverage of individuals who would otherwise be eligible to purchase coverage through MNsure, Minnesota's health insurance marketplace. Following federal eligibility changes, since January 1, 2014, MinnesotaCare® has served Minnesotans with incomes between 138 percent and 200 percent of Federal Poverty Guidelines (FPG).

MINNESOTA DEFINED BENEFIT PENSION PLANS

General Information

The State has three major State-wide retirement systems that cover most of the public employees of the State and its counties, municipalities and school districts. These systems are the Minnesota State Retirement System ("MSRS"), the Public Employees Retirement Association ("PERA") and the State Teachers' Retirement Association ("TRA," and collectively, the "Retirement Systems"). The Retirement Systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay retirement and disability benefits to public employees and their beneficiaries. The State is the primary employer for MSRS.

MSRS, PERA and TRA each prepare and publish their own comprehensive annual financial report, consisting of financial statements and required supplementary information and contain detailed financial and actuarial information. Much of the information that is contained in this section "MINNESOTA DEFINED BENEFIT PENSION PLANS" (i) relies on information produced by the administrators of the Retirement Systems or their accounting and actuary agents, and (ii) depends upon future events, which may or may not be consistent with any of the assumptions, may deviate significantly from those assumptions and may alter the outcomes of the plans and the obligations of the State and other employers as a result. The State has implemented a new accounting standard issued by GASB, *GASB Statement 67 - Financial Reporting for Pension Plans*, and intends to implement the other new GASB pension-related accounting standards (*Statement 68 - Accounting and Financial Reporting for Pensions, and Statement 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date*) on or before their effective dates.

The new GASB 67 standard requires each of the Systems to determine its net pension liability ("NPL") using assumptions that conform to actuarial standards of practice issued by Actuarial Standards Board. The NPL is the difference between the present value of pension benefits earned by employees through the end of fiscal year and the market value of investments at the end of the fiscal year. Minnesota Statutes, Section 356.20 requires the Retirement Systems to include in their annual financial reports information using funding-focused statutory assumptions and methodologies. Following are the main reasons for the differences between the statutory funding focused information and the GASB-based information:

- The discount rate required by statute for funding purposes was different from the discount rate used for financial reporting purposes. The discount rate is the rate used to bring the projected pension benefits to the present value of these benefits. The statutory discount rate used for funding purposes was 8.0 percent through 2017 and 8.5 percent thereafter. The discount rate used for GASB financial reporting purposes was 7.9 percent for MSRS and PERA and 8.25 percent for TRA. These rates are within the range of reasonable discount rates determined by actuaries in accordance with the actuarial standards of practice. Because professional judgment varies among actuaries, different actuaries may arrive at different reasonable discount rates.
- The statutory asset valuation method required for funding purposes was different from the GASB asset valuation method required for financial reporting purposes. For funding purposes, Minnesota law requires investment gains and losses to be recognized over a five-year period to "smooth" the volatility that can occur from year to year. For GASB financial reporting purposes, assets are valued at market value as of the end of the fiscal year.

The financial reports include information determined using assumptions and methodologies required by statutes and using assumptions and methodologies required by GASB. However, including this information was necessary for the Retirement Systems to comply with both state law and GASB requirements. The auditors rendered unqualified audit opinions to the financial statements, which contain the dual reporting structure.

These comprehensive annual financial reports for the Fiscal Year ended June 30, 2014, including MSRS's 2014 Comprehensive Annual Financial Report Addendum, are available from the following public web sites:

MSRS: https://www.msrs.state.mn.us/financial-information
PERA: http://www.mnpera.org/index.asp
TRA: https://www.minnesotatra.org/formspub/2014annualrpt.html

Please note these website addresses are provided for the convenience of the reader. No representation is made by the State as to the privacy practices of other websites, nor is the State liable for the content or availability of any listed sites.

See "Recent Changes to Pension Obligation Reporting" and "*MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results"* in this Appendix for GASB 67 reporting information.

Each plan administrator accounts for one or more pension plans as part of their system. For some of these plans, the State contributes as an employer, and performs only a fiduciary role for other plans. These pension plans are categorized as either defined benefit or defined contribution or investment trust funds. The State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans.

In a defined benefit pension plan, a periodic (usually monthly) benefit is paid to retired, disabled and survivors of deceased employees in an amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. The benefit is payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree. To fund the benefits paid by the defined benefit pension plan, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The employee and employer contribution percentages for each retirement plan are specified in Minnesota statutes. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to Minnesota statutes. See "Actuarial Valuation Requirements" below.

Overview – MSRS

Minnesota State Retirement System ("MSRS") provides retirement coverage for 55,365 active employees, 38,941 retirees, disabilitants, and beneficiaries, and 24,046 members who no longer contribute, but are eligible for future monthly benefits or a refund of their contributions. These members participate in six unique defined benefit retirement funds. The largest funds include the State Employees Retirement Fund, Correctional Employees Retirement Fund and State Patrol Retirement Fund, which represents 99 percent of total assets for MSRS' defined benefit funds.

The MSRS administration is governed by an 11-member board of directors. The board includes four elected General Employees Retirement Plan members, one elected State Patrol Retirement Plan member, one elected Correctional Employees Retirement Plan member, one elected retired member, one designated representative for employees of Metropolitan Council's Transit division, and three members appointed by the governor. The board appoints an executive director who administers the plans in accordance with Minnesota law and board policies, and directs the daily operational activities of MSRS.

The State Employees Retirement Fund includes the General Employees Retirement Plan, a multiple-employer, cost-sharing plan, the State Fire Marshals Plan, the Military Affairs Plan, and the Transportation Pilots Plan. The General Employees Retirement Plan is the largest retirement plan that MSRS administers. It covers most state employees, civil service employees of the University of Minnesota, and employees of the Metropolitan Council. The State Fire Marshals Plan covers employees of the State Fire Marshals Division employed as deputy State fire marshal fire/arson investigators. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots Plans, but all State employees who are not members of another plan are covered by the General Employees Retirement Plan.

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single-employer plan. Membership is limited to those State employees who are State troopers, conservation officers, crime-bureau officers or gambling-enforcement agents.

The Correctional Employees Retirement Fund includes only the Correctional Employees Plan, a multiple employer plan. Membership is limited to those State employees in covered correctional service, including employees with 75 percent working time spent in direct contact with inmates or patients at Minnesota correctional facilities, the Minnesota Security Hospital, or the Minnesota Sex Offender Program.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to district, appellate and Minnesota Supreme Court judges. Retirees also include former municipal and county court judges.

The Legislators Retirement Fund, which includes the Legislators Retirement Plan and the Elective State Officers Retirement Plan, is funded on a pay-as-you-go basis with direct appropriations from the State's General

Fund. Each is a single-employer plan and closed to new membership. The Legislators Retirement Plan includes members of the Minnesota House of Representatives and Senate first elected to office before July 1, 1997, who opted to retain coverage under this plan. The Elective State Officers Plan includes only the constitutional officers first elected prior to July 1, 1997, who opted to retain coverage under this plan. Effective July 1, 2013, the Elective State Officers Retirement Fund was administratively consolidated with the Legislators Retirement Fund. Benefit provisions for both retirement plan remain unaffected by the merger.

Membership statistics for each of the MSRS funds, as of June 30, 2014, follow:

	State Employees Retirement Fund	**State Patrol Retirement Fund**	**Correctional Employees Retirement Fund**	**Judges Retirement Fund**	**Legislators Retirement Fund**	**Totals**
Members:						
Retirees	29,225	776	2,075	227	301	32,604
Beneficiaries	3,686	155	174	84	74	4,173
Disabilitants	1,818	54	268	24	N/A	2,164
Terminated members:						
Vested, no benefits	16,472	44	1,232	16	63	17,827
Non-Vested	5,818	17	384	0	0	6,219
Active members:						
Vested	35,535	746	3,163	262	24	39,730
Non-Vested	14,128	112	1,341	54	0	15,635
Totals	106,682	1,904	8,637	667	462	118,352
Annualized Payroll	*$2,620,660,000*	*$63,952,000*	*$219,244,000*	*$41,893,000*	*$1,122,000*	*$2,946,871,000*

MSRS also administers four defined contribution funds. These plans include the Unclassified Employees Retirement Fund, the Health Care Savings Fund, the Deferred Compensation Fund (an Internal Revenue Code Section 457 plan), and the Hennepin County Supplemental Retirement Fund.

Overview – PERA

Public Employees Retirement Association ("PERA") administers pension funds that serve approximately 255,000 active county, school and local public employees, benefit recipients, their survivors and dependents. PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located throughout the State. As of June 30, 2014, PERA's membership included 157,867 current, active employees and 97,719 retirees and beneficiaries.

The PERA board of trustees is responsible for administering these funds in accordance with statutes passed by the Legislature and has a fiduciary obligation to PERA's members, the governmental employers, the State, and its taxpayers. The PERA board of trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operation of the association.

PERA administers five separate defined benefit pension funds (including one multi-employer agent plan) and one defined contribution plan. Each has specific membership, contribution, benefit, and pension provisions.

The General Employees Retirement Fund ("GERF") encompasses three plans: the PERA Coordinated Plan, the PERA Basic Plan, and the Minneapolis Employees Retirement Fund ("MERF"). The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan established in 1931, is not coordinated with the federal program and was closed to new members on December 31, 1967. MERF was a separate entity until June 30, 2010, when it was consolidated under PERA's administration in the GERF. Assets and liabilities were kept separate until the MERF fully merged into the GERF in January 2015. MERF is a defined benefit plan with 3,777 retirees, 42 active members and 43 deferred members. All of the active members are eligible to retire. Employers participating in MERF include the City of Minneapolis, Minneapolis Schools, Metropolitan Airports Commission, Hennepin County, MnSCU, Metropolitan Council, and the Municipal Building Commission.

The Public Employees Police and Fire Fund ("PEPFF") originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980. As of July 1, 1999, this fund also includes the members of 44 previously local police and fire relief associations that elected to have PERA administer their plan. In 2011 and 2012 respectively, legislation was enacted to merge the Minneapolis Police and Minneapolis Firefighters Relief Associations effective December 30, 2011, and the Virginia Fire and Fairmont Police Relief Associations effective June 29, 2012, with PEPFF. See "Pension Legislation and Litigation" below.

The Local Government Correctional Service Retirement Fund (called the "Public Employees Correctional Fund" or "PECF") was created in 1999 to cover local government correctional service employees who spend most of their time in direct contact with inmates. The majority of these employees were formerly part of the Coordinated Plan.

Membership statistics for each of the funds, as of June 30, 2014, follow:

	General Employees Retirement Fund (GERF)	**Public Employees Police & Fire Fund (PEPFF)**	**Public Employees Correctional Fund (PECF)**	**Minneapolis Employees Retirement Fund (MERF)**	**TOTAL**
Retirees	73,552	7,165	607	3,035	84,359
Beneficiaries	7,690	1,886	36	739	10,351
Disabilitants	1,892	988	126	3	3,009
Terminated Members:					
Vested, no benefits	48,505	1,481	2,380	43	52,409
Non Vested	121,019	975	1,936	0	123,930
Active Members:					
Vested	98,771	9,438	2,530	42	110,781
Non Vested	44,572	1,441	1,073	0	47,086
Totals	396,001	23,374	8,688	3,862	431,925
Annualized Payroll	*$5,351,920,000*	*$820,333,000*	*$172,041,000*	*$3,795,000*	*$6,348,089,000*

PERA also administers the Volunteer Firefighter Retirement Fund, a multi-employer, agent plan and the Public Employees Defined Contribution Plan, which was established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services. The defined contribution plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

***Overview* – TRA**

The Teachers' Retirement Association ("TRA") had 590 reporting employer units, 77,243 active members and a total of 58,809 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2014.

Teachers, and others designated by statute, employed in Minnesota's public elementary and secondary schools, charter schools and certain educational institutions maintained by the State (except those teachers employed by the City of Saint Paul, and by the University of Minnesota system) are required to be TRA members. The 2014 Legislature acted to merge the Duluth Teachers Retirement Fund Association ("DTRFA") with the TRA, effective June 30, 2015. Teachers employed by the Minnesota State College and Universities may elect TRA coverage. Effective June 30, 2006, former members of the Minneapolis Teachers Retirement Fund Association ("MTRFA") are members of TRA and are included in the membership totals presented.

TRA is managed by an eight member board of trustees: three are statutorily appointed and five are elected. The appointed trustees are the Commissioner of Education, the Commissioner of Management and Budget and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the board of trustees.

Membership statistics for the fund, as of June 30, 2014, which follow, do not include members of the former DTRFA, which was merged with TRA, effective June 30, 2015.

Retirees	53,774
Disabilitants	563
Beneficiaries	4,472
Terminated Members:	
Vested, deferred	12,907
Non Vested	29,984
Active Members:	
Vested	61,552
Non Vested	15,691
Total	178,943
Annualized Payroll	*$4,056,482,000*

Investments

Assets of the pension funds are invested by the Minnesota State Board of Investment (the "SBI"). SBI prepares and publishes an annual financial report including financial statements and required supplementary information. The information that is contained in the sections "Investments" and "Investment Results" is provided by SBI.

SBI is established by Article XI of the Minnesota Constitution to invest all State funds. The Governor (who is designated as chair of the Board), State Auditor, Secretary of State and Attorney General are members. All investments undertaken by SBI are governed by the "prudent person rule" and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

The prudent person rule, as codified in Minnesota Statutes, Section 11A.09, requires all members of the Board, its Investment Advisory Council (as discussed below), and SBI staff to *"...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom."* Minnesota Statutes, Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

In addition to the prudent person rule, Minnesota Statutes, Section 11A.24, contains a specific list of asset classes available for investment including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes 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.

A 17-member Investment Advisory Council, ten members of which must be experienced in general investment matters advice the SBI on investment policy. The Commissioner of Management and Budget, and the executive directors of the Retirement Systems also serve as members as do one retiree and two active employee members. Also, investment consultants are hired to monitor and evaluate investment performance of the investment firms hired by the SBI. Within the requirements defined by State law, the SBI, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The Board, its staff, and the Investment Advisory Council have conducted detailed analyses that address investment objectives, asset allocation policy and management structure of each of the funds under the SBI's control. The studies guide the on-going management of these funds and are updated periodically.

The individual pension plans invest in investment pools administered by the SBI. The pools function much like mutual funds, with the pension plans purchasing "units" of the pools rather than purchasing individual securities. The Combined Funds represent the assets for both the active and retired public employees in the statewide retirement plans which are administered by the three statewide retirement systems, TRA, PERA, and MSRS. The Combined Funds covers active and retired employees and had a market value of $47.5 billion as of June 30, 2013. The Combined Funds market value was $59.5 billion on June 30, 2014.

Assumed Return and Asset Allocation

Employee and employer contribution rates are specified in State law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, Minnesota statutes specify the annual investment return the retirement fund assets are assumed to earn. The 2012 Legislature modified the investment earnings assumption to a "select and ultimate" method, effective for the July 1, 2013 actuarial valuation report. At that time, the annualized investment return assumed was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5 percent to 0 percent for all years. The 2015 Legislature reduced the assumed actuarial rate of return from 8.5 percent to 8.0 percent for MSRS, PERA, and the Saint Paul Teachers Fund Association ("SPTRFA") for Fiscal Year 2016 and beyond. (For additional information on the select and ultimate method and recent legislative changes, see "Pension Legislation and Litigation," herein.) Normally, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee's years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years. This provides the Combined Funds with a long investment time horizon and permits the Board to take advantage of the return opportunities offered by common stocks and other equity investments in order to meet the actuarial return target.

The allocation of assets among stocks, bonds, alternative investments and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the Combined Funds is reviewed periodically. SBI has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the Board includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to year basis and without impairing the Funds' ability to meet or exceed the actuarial return target over the long-term. The Combined Funds has a policy asset allocation based on the investment objectives of the Combined Funds and the expected long term performance of the capital markets. The policy asset allocation of the Combined Funds was approved by the Board in December 2008, and is as follows:

Domestic Stocks	45%
International Stocks	15%
Bonds	18%
Alternative Assets	20%
Unallocated Cash	2%

The SBI's asset rebalancing policy is as follows: When actual asset allocation deviates 5 percent to 10 percent from the target, rebalancing is at the discretion of the SBI. If the actual allocation deviates 10 percent or more from the target, assets must be redistributed to achieve long-term allocation targets. (The target allocation for domestic equity is 45 percent of the fund. A 5 percent deviation would equal 2.25 percent). The uncommitted allocation in Alternatives is invested in fixed income. The Board recognizes that in some market situations the allocation to alternatives may exceed 20 percent but may not exceed 24 percent.

The following table represents the actual asset allocation and the market value for the Combined Funds as of June 30, 2014 and March 31, 2015.

COMBINED FUNDS ASSETS
PERIODS ENDING JUNE 30, 2014 AND MARCH 31 2015
($'s in Millions)

	Policy Targets	**Actual Mix 6/30/2014**	**Market Value 6/30/2014****	**Actual Mix 3/31/2015**	**Market Value 3/31/2015****
Domestic Stocks	**45.0%**	45.8%	$27,201	47.5%	$28,680
International Stocks	**15.0**	15.6	9,303	14.6	8,846
Bonds	**18.0**	23.4	13,889	23.8	14,385
Alternative Assets*	**20.0**	12.6	7,508	12.1	7,335
Unallocated Cash	**2.0**	2.6	1,549	2.0	1,186
	100.0%	**100.0%**	**$59,450**	**100.0%**	**$60,432**

*Any uninvested allocation is held in domestic bonds.
**Market value based on fair value as defined in GASB 31.
Source: SBI Combined Funds Performance, periods ended June 30, 2014 and March 31, 2015.

Investment Results

All assets in the Combined Funds are managed externally by investment management firms retained by contract. Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date. The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the State's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts.

The rate of return in the Combined Funds was 18.6 percent in the Fiscal Year ending June 30, 2014. The unaudited rate of return in the Combined Funds was 4.4 percent for the Fiscal Year ending June 30, 2015. Over a 10 year period, the Combined Funds are expected to outperform a composite market index weighted in a manner that reflects the long-term asset allocation over the latest 10-year period.

Period Ending June 30, 2014

	2010	2011	2012	2013	2014	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 Yr.
Combined Funds	**15.2%**	**23.3%**	**2.4%**	**14.2%**	**18.6%**	**11.5%**	**14.5%**	**8.4%**	**9.0%**	**9.1%**	**10.3%**
Composite Index	13.4%	22.4%	3.0%	12.9%	18.0%	11.1%	13.7%	8.1%	8.7%	8.8%	10.0%

Period Ending March 31, 2015

	2010	2011	2012	2013	2014	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 Yr.
Combined Funds	**14.7%**	**5.7%**	**11.0%**	**15.6%**	**8.1%**	**11.5%**	**11.0%**	**8.0%**	**8.8%**	**9.0%**	**9.8%**
Composite Index	13.7%	5.9%	10.6%	14.3%	8.0%	10.9%	10.4%	7.7%	8.5%	8.8%	9.5%

Source: SBI

The Combined Funds outperformed the composite index over the last three years and five years. Actual returns relative to the total fund composite index of the last five years are shown above. For the 10 year period ending March 31, 2015, the Combined Funds outperformed the composite index by 0.3 percent points. For the 20 year period ending March 31, 2015, the Combined Funds outperformed the composite index by 0.3 percent points. The annualized rate of return for the Combined Funds over the past 25 years was 9.0 percent; over the past 30 year period since March 31, 1985, the annualized rate of return is 9.8 percent.

Fiscal Year 2014 Contribution Summary

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to PERA, TRA and certain local governments to assist with public pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to PERA, TRA, certain local governments and school districts that are contributing employers in these plans. Provided below is a Table summarizing the Retirement Systems, including: the types of pension plans (e.g., defined benefit, defined contribution, etc.), whether the State contributes to the pension plan as an employer or otherwise, and the State's FY 2014 contributions to the various plans.

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MINNESOTA RETIREMENT SYSTEMS – STATE PARTICIPATION AND CONTRIBUTION SUMMARY

(Defined Benefit Plans in Bold)

($'s in Thousands)

Minnesota State Retirement Systems (MSRS)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2014 State Pension Contributions[(1)]**
State Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes[(2)]	No	$94,277
Correctional Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes	No	$26,468
Judges Retirement Fund	**Single employer, State plan**	Yes	No	$9,426
Legislators Retirement Fund[(3)]	**Single employer, State plan**	Yes	No	$3,436
State Patrol Retirement Fund	**Single employer, State plan**	Yes	No	$12,894[(4)]
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	$6,099
Postretirement Healthcare Benefits Fund	Defined Contribution	N/A	N/A	N/A
State Deferred Compensation Fund	Defined Contribution	N/A	N/A	N/A
Hennepin County Suppl. Retirement Fund	Defined Contribution	N/A	N/A	N/A
Public Employees Retirement Association (PERA)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2014 State Pension Contributions[(1)]**
General Employees Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[(5)]	No[(6)]	$3,087
Minneapolis Employees Retirement Fund	**Multiple employer, cost-sharing plan**	No	Yes	$24,000
Public Employees Police and Fire Fund	**Multiple employer, cost-sharing plan**	No	Yes[(5)]	$9,000
Public Employees Correctional Fund	**Multiple employer, cost-sharing plan**	No	No	-
Volunteer Firefighter Retirement Fund	Multiple employer, agent plan	N/A	Yes [(5)]	$900
Defined Contribution Fund	Defined Contribution	N/A	N/A	N/A
Teachers Retirement Association (TRA)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2014 State Pension Contributions[(1)]**
Teachers Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[(7)]	Yes[(7)]	$30,349[(7)]

(1) Includes: (i) State contributions made as an employer, (ii) General Fund appropriations made to the Funds and (iii) General Fund contributions made directly to certain local governments to assist them with their pension obligations. Does not include statutory State contributions made to local plans governed by State statutes. Employer contributions are made from a variety of State funds, including the General Fund. Based on payroll expense data for Fiscal Year 2013, the State's General Fund comprised approximately 53 percent of the MSRS employer contributions.

(2) The State is a primary employer for the State Employees Retirement Fund.

(3) Effective July 1, 2013, the Elective State Officers Retirement Fund was merged into the Legislators Retirement Fund for administrative cost-savings purposes.

(4) A state contribution of $1.0 million is paid annually on October 1 beginning in 2013 to the State Patrol Retirement Fund; this contribution will continue until both the MSRS State Patrol Retirement Fund and the PERA Police and Fire Retirement Fund become 90 percent funded on a market value of assets basis.

(5) The State does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from MnSCU, the Public Defense Board, Department of Military Affairs and the court system that were grandfathered into the plan.

(6) The State contributes to pension aid payment directly to local entities to assist the employers' pension obligation. The State also contributes $9,000,000 annually directly to the Police & Fire Fund, beginning in 2013.

(7) The State makes employer contributions to TRA for MnSCU faculty who have elected TRA, Perpich School for the Arts employees, certain Department of Education employees formerly covered by TRA and the Faribault Academies employees. The total contribution from the State to TRA of $30.349 million is the sum of the direct General Fund appropriation of $16.501 million plus employer contributions for those employees in the plan listed above (assumed to be 5 percent of the total employer contribution amount to the fund.

Statutory Funding Requirements

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. For substantially all of the defined benefit plans, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. Each fund's financing requirement is determined by a specific formula established in State law. The statutory funding formulas are not always consistent with the calculated actuarial requirements as described herein. No assurance can be provided that the formulas will not change in the future. Provided below are the existing formulas for the Retirement System's Plans and the local defined benefit plans that are governed by State statutes:

MSRS: MSRS consists of the assets of nine pension funds, five of which encompass defined-benefit plans, in which the State participates as an employer or otherwise provides general government contributions. For each of the defined benefit plans* in MSRS (except for Legislators Retirement Plan), 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. General Fund appropriations are transferred to Legislators Retirement Plan on a current disbursement basis as retirement benefits are paid to Legislators Retirement Plan members who retired after July 1, 2003. Retirement benefits to legislators who retired on or prior to that date are financed by the remaining assets in the Legislators Retirement Plan. Upon depletion of those assets, all benefits will be funded on a pay-as-you-go basis from the State's General Fund. This Plan also receives annual General Fund appropriations to finance retirement benefits for all members of the Elective State Officer Plan, which merged into the Legislators Fund effective July 1, 2013. See the table "EMPLOYER CONTRIBUTION HISTORY, MINNESOTA STATE RETIREMENT SYSTEM" below, in this Appendix.

PERA: PERA consists of the assets of six pension funds, five of which are defined benefit plans. The State does not make employer contributions to PERA other than for covered individuals employed by PERA, and a small number of employees from MnSCU, the Public Defense Board, Department of Military Affairs and the court system who were grandfathered in. For each of the defined benefit funds in PERA (except as noted below), 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. The State also provides aid to local jurisdictions equal to 0.35 percent of their 1997 PERA payroll.

TRA: The State makes employer contributions to TRA for MnSCU faculty who have elected TRA, Perpich School for the Arts employees, certain Department of Education employees formerly covered by TRA and the Faribault Academies employees. The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and by the consolidation in 2015 of the former DTRFA. For the Teachers' Retirement Fund, 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. See the table "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below, in this Appendix.

State Direct Aid to Pension Funds and Pension Related Local Government Aid

MERF. This fund is closed to new members. In July 2008 the MERF board of trustees voted to transfer the management of their assets to the SBI. On June 30, 2010, the administration of MERF was transferred to PERA. All assets, service credit, benefits liabilities transferred to a separate MERF division account administered by PERA on June 30, 2010. As a result of 2015 legislative action, the annual member and employer contributions are each set at 9.75 percent of the salary of the employee. Additionally, the supplemental contribution made by MERF employers (mainly the City of Minneapolis) is $31,000,000 for each of calendar years 2015 and 2016 and $21,000,000 each year thereafter. The State's annual aid payment is $6,000,000 in calendar years 2015 and 2016 (State Fiscal Years 2016 and 2017, respectively), and $16,000,000 each year thereafter. See the table "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

Local Police and Fire Amortization Aid. This aid program is specified in statute. As originally designed, it funded the State's share of amortizing unfunded liabilities of local police or fire relief associations that were being merged into PERA. In more recent years, part of the money has been redirected to the former MTRFA and the former DTRFA (now both part of TRA) and SPTRFA. The State's contribution remains at the Fiscal Year 1992 appropriation

* One of the funds, the State Employees Retirement Fund, includes four separate plans, the General State Employees Plan (which is the largest plan of the State Employees Retirement Fund), and plans for three separate groups: Minnesota Department of Transportation pilots, deputy state fire marshals, and Military Affairs personnel.

level, or less, until SPTRFA becomes fully funded. An additional supplementary appropriation was established in 2013 that provides $9,000,000 directly to PERA's Police and Fire Fund, and slightly increases the aid that is provided to local police or fire relief associations. The State also provides supplemental benefit reimbursement aid to help support retirement pensions for local volunteer fire fighters. See the table "State General Fund Appropriation History AND ESTIMATES, Pension Related Local Government Aid" below.

TRA: The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and of the consolidation in 2015 of the former DTRFA. See the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, DIRECT AID TO PENSION FUNDS" below, in this Appendix.

Local Defined Benefit Retirement Systems Governed by State Statutes: For SPTRFA and the former DTRFA (prior to July 1, 2015), 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. The State also contributes to certain local police and fire associations. See the tables "STATE GENERAL FUND APPROPRIATION HISTORY, PENSION RELATED LOCAL GOVERNMENT AID" and "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

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STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
DIRECT AID TO PENSION FUNDS
($'s in Thousands)

Fiscal Year Ended June 30th	Minneapolis Employees Retirement Fund (MERF)(1)	TRA/ MTRFA & DTRFA(2)	St. Paul Teachers Retirement Fund (SPTRFA)(3)	Duluth Teachers Retirement Fund (DTRFA)(3)(4)	TRA/ DTRFA(4)	Total
2005	$7,093	$15,741	$2,967	$-	$-	$25,801
2006	8,065	15,770	2,969	-	-	26,804
2007	9,000	15,800	2,967	-	-	27,767
2008	9,000	15,801	2,967	-	-	27,768
2009	8,873	15,454	2,827	346	-	27,500
2010	9,000	15,454	2,827	346	-	27,627
2011	9,000	15,454	2,827	346	-	27,627
2012	22,750	15,454	2,827	346	-	41,377
2013	22,750	15,454	2,827	346	-	41,377
2014	24,000	15,454	9,827	6,346	-	55,577
2015	24,000	15,454	9,827	6,000	14,377	69,608
2016	6,000	29,831	9,827	-	-	45,658
2017	6,000	29,831	9,827	-	-	45,658
2018	16,000	29,831	9,827	-	-	55,658
2019	16,000	29,831	9,827	-	-	55,658

(1) Includes FY 2001 Pre-1973 Retirement Adjustments-MERF. 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 increased 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. On July 1, 2010, MERF became an administrative division within 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.

(2) For FY 2005 aid was appropriated directly to MTRFA and thereafter FY 2015, aid is appropriated to TRA (following MTRFA's merged with TRA). Beginning in FY 2016 direct aid is to be appropriated to TRA for the former DTRFA, following its merger with TRA, effective July 1, 2015.

(3) These plans are separate from TRA, and the State has no direct custodial relationship. Benefits, investment practices and contributions are, however, controlled by statute.

(4) The 2014 legislature acted to merge DTRFA with the TRA, effective June 30, 2015. The legislature also appropriated $14.031 million in direct aid to TRA in FY 2015 and transferred the $346 thousand in direct aid for DTRFA to TRA in FY 2015. Prior to this date the plan was separate from TRA and the State had no direct custodial relationship.

*Estimates for FY 2015 and projections for FY 2016-FY 2019 as of the end of the 2015 Legislative Sessions.
Source: Minnesota Management and Budget

For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX F. See Note 8 – Pension and Investment Trust Funds (see pages F-76 through F-84) and Required Supplementary Information (see pages F-128 through F-134).

The following table summarizes State General Fund Appropriation pension aid provided to local governments during the last ten fiscal years and estimates for Fiscal Year 2015 through Fiscal Year 2019.

STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
PENSION RELATED LOCAL GOVERNMENT AID
($'s in Thousands)

Fiscal Year Ended June 30th	Basic Local Police and Fire Association[1]	Local Police and Fire Associations Amortization Aid	PERA Aid	Volunteer Firefighter Relief	Redirected Aid-SPTRFA /TRA	Police-Fire Retirement Supplemental Aid[2]	Total
2005	$87,877	$3,454	$14,584	$522	$ -	$ -	$106,437
2006	87,967	3,366	14,568	486	1,436	-	107,823
2007	89,424	2,886	14,560	572	790	-	108,232
2008	88,180	1,514	15,534	571	2,281	-	108,080
2009	83,183	572	14,520	609	1,888	-	100,772
2010	80,500	829	14,390	722	5,890	-	102,331
2011	82,005	1,000	14,384	627	4,886	-	102,902
2012	82,338	1,255	14,328	671	2,077	-	100,669
2013	80,696	2,753	14,316	608	-	-	98,373
2014	89,572	2,729	14,187	558	2,094	15,498	124,638
**2015*	93,631	2,729	14,148	559	2,094	15,500	128,661
**2016*	97,673	2,729	14,148	600	2,094	15,500	132,744
**2017*	101,067	2,729	14,148	600	2,094	15,500	136,138
**2018*	105,234	2,729	14,148	600	2,094	15,500	140,305
**2019*	109,818	2,729	14,148	600	2,094	15,500	144,889

(1) Basic local police and fire pension aid is an open General Fund appropriation based on the dedicated proceeds equivalent to a 2 percent insurance premium tax on fire insurance.

(2) Police and Fire Retirement Supplemental Aid payments are as follows: $9 million to the PERA Police & Fire fund, $5.5 million to Volunteer Firefighter plan employers and $1 million to the MSRS State Patrol fund.

*Estimates for FY 2015 and projections for FY 2016-FY 2019 as of the end of the 2015 Legislative Sessions.
Source: Minnesota Management and Budget.

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Retirement Systems Funding

State law requires the Retirement Systems to "pre-fund" future benefit obligations. Rather than collecting only sufficient sums from current active workers to pay current retired members and beneficiaries, the Retirement Systems are required by statute to accumulate enough assets to cover all benefit liabilities of participating members. The three Retirement Systems use different full funding dates, determined as of the July 1, 2014, actuarial valuation date:

Retirement System	Fund	Funding Date
MSRS	State Employees Retirement Fund	2041
	State Patrol Retirement Fund	2038
	Correctional Employees Retirement Fund	2038
	Judges Retirement Fund	2039
	Legislators Retirement Fund	Not Applicable
PERA	General Employees Retirement Fund	2031
	Public Employees Police and Fire Fund	2038
	Public Employees Correctional Fund	2031
TRA	Teachers Retirement Association Fund	2037

To achieve full funding, contribution rates for the Retirement Systems are determined based upon current assets, future expected investment returns, current and projected liabilities based on the benefit provisions, demographics of the Retirement Systems' membership, statutory actuarial assumptions and what annual contributions will be needed to have enough assets to match current and projected liabilities by the required full-funding date. Employee and employer contribution rates are specified in State law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings cover the projected cost of promised pension benefits and plan administrative expenses. In order to meet these projected costs, Minnesota Statutes specify the annual investment return the retirement fund assets are assumed to earn. Under the previously enacted statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2013, actuarial valuation report, the annualized assumed investment return is 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent annualized for Fiscal Year 2018 and years thereafter, with the exception of the Legislators Retirement Fund, which changed from 8.5 percent to 0 percent for all years. The 2015 Legislature adjusted these assumptions, changing the interest rate actuarial assumption form 8.5 percent to 8.0 percent for all plans except TRA and the Legislators Retirement Fund. Current TRA "select and ultimate" assumptions remain unchanged, pending the outcome of the System's experience study. An experience study has been received by TRA (see https://www.minnesotatra.org/formspub/eepubs.html). No action has been taken regarding TRA's experience study. (For additional information on the select and ultimate method and recent legislation, see "Pension Legislation and Litigation," herein.)

The Legislature sets the contribution rates needed to fund the Retirement Systems by using the reports and advice of actuarial consultants. Each year an actuarial valuation report is completed to see if a Retirement System's contribution rates are meeting the funding requirements. If the contributions are not changed to match the funding requirements determined by the actuarial consultants, deficiencies are created and those deficiencies may become worse over time. The actuarial value of plan assets is smoothed over the most recent five-year period to reduce volatility of both the funding ratio and required contribution rates. Primarily due to significant investment returns during Fiscal Years 2013 and 2014, the funding ratios improved for each of the Retirement Systems for Fiscal Year 2014 versus funding levels for Fiscal Year 2013.

Every four to six years, the assumptions used to forecast funding requirements are tested against actual experience. The factors considered include but are not limited to:

- Expected average investment earnings assumption
- Number and timing of members retiring
- Number and timing of employees leaving prior to retirement
- Number of employees opting for lump-sum of their employee contributions, thereby forfeiting future benefit
- Number of new members added

- Life expectancies of both active and retired members

The most recent actuarial experience study for MSRS' State Employees Retirement Fund covered the period July 1, 2004, through June 30, 2008, and was completed by August 31, 2009. Several economic and demographic actuarial assumptions, including salary increases, payroll growth, and withdrawal and retirement rates changed based upon the recent experience study results. Any assumptions changes require approval of the various retirement systems board members and the Legislative Commission on Pensions and Retirement ("LCPR"). The LCPR has authority for reviewing the actuarial valuation and experience study results and modifying actuarial assumptions, as the Commission deems appropriate. Accordingly, the LCPR engaged an independent actuarial firm to review the recommendation of the actuary of the Retirement Systems. The firm indicated in its June 22, 2010, report that it found, in general, the actuarial assumption changes proposed for MSRS were reasonable, justified by observed experience, and consistent with standard actuarial practice. However, the firm believes it is prudent to be more conservative in setting assumptions; if assumptions are set more aggressively they are more likely to produce experience losses which will only add to the Fund's difficulty in recovering from recent investment losses. In July 2010 the LCPR adopted a number of actuarial assumption changes effective for the July 1, 2010, actuarial valuation reports. These changes included changes to covered member payroll growth, withdrawal from service rates, retirement and disability rates, and mortality rates. The experience studies for MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds were completed on February 3, 2012. Based on the experience study results, the actuaries proposed no changes to current actuarial methods. However, the actuaries proposed reductions to the real wage growth, payroll growth and salary increase assumptions. The actuaries proposed lowering the investment return assumption from 8.5percent to 8.0 percent and making adjustments to several other demographic assumptions to more closely match experience. (See "Pension Legislation and Litigation," herein for a summary of changes enacted by the 2015 Legislature.) The next experience study for the State Employees Retirement Fund will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014. The study has been delivered to the MSRS board for review.

The most recent actuarial experience study for PERA's General Employees Retirement Fund covered the period July 1, 2004, through June 30, 2008, and was completed in 2009. As a result, several economic and demographic actuarial assumptions were adjusted in Fiscal Year 2010, including salary increases, payroll growth, withdrawal and retirement rates, and mortality rates. The most recent actuarial experience study for PERA's Public Employees Police and Fire Fund covered the period July 1, 2004, through June 30, 2009, and was completed in 2010. Several assumptions were adjusted in Fiscal Year 2011, including salary growth, payroll growth, mortality rates, withdrawal rates and retirement rates. These assumption changes increased the actuarially accrued liability to $148 million in the Public Employees Police and Fire Fund. The next experience study for PERA's General Employees Retirement Fund will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014. Results of this experience study are expected in 2015. The study will be reviewed by the PERA board at its August 2015 meeting.

The July 1, 2004, through June 30, 2008, actuarial experience study for TRA was completed in October 2009. The report contained a number of economic and demographic recommendations, as previously described. In July 2010, the LCPR enacted a set of assumption changes for TRA, effective for the July 1, 2011, actuarial evaluation, including converting to a service-based assumption for individual member salary growth. Another key assumption change was lowering the assumed growth in total member covered salary from 4.50 percent annually to 3.75 percent annually. The next experience study for TRA will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014. The study has been delivered to TRA for review.

The following table provides a summary analysis of funding status for the Retirement Systems and certain local defined benefit retirement plans where the State provides non-employer general government contributions governed by State statutes as of June 30, 2014, based on the respective annual actuarial valuation reports.

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STATUTORY METHOD
FUNDING STATUS OF DEFINED BENEFIT PENSION FUNDS TO WHICH MINNESOTA PROVIDES GENERAL FUND RESOURCES AS OF JUNE 30, 2014[1]

($'s in Millions)

		Actuarial Value			Market Value			Membership	
	Actuarial Accrued Liability [2]	Actuarial Value of Assets (AVA) [3]	Unfunded Actuarial Accrued Liability (UAAL) [4]	Funding Ratio [5]	Market Value of Assets (MVA) [6]	Unfunded Liability	Funding Ratio	Active Members	Other Members
1. Funds Where the State Has Custodial Responsibility									
Minnesota State Retirement System (MSRS):									
— State Employees Retirement Fund	$12,445	$10,326	$2,119	82.97%	$11,498	$947	92.39%	49,663	57,019
— Correctional Employees Retirement Fund	1,122	790	$332	70.41%	877	$245	78.14%	4,504	4,133
— State Patrol Retirement Fund	800	598	$202	74.69%	667	$133	83.37%	858	1,046
— Judges Retirement Fund	298	157	$141	52.82%	175	$123	58.87%	316	351
— Legislators Retirement Fund[7]	251	8	$243	3.29%	8	$243	3.29%	24	438
Subtotal	$14,916	$11,879	$3,037		$13,225	$1,691		55,365	62,987
Public Employees Retirement Association (PERA):									
— General Employees Fund	21,283	15,645	5,638	73.51%	17,405	3,878	81.78%	143,343	252,658
— PERA Police & Fire Fund	8,151	6,525	1,626	80.05%	7,273	878	89.23%	10,879	12,495
— Minneapolis Employees Retirement Fund	1,141	936	205	82.03%	936	205	82.03%	42	3,820
— Local Correctional Service Fund	426	410	16	96.24%	453	-27	106.28%	3,603	5,085
Subtotal	$31,001	$23,516	$7,485		$26,067	$4,934		157,867	274,058
Teachers' Retirement Association (TRA):	$24,529	$18,182	$6,347	74.13%	$20,290	$4,239	82.72%	77,243	101,700
Custodial Subtotal	$70,446	$53,577	$16,869		$59,582	$10,864		290,475	438,745
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[8]	134	152	-18	113.43%	152	-18	113.43%	125	204
St. Paul Teachers' Retirement Fund	1,534	948	586	61.80%	1,045	489	68.12%	3,876	3,156
Duluth Teachers' Retirement Fund	356	203	153	57.02%	226	130	63.48%	837	2,502
Other Contribution Subtotal	$2,024	$1,303	$721		$1,423	$601		4,838	5,862
TOTAL	**$72,470**	**$54,880**	**$17,590**		**$61,005**	**$11,465**		**295,313**	**444,607**

(1) The information provided in this table reflects the condition of all funds as of June 30, 2014. For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX F. See Note 8 – Pension and Investment Trust Funds (see pages F-76 through F-84) and Required Supplementary Information (see pages F-128 through F-134).

(2) The actuarial accrued liability of each of the pension funds is an estimate based on demographic and economic assumptions of the present value of benefits that the pension funds will pay during the assumed life expectancies of the applicable members after they retire.

(3) The actuarial value of assets of each of the pension funds represents the market-related value of the assets held by the pension funds as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period.

(4) The UAAL of each of the pension funds reflects the amount of the excess of the actuarial accrued liability of a pension funds over its actuarial value of assets.

(5) The Funded Ratio of each of the pension funds reflects the quotient obtained by dividing the actuarial value of assets of the pension funds by the actuarial accrued liability of the Pension Plan.

(6) The market value of assets of each of the pension funds represents the fair market value of the assets held by the pension fund.

(7) The Elective State Officers Retirement Fund merged into the Legislators Retirement Fund effective July 1, 2013. Both the Legislators and Elective State Officers defined benefit retirement plans are financed on a pay-as-you-go basis. The Legislators Retirement Plan is funded with members' contributions paid to the State's General Fund and annual appropriations from the State's General Fund. Assets of the Legislators Retirement Fund finance benefits paid to former legislators who were first elected to office prior to July 1, 1997, and retired on or before January 1, 2003. These assets are expected to be depleted during Fiscal Year 2016. Upon depletion of those assets, all benefits will be funded with annual appropriations from the state's General Fund. Benefits paid to legislators who were first elected to office prior to July 1, 1997, and retired after January 1, 2003, are financed by State General Fund appropriations. All benefit payments to members of the Elective State Officers Retirement Plan are financed by the State General Fund appropriations. Legislators and Elective State Officers first elected after July 1, 1997 are members of the State's Unclassified Employees Retirement Fund, a defined contribution plan.

(8) Information for local police and fire associations reflects values as of January 1, 2015 for Bloomington Fire Relief Association.

Actuarial Valuation Requirements

State law regulates the administration of the pension funds. State law requires that all pension funds must conduct an actuarial valuation as of the end of the fiscal year. The purpose of the actuarial valuation is to calculate the actuarial accrued liability in each of the pension funds which estimates on the basis of demographic and economic assumptions the present value of benefits each of the pension funds will pay to its retired members and active members upon retirement. Independent actuaries provide annual actuarial valuations for each of the pension funds, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an Unfunded Actuarial Accrued Liability ("UAAL") of the applicable pension funds. An actuarial valuation will express the percentage that a pension fund is funded through a "Funding Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the pension fund by the actuarial accrued liability of the pension fund. An actuarial valuation will also state an actuarially recommended contribution amount, which is a recommended amount that the State and other sponsoring employers contribute to the applicable pension fund. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

The actuarial valuation reports are prepared according to statute for the purpose of funding the respective systems. Recently, the Governmental Accounting Standards Board ("GASB") implemented new standards for accounting for pensions. For more information, see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" below. These new standards are for accounting purposes only and do not affect the State's funding decisions.

Description of Certain Statutory Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each of the pension funds, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the pension fund is different from these assumptions, the UAAL of the pension fund may increase or decrease to the extent of any variances. Consequently, the calculated actuarially required contributions may be impacted.

In the case of the expected rate of return of assets, the actual rate of return on the pension funds depends on the performance of their respective investment portfolios. The investment portfolios of the respective pension funds can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one fiscal year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL. For example, in Fiscal Year 2009, the rate of return of the assets of the combined pension systems was negative 18.8 percent, causing the UAAL of the pension systems to substantially increase between Fiscal Year 2008 and Fiscal Year 2009.

The actuarial valuations of the pension funds use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the pension funds. For example, the pension funds use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2014, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $60.997 billion. As of June 30, 2014, the aggregate actuarial value of all assets of the pension systems was $54.860 billion.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67: In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amends GASB Statement No. 25 and sets forth new standards that modify the financial reporting of the State's pension obligations. GASB 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability ("NPL"). It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment disclosures. The new standard was effective commencing with the State's Fiscal Year 2014.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Accordingly, the State will continue to prepare reports based on its established funding methodology. Commencing with Fiscal Year 2014, however, the Retirement Systems' actuaries now also prepare a report for each system reflecting fiscal year results under the new accounting requirements.

The Fiscal Year 2014 GASB 67 Reports are based on Fiscal Year 2013 membership data rolled forward to Fiscal Year 2014, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2014. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal ("EAN") actuarial method. The long-term expected rate of return is determined using best estimated ranges of expected future rates of return based on a method similar to the select-and-ultimate method described under "Investments, *Assumed Return and Asset Allocation*" above (See page B-40 , but will vary from system to system based on the cash flows associated with the system. The multiple rates are then reduced to a single discount rates used to measure the total pension liability. The respective single discount rate used for the Fiscal Year 2014 GASB 67 Reports were 7.9 percent for MSRS's largest fund, the General Employees Retirement Fund, 7.9 percent for PERA and 8.25 percent for TRA.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for fiscal year 2014 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The UAAL shown in the table on page B-49, by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return.

MINNESOTA RETIREMENT SYSTEMS
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS USING GASB STATEMENT NO. 67
Actuarial Valuation Date as of June 30, 2014
($'s in Thousands)

	Total Pension Liability	Plan Fiduciary Net Position[1]	NPL	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	NPL as a Percentage of Covered Payroll
MSRS						
State Employees	$13,120,176	$11,498,604	$1,621,572	87.6%	$2,620,660	61.9%
State Patrol	826,673	667,340	159,333	80.7%	63,952	249.1%
Correctional Employees	1,353,386	877,056	476,330	64.8%	219,244	217.3%
Judges	381,511	175,556	205,955	46.0%	41,893	491.6%
Legislators[3]	146,499	8,258	138,241	5.6%	1,122	N.M.
MSRS Totals	$15,828,245	$13,226,814	$2,601,431	83.6%	$2,946,871	88.3%
TRA	$24,901,612	$20,293,684	$4,607,928	81.5%	$4,056,482	113.6%
PERA						
General Employees	$22,102,321	$17,404,822	$4,697,499	78.7%	$5,351,920	87.8%
Police and Fire	8,353,141	7,273,100	1,080,041	87.1%	820,333	131.7%
Local Government Correctional	460,776	453,232	7,544	98.4%	172,041	4.4%
MERF	1,157,169	935,946	221,223	80.9%	3,795	5,829.3%
Total PERA	$32,073,407	$26,067,100	$6,006,307	81.3%	6,348,089	94.6%

[1] Represents the market value of plan assets as of the actuarial valuation date.
[2] As of the actuarial valuation date.
[3] Is currently funded on a pay-as-you-go basis.

The GASB 67 Reports present both an NPL and a funding percentage. Because the Retirement Systems use the entry age normal EAN actuarial method for funding as the required method for their GASB 67 Reports, variances between the funding reports and GASB No. 67 Reports are primarily, but not exclusively, related to market value differences.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate, if it were calculated 1 percent point lower or 1 percent point higher. The results for Fiscal Year 2014 are as follows:

MINNESOTA RETIREMENT SYSTEMS
SENSITIVITYOF THE FY 2014 NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE USING GASB STATEMENT NO. 67
($'s in Thousands)

	With 1% Decrease		Current Discount Rate		With 1% Increase	
	Rate	NPL	Rate	NPL	Rate	NPL
MSRS						
State Employees	6.90%	$3,272,613	7.90%	$1,621,572	8.90%	$249,639
State Patrol	6.90%	$256,433	7.90%	$159,333	8.90%	$78,388
Correctional Employees	5.82%	$681,822	6.82%	$476,330	7.82%	$309,149
Judges	4.78%	$248,832	5.78%	$205,955	6.78%	$169,607
Legislators	3.29%	$155,270	4.29%	$138,241	5.29%	$124,014
TRA	7.25%	$7,615,327	8.25%	$4,607,928	9.25%	2,100,797
PERA						
General Employees	6.90%	$7,572,558	7.90%	$4,697,499	8.90%	$2,332,002
Police and Fire	6.90%	$2,163,415	7.90%	1,080,041	8.90%	$187,255
Local Government Correctional	6.90%	$92,907	7.90%	7,544	8.90%	$(60,632)
MERF	6.90%	$308,017	7.90%	221,223	8.90%	$145,398

Source. Retirement Systems Comprehensive Annual Financial Reports, Fiscal Year ended June 30, 2014.

GASB Statement No. 68: In June 2012, GASB also issued GASB Statement No. 68, which sets forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits will require the State to report in its financial statements, the State's proportionate share of net position, the NPL, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the asset (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The State's proportionate share would include both the share of the NPL associated with the state's employees contributing into the retirement plans as well as the state's share of contributions to PERA for the former MERFA, to TRA for the former DTRFA and the St. Paul Teachers' Retirement Fund as it meets the GAAP definition of a special funding situation.[1]

The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date." The new standard will be effective for the State in Fiscal Year 2015, although MSRS adopted GASB 68 for Fiscal Year 2014.

The majority of the participants in MSRS funds are state employees. See "MSRS - Actuarial Methods and Assumptions, GASB" and "MSRS - Actuarial Methods and Assumptions" for reporting information consistent with GASB 67 and GASB 68 requirements. Actuarial Methods and Assumptions used by the other funds are available directly from the funds and can be provided on request.

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[1]The State of Minnesota's Fiscal Year 2016 Comprehensive Annual Financial Report will reflect the merger of the DTRFA into the TRA.

Pension Legislation and Litigation

In August 2007 the LCPR unanimously approved a modification to the *Standards for Actuarial Work*. This action permitted the actuary retained to calculate the actuarial value of assets allocated to the Post Retirement Investment Fund at market value, as required by GAAP, beginning with the July 1, 2007, actuarial valuation, instead of reporting these assets at an amount equal to the liabilities. The change in asset valuation method resulted in decreases to the actuarial value of assets and increases in the unfunded actuarial accrued liabilities for many of the retirement plans. The funding ratios reported in the following paragraphs reflect this change. In August 2010, the LCPR unanimously approved additional changes to the *Standards for Actuarial Work*.

In 2008, the Legislature enacted legislation that provided that if the composite funding ratio of the Minnesota Post Retirement Investment Fund ("MPRIF") fell below 80 percent at the end of any fiscal year, MPRIF would be abolished. On June 30, 2008, the MPRIF funding ratio was calculated to be 79.7 percent. On June 30, 2009, assets and liabilities attributable to retired members in the MPRIF were transferred to the respective active member funds. In conjunction with the dissolution, benefit recipients will receive future annual 2.5 percent cost-of-living adjustments ("COLA"). The waiting period and proration schedule for the COLA paid in the first year of retirement were also revised.

In 2010, legislation was enacted to modify the annual 2.5 percent COLAs. Beginning January 1, 2011, each statewide retirement system has unique COLAs. For the TRA, post-retirement benefits were frozen for 2011 and 2012. Beginning January 1, 2013, TRA benefit recipients have received a 2.0 percent adjustment annually. The benefit adjustment will increase from 2 percent to 2.5 percent once TRA's funding ratio exceeds 90 percent. For all of the defined benefit plans that the MSRS administers, with the exception of the State Patrol Retirement Fund, benefit recipients will receive a 2 percent adjustment annually. For the State Patrol Retirement Fund, benefit recipients will receive a 1.5 percent adjustment annually. The annual benefit adjustment will increase to 2.5 percent for each MSRS defined benefit fund when each fund's accrued liability funding ratio reaches 90 percent, determined on a market value of assets basis, except for the Legislators and Elective Officers Retirement Funds. For the Legislators and the Elective State Officers Retirement Funds, the annual benefit adjustment will increase to 2.5 percent when the State Employees Retirement Fund is 90 percent funded on a market value of assets basis. Benefit recipients of the PERA Public Employees Police and Fire Fund have received an annual adjustment equal to inflation up to 1.5 percent beginning January 1, 2013, until the funding reaches 90 percent. PERA's Public Employees Correctional Fund was 98.4 percent funded on a market value basis as of June 30, 2011, so subsequent annual adjustments increased to 2.5 percent effective January 1, 2012. In addition, for all of the PERA plans, if after reaching 90 percent funding, the ratio subsequently drops below 90 percent, the prospective annual adjustments must again be one percent for PERA General Employees Retirement Fund and inflation up to 1.5 percent for the PERA Public Employees Police and Fire Fund until the 90 percent funded ratio is again attained.

A class action lawsuit was filed in May 2010 against the State's pension funds. *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). Plaintiffs challenged the 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. The district court granted summary judgment to the State on all issues and dismissed the plaintiffs' complaint. Plaintiffs had until September 6, 2011 to appeal. No appeal was filed by the deadline.

The 2010 pension bill provided numerous financial stability provisions intended to reduce future unfunded liabilities for MSRS, TRA, PERA, SPTRFA and DTRFA. Provisions included a change in future retirement benefit increases for all MSRS, PERA, TRA, SPTRFA and DTRFA plans. The MSRS State Patrol Retirement Plan, PERA General Employees Retirement Fund, PERA Public Employees Police and Fire Fund, TRA, SPTRFA, and DTRFA plans also include both employer and employee contribution rate increases. Various other provisions as well as a change in refund rates, change in deferred annuities augmentation rate, and increased vesting periods for some plans as a means to reduce future unfunded liabilities. At the end of Fiscal Year 2010, MSRS, PERA, and TRA lowered unfunded liabilities by a total of over $5.9 billion on a combined basis.

The 2010 legislation also provided for the administrative consolidation of the closed MERF and 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 increased the annual State contribution to the MERF account from $9,000,000 annually to $22,750,000 in each Fiscal Year 2012 and 2013 and $24,000,000 each year thereafter through FY 2031. Beginning in Fiscal Year 2013, the annual additional employer supplemental contribution is 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 MMB. In April 2011, MMB released a report detailing the results of the legislation. In all, 1030 employees used the incentive resulting in an estimated Fiscal Years 2011 – 2013 executive branch all funds savings of $46.7 million.

In the 2011 Legislative Special Session, the Legislature passed a minor omnibus pension bill that was signed into law by the Governor. Included in the bill were modifications to the post retirement adjustments for SPTRFA that will reduce future liabilities and language permitting voluntary merger of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association with the PERA's Public Employee's Police and Fire Retirement Fund.

The 2012 Legislature modified the investment earnings assumption for determining employee and employer contribution rates such that contributions plus expected investment earnings (at the assumed rate of return) will cover the projected cost of promised pension benefits. The investment earnings assumption was modified to a "select and ultimate" method, effective for July 1, 2012 actuarial valuation report. The "select" assumed annualized investment return of 8.0 percent is to be used for the first five years for Fiscal Year 2013 through Fiscal Year 2017 actuarial valuation reports, and the "ultimate" assumed annualized investment return rate of 8.5precent is to be used for the sixth year forward, for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5 percent to zero percent for all years. This approach is employed to recognize the current market environment that has diminished the short term market expectations while recognizing that over the longer term the higher rate is expected to be met -- and actually has been met and exceeded. The legislation also directed delaying the next experience study until 2015 for TRA, MSRS's General Employees Retirement Plan, and PERA's General Employees Retirement Fund to cover the six-year period of July 1, 2008, through June 30, 2014.

The 2013 Legislature made several modifications to contribution rates, benefit formulas and direct State aid for the MSRS State Patrol Retirement Plan and Judges Retirement Plan. Changes to the MSRS State Patrol Retirement Plan include a four percent contribution rate increase from employees and a six percent increase from employers over a four year period. Specifically, State Patrol Retirement Plan employees will pay an additional two percent before the first day of the first pay period beginning after July 1, 2014, another one percent on or after the first day of the first pay period beginning after July 1, 2015, and another one percent on July 1, 2016. State Patrol Retirement Plan employers will be adding 3 percent of pay before the first day of the first pay period beginning after July 1, 2014, another 1.5 percent on or after the first day of the first pay period beginning after July 1, 2015 and another 1.5 percent on July 1, 2016. Total contributions at the end of the phase-in period in July, 2016 will be 14.4 percent and 21.6 percent of pay for employees and employers, respectively. Future annual adjustments paid to benefit recipients of the MSRS State Patrol Plan will be reduced from 1.5 percent to one percent per year until the Plan is again 85 percent funded, determined on a market value of assets basis. Annual adjustments will increase to 2.5 percent when the Plan reaches 90 percent funded, determined on a market value of assets basis. Additionally, the legislature appropriated direct State aid to the MSRS State Patrol Retirement Plan of $1 million per year beginning in FY 2014 until the plan is 90percent funded, determined on a market value of assets basis. Changes to the MSRS Judges Retirement Plan include establishment of a tier 1 and tier 2 benefit program, with a tier one judge first appointed or elected on or before July 1, 2013 with 5 or more years of allowable service, and a tier two judge first appointed or elected after June 30, 2013, or first appointed on or before July 1, 2013 with less than 5 years of allowable service. Member contribution rates for judges in the tier one program will increase one percent, from eight percent to nine percent, effective July 1, 2013. Member contribution rates for judges in the tier two program will be 7 percent of salary. Employer contribution rates will increase two percent, from 20.5 percent to 22.5 percent, effective the first day of the first full pay period after June 30, 2013. Future annual adjustments paid to benefit recipients of the Judges Plan are reduced from two percent to 1.75 percent per year until the Judges Plan is again 70 percent funded, determined on a market value of assets basis. Thereafter, annual adjustments will be 2.5 percent.

The 2013 Legislature also authorized the merger of the MSRS Elective State Officers Retirement Plan into the Legislators Retirement Plan for administrative cost-saving purposes. The merger took effect July 1, 2013. Benefit provisions for both plans remain unaffected by the merger.

The 2013 Legislature also made several modifications to contribution rates, benefit formulas and direct State aid for the PERA Police and Fire Fund, TRA, DTRFA and SPTRFA. Changes to the PERA Police and Fire Fund include the following: member and employer contributions will increase in two steps from 9.6 percent of salary to 10.8 percent of salary and 14.4 percent of salary to 16.2 percent of salary, respectively; post-retirement adjustments will be set at 1 percent until the fund becomes at least 90 percent funded on a market value basis for two consecutive actuarial valuations, and at that time, post-retirement adjustments will be reset at rates not to exceed 2.5 percent. However, if the funded ratio of the retirement fund is equal to or less than 85 percent for two consecutive actuarial valuations, or is equal to or less than 80 percent for the most recent actuarial valuation, post retirement adjustments will again be dropped to one percent. Additionally, direct State-aid to the PERA Police and Fire Fund was appropriated at $9 million per year beginning in Fiscal Year 2014; and, a direct appropriation of $5.5 million per year in aid to local employers in the PERA Volunteer Firefighter Plan beginning in Fiscal Year 2014.

Further 2013 legislative changes included, to the DTRFA, employee contributions will increase by one percent of pay and employer contributions will increase by 0.71 percent of pay, current benefit accrual rates of 1.2 percent and 1.7 percent are increased to 1.4 percent and 1.9 percent for post-2013 service credit, and direct State aid will increase to $6.346 million from $346 thousand in FY 2014 and 2015 only. Changes to the SPTRFA include the following: employee and employer contributions will increase by one percent of pay each, current benefit accrual rates of 1.2 percent and 1.7 percent are increased to 1.4 percent and 1.9 percent for post-2015 service credit, and direct State-aid will increase to $9.827 million from $2.827 million in Fiscal Year 2014 and Fiscal Year 2015 only. Other changes include modifying reduction factors applied to members retiring prior to normal retirement age for TRA, SPTRFA and DTRFA; requiring TRA, SPTRFA and DTRFA to jointly study the feasibility of a merger with a report ready for the 2014 Legislature's review.

The 2014 Legislature acted to fully merge DTRFA with TRA, effective June 30, 2015, with approval from the DTRFA board and membership and the TRA board. As part of the merger legislation, $14.031 million in new direct aid to the TRA was annually appropriated beginning in Fiscal Year 2015 with expiration occurring when the TRA is fully funded. Additionally, $346 thousand in annual State-aid to DTRFA was transferred to TRA beginning in FY 2015. The 2014 Legislature also voted to extend the $7 million in annual State-aid SPTRFA until the fund is fully funded. This aid had been scheduled to expire after FY 2015.

Further, the 2014 Legislature changed the trigger mechanism for post-retirement benefit adjustments from one-year to two years for TRA and all MSRS plans. For TRA, MSRS General, MSRS Correctional, MSRS Legislators, and MSRS Unclassified the post-retirement adjustment trigger procedure was revised to require the funding ratio based on market value for the applicable plan to be 90 percent or greater in two consecutive actuarial valuations, rather than in a single actuarial valuation, before post-retirement adjustments greater than 2 percent can be paid. For the MSRS Judges plan, a funding ratio based on market value of assets of at least 70 percent in two consecutive actuarial valuations, rather than in a single actuarial valuation, must be reached before post-retirement adjustments of 1.75 percent can be paid. For the MSRS State Patrol Plan, the funding ratio must exceed 85 percent for two consecutive valuations, rather than a single valuation, before post retirement adjustments are increased 2 percent. Additionally, the 2014 legislature codified contribution rate increases of covered payroll of 0.5 percent employee/0.5 percent employer for MSRS General effective July 1, 2014, 0.5 percent employee/0.75 percent employer for MSRS Correctional effective July 1, 2014 and 0.25 percent employee/0.25 percent employer for PERA General effective January 1, 2015.

The 2015 Legislature reduced the interest rate actuarial assumption from 8.5 percent to 8 percent for MSRS, PERA, and SPTRFA for State Fiscal Year 2016 and beyond. Related reductions in salary and payroll growth were also included. Current TRA "select and ultimate" assumptions remain unchanged, pending the outcome of an experience study. Changes were also made to contribution stabilizer mechanisms for the PERA, MSRS, and TRA boards to allow more discretion to the boards in considering multiple factors. The interest rates charged to members who pay refunds or purchase leave and prior service credit were also adjusted.

Further, the 2015 Legislature revised the financial sustainability triggers for post-retirement adjustment mechanisms for MSRS, TRA, and SPTRFA. Under current law, the current 2 percent COLA will increase to 2.5 percent when funded ratios exceed 90 percent for two consecutive years. If the 2.5 percent COLA is implemented, newly passed legislation requires that if the funded ratios fall below 80 percent in one year or 85 percent in two, the COLA would automatically return to the 2 percent level.

The 2015 Legislature also completed the merger of PERA and MERF. The annual state aid contribution to PERA following the merger with MERF was reduced by $18 million per year for the Current Biennium, and by $8 million per year for future fiscal years. The reduction is due to a downward revision of the estimated aid needed by the plan following the merger.

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans. Provided below is more detailed information related to MSRS's State Retirement System Fund's actuarial valuations, actuarial methods and assumptions, historical funding, eligibility and benefit formulas, as well as historical funding history for other State employer contribution and General Fund appropriations.

MSRS – Statutory Funding Actuarial Valuations

While MSRS administers five defined benefit pension funds, the three largest funds, the State Employees Retirement Fund, the Correctional Employees Retirement Fund, and the State Patrol Retirement Fund, represent 96 percent of the actuarial accrued liabilities for which MSRS is responsible. Refer to the MSRS Comprehensive Annual Financial Report for further discussion of actuarial valuations for the MSRS defined benefit pension funds as of July 1, 2014 (available online at https://www.msrs.state.mn.us/financial-information).

The State Employees Retirement Fund which includes the General Employees Retirement Plan, the State Fire Marshals Plan, the Military Affairs Plan and the Transportation Pilots Plan, is 82.97 percent funded (determined on an actuarial value of assets basis), with the actuarial value of assets totaling $10.326 billion, and the actuarial accrued liability totaling $12.445 billion. For purposes of determining the actuarial value of assets, assets are based on a five-year moving average of expected and market values. The State Employees Retirement Fund's funding status, determined on a market value of assets basis, increased from 87.79 percent as of the July 1, 2013, actuarial valuation to 92.39 percent as of the July 1, 2014, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns (the actual rate of return was 18.6 percent in comparison to an 8.0 percent expected return).

The actuarial valuation also calculates the required contribution rates that are necessary to ensure that the MSRS funds become fully funded. Under Minnesota statutes, the State Employees Retirement Fund must be fully funded by June 30, 2041, the State Patrol Retirement Fund must be fully funded by June 30, 2038, and the Correctional Employees Retirement Fund must be fully funded by 2038, and the Judges Retirement Fund must be fully funded by June 30, 2039. The July 1, 2014, actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers are 1.82 percent below the amount required to fully fund the MSRS funds by 2041. The contribution deficiency rate decreased from (2.45) percent to (1.82) percent of payroll (projected annual payroll for the Fiscal Year beginning on the July 1, 2014, valuation date was $2.65 billion). The primary reason for the decreased contribution deficiency is the 1.00 percent of payroll increase in the statutory contribution rate. Also, the 2014 required contribution reflects additional liability due to the assumption that the post-retirement benefit increase rate will increase from 2.0 percent to 2.5 percent in 2016. (See "MSRS- Historical Funding," below.) Under current law, if MSRS has a contribution deficiency of 0.5 percent or more for two consecutive years, MSRS may increase employee and employer contribution rates at 0.25 percent annually until the contribution deficiency is no longer greater than 0.5 percent. MSRS is not planning to implement contribution rate increases for 2015 because the 2014 actuarial valuation for the State Employees Retirement Fund reports a contribution sufficiency of 1.02 percent based on a market value of assets, instead of an actuarial value of assets, basis.

Actuarial valuations results as of July 1, 2014, show that the MSRS Correctional Employees Retirement Fund is 70.41 percent funded (on an actuarial value of assets basis), with the actuarial value of assets totaling $790.3 million, and the actuarial accrued liability totaling $1,122.5 million. The contribution deficiency decreased from (5.41) percent to (4.48) percent of payroll primarily due to the recognition of investment gains from prior years in the actuarial value of assets and the increase in member and employer contributions. Also, the 2014 required contribution reflects additional liability due to the assumption change that the post-retirement benefit increase rate will increase from 2.0 percent to 2.5 percent in 2034. Funding status, determined on a market value of assets basis increased from 72.82 percent as of the July 1, 2013, actuarial valuation to 78.14 percent as of the July 1, 2014, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns (the actual rate of return was 18.6 percent in comparison to an 8.0 percent expected return). To minimize a contribution deficiency that is greater than four percent, current law permits MSRS to increase employee and employer contribution rates up to 0.75 percent annually until the contribution deficiency is eliminated. MSRS is not planning to implement employee and employer contribution rate increases for 2015 because the 2014 actuarial valuation for the Correctional Employees Retirement Funds reports a contribution deficiency of (1.86) percent determined on a market value of assets, instead of an actuarial valuation of assets, basis. Also, future required contributions are expected to decrease about 2.5 percent due to plan provision changes enacted during the 2010 Legislative Session.

The State Patrol Retirement Fund is 74.69 percent funded (on an actuarial value of assets basis), with the actuarial value of assets totaling $597.9 million, and the actuarial accrued liability totaling $800.4 million based on July 1, 2014 actuarial valuation results. The contribution deficiency decreased from (8.68) percent to (8.58) percent of payroll. The primary reasons for the decreased contribution deficiency are the greater than expect asset returns and a 2.5percent of payroll increase in the statutory contribution rate. Also, the 2014 required contribution reflects additional liability due to the assumption that the post-retirement benefit increase rate will increase from 1.0 percent to 1.5 percent in 2018 and from 1.5 percent to 2.5 percent in 2033. Member and employer contributions are scheduled to increase an additional 2.5 percent of payroll on July 1, 2016. The funding status, determined on a market value of assets basis, increased from 79.96 percent as of the July 1, 2013, actuarial valuation to 83.37 percent as of the July 1, 2014, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns, as noted in previous paragraphs.

The Judges Retirement Fund, is 52.82 percent funded (on an actuarial valuation of assets basis), with the actuarial value of assets totaling $157.5 million and the actuarial accrued liability totaling $298.2 million based on July 1, 2014 actuarial valuation results. The contribution deficiency for the plan decreased from (11.46) percent of payroll as of the July 1, 2013, actuarial valuation to (10.24) percent of payroll as of the July 1, 2014, actuarial valuation. The primary reason for the decreased contribution deficiency is the greater than expected return on assets. Funding status, determined on a market value of assets basis, increased from 54.62 percent as of the July 1, 2013, actuarial valuation to 58.87 percent as of the July 1, 2014, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns, as noted in previous paragraphs.

The Legislators Retirement Fund is funded on a pay-as-you-go basis with annual appropriations from the State's General Fund.

MSRS – Statutory Actuarial Methods and Assumptions

Statutory: The annual 5.5 percent employer and 5.5 percent employee contributions for State Employees Retirement Fund were established by State statute. The calculated actuarially required contribution of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using methods and assumptions:

MSRS GENERAL EMPLOYEES RETIREMENT PLAN
STATUTORY ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Individual entry age normal
Rate of Return on the Investment of Present and Future Assets	Select and Ultimate Rates -- July 1, 2013 through June 30, 2017: 8.0% per year July 1, 2017 and later: 8.5% per year
Projected Salary Increases	Reported salary at the valuation date increased according to the service-related rates that range from 3.5% for members with 17 or more years of service to 10.5% for members with one year of service.
Payroll Growth	3.75 % per year.
Experience Studies	Period Covered: Fiscal Year 2004-2008 The next experience study is scheduled to begin July 1, 2014, and will cover the period July 1, 2008, through June 30, 2014. Results are expected in May, 2015.
Asset Valuation	Asset valuations are based on market values at the end of the fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on the market value of assets and the asset return expected during the fiscal year based on the assumed interest rate.
Total Unrecognized Investment Return (loss) at June 30, 2014	$1,172,332,000

Sources: MSRS Comprehensive Annual Report, June 30, 2014, and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2014.

The methods and assumptions used to calculate actuarially required contribution of the other defined benefit plans in the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2014. See "*General Information*" above. Also see "Pension Legislation and Litigation" for information on changes that came into effect after June 30, 2014, to the methods and assumptions used to calculate actuarially required contribution for defined benefit plans.

MSRS - Historical Funding

The actuarial valuations measure current costs and contribution requirements to determine how much employers and members should contribute to maintain appropriate funding progress to pay future benefits. Actuarial valuations also measure assets and liabilities to determine the level of funding for each defined benefit plan. The table below provides a historical comparison of the statutory actual employee and employer contribution rates (on a percentage of annual payroll basis) compared to the calculated actuarially recommended rate (the calculated actuarial required contribution).

MINNESOTA STATE RETIREMENT SYSTEM
PERCENTAGE OF PAYROLL ACTUAL CONTRIBUTION RATES AS COMPARED TO STATUTORY ACTUARIALLY RECOMMENDED RATES
TEN-YEAR CONTRIBUTION HISTORY

As of	*Statutory Actual Contribution Rates*			*Actuarial Recommended Rate*	*Sufficiency/ Deficiency Employee*
	Employee	*Employer*	*Total*		
July 1, 2005	4.00%	4.00%	8.00%	10.55%	(2.55)%
July 1, 2006	4.00%	4.00%	8.00%	10.11%	(2.11)%
July 1, 2007	4.25%	4.25%	8.50%	11.76%	(3.26)%
July 1, 2008	4.50%	4.50%	9.00%	12.39%	(3.39)%
July 1, 2009	4.75%	4.75%	9.50%	14.85%	(5.85)%
July 1, 2010	5.00%	5.00%	10.00%	10.99%	(0.99)%
July 1, 2011	5.00%	5.00%	10.00%	11.03%	(1.03)%
July 1, 2012	5.00%	5.00%	10.00%	12.32%	(2.32)%
July 1, 2013	5.00%	5.00%	10.00%	12.45%	(2.45)%
July 1, 2014	5.50%	5.50%	11.00%	12.82%	(1.82)%

Sources: MSRS Comprehensive Annual Financial Reports (2005 – 2014) – Schedule of Actual Contribution Rates as Compared to Actuarially Recommended Rates.

Further, the better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. A higher funding ratio means that present assets and projected investment earnings on those assets are sufficient to cover the liabilities for present and future annuities, survivor and disability benefits, refunds, and administrative expenses.

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MINNESOTA STATE RETIREMENT SYSTEM STATE EMPLOYEES RETIREMENT FUND

TEN-YEAR FUNDING HISTORY

($'s in Thousands)

	Aggregate Accrued Liabilities				Portion Covered by Reported Assets			
Valuation Date (July 1)	**Active Member Contributions (1)**	**Retirees and Beneficiaries (2)**	**Employer Financed Portion (3)**	**Reported Assets**	**% (1)**	**% (2)**	**% (3)**	**Funding Ratio (%)**
2005	$928,590	$3,487,930	$4,038,816	$8,081,736	100	100	90.8	95.6
2006	966,951	3,689,443	4,162,767	8,486,756	100	100	92.0	96.2
2007	1,001,316	3,963,536	4,662,453	8,904,517	100	100	84.5	92.5
2008	1,041,731	4,251,341	4,701,530	9,013,456	100	100	79.1	90.2
2009	1,102,082	4,496,247	4,914,431	9,030,401	100	100	69.8	85.9
2010	1,155,473	4,535,401	4,573,197	8,960,391	100	100	71.5	87.3
2011	982,365	4,982,212	4,611,904	9,130,011	100	100	68.6	86.3
2012	1,044,810	5,489,756	4,548,661	9,162,301	100	100	57.8	82.7
2013	1,090,373	5,807,381	4,530,887	9,375,780	100	100	54.7	82.0
2014	1,128,164	6.471,998	4,844,964	10,326,272	100	100	56.3	83.0

Source: MSRS Comprehensive Annual Report, June 30, 2014 – Solvency Test for Last Ten Fiscal Years.

The historical funding history of the other defined benefit plans in the Retirement Systems is provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2014. See "*General Information*" above.

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MSRS – Eligibility and Benefit Formulas

Provided below is a description of the eligibility and benefit formulas of the MSRS General Employees Retirement Plan, the largest plan of the State Employees Retirement Fund.

MSRS General Employees Retirement Plan

A. Coverage	Most State employees, University of Minnesota non-instructional employees, and selected metropolitan agency employees
B. Contribution Rates	Employees: 5.5 % effective July 1, 2014 Employers: 5.5 % effective July 1, 2014 Employee contributions are "picked up" according to the provisions of Internal Revenue Code 414(h).
C. Benefit Formula	If first hired before July 1, 1989, the benefit formula is the greater of (a) or (b): (a) 1.2 % of a high-five year salary for the first 10 years of allowable service plus 1.7 % of high-five salary for each subsequent year. This benefit is reduced for each month the member is under age 65 at time of retirement, or under age 62 with 30 years of allowable service. There is no reduction in the formula if the member's age plus years of allowable service totals 90 (Rule of 90). (b) 1.7 % of high-five year salary for each year of allowable service assuming augmentation to age 65 at 3% per year and an actuarial reduction for each month the member is under age 65. If first hired after June 30, 1989, the benefit formula is 1.7 % of high-five year salary for each year of allowable service with an actuarial equivalent, early retirement reduction for each month the member is under the normal retirement age. Salary includes wages and other periodic compensation. It excludes lump sum payments at separation, employer contributions to deferred compensation and tax sheltered annuity plans, and benevolent vacation and sick leave donation programs. The high-five average salary is the average salary from the sixty-successive month period with the highest gross salary.
D. Retirement Age and Service Requirements	*Eligibility for unreduced retirement benefits:* Age 65 for employees hired before July 1, 1989, or age 66 for employees hired on or after July 1, 1989 Age eligible for full Social Security retirement benefits (but not higher than age 66) if hired before July 1, 1989; with three or more years of allowable service (five years if hired after June 30, 2010) Rule of 90 for those employees hired before July 1, 1989. *Eligibility for reduced retirement benefits:* Age 55 with three years of service if hired prior to July 1, 2010, or five years of service if hired after June 30, 2010, reduced from full retirement age Any age with 30 years of service, reduced from age 62 (pre-July 1, 1989 hires only) The plan also offers total and permanent disability benefits for employees with at least three years of service (five years of service after June 30, 2010).
E. Surviving Spouse Benefit	If employee has at least three years of service at death, (five years if hired after June 30, 2010), generally, the spouse is eligible for a 100 % survivor annuity or a refund.
F. Refunds	Employee contributions plus 6% interest compounded annually through June 30, 2011, and 4 % thereafter.

Source: Minnesota State Retirement System 2014 Comprehensive Annual Financial Report.

Eligibility and benefit formulas for the various plans covered under the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2014. See "*General Information*" above.

MSRS - Employer Contributions

The following table summarizes the employer contributions made to the MSRS for the last 10 years. Contributions are made from a variety of State funds, including the General Fund. Based on payroll expense data for Fiscal Year 2014, the State's General Fund comprised approximately 48 percent of the employer contributions. Other major fund categories included approximately 17 percent for the Trunk Highway Fund, 7 percent for federal funds and 12 percent for the special revenue fund. All other State employer contributions, which make up approximately 16 percent of the total were from 96 other funds of the State.

MINNESOTA STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION HISTORY
MINNESOTA STATE RETIREMENT SYSTEM
($'s in Thousands)

Fiscal Year Ended (June 30th)	Employer Contributions[1]						Total
	State Employees Retirement Fund	Correctional Employees Retirement Fund	Elective State Officers Fund[2]	Judges Retirement Fund	Legislators Retirement Fund[2]	State Patrol Retirement Fund	
2005	$ 80,312	$11,016	$395	$7,225	$1,822	$ 6,670	$107,440
2006	82,645	12,152	417	7,336	5,684	7,055	115,289
2007	86,492	13,927	427	7,572	1,772	7,461	117,651
2008	96,746	18,623	435	7,936	2,217	8,279	134,236
2009	107,211	20,126	442	8,219	1,269	9,178	146,445
2010	113,716	21,988	453	8,283	1,975	10,104	156,519
2011	118,563	23,982	460	8,297	2,805	9,873	163,890
2012	115,159	24,188	465	7,922	3,935	11,620	163,289
2013	121,673	24,632	470	8,177	3,399	11,482	169,833
2014	128,037	26,468	N/A	9,426	3,436	11,894[3]	179,261

(1) Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions. Amounts exclude the State's employer contribution to the Unclassified Employees Retirement Fund (Defined Contribution Plans). For FY2014, employer contributions to this fund were $6,099,000.

(2) 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. Effective July 1, 2013, the Elective State Officers Fund was merged into the Legislators Retirement Fund.

(3) Other Employer contributions to the State Patrol Retirement Fund do not include the $1 million supplemental state aid that the fund received during Fiscal Year 2014 because its funding ratio, determined on a market value of assets basis, was less than 90 percent. This amount is recognized as other income in MSRS' financial statements.

Sources: MSRS Comprehensive Annual Financial Reports (2005-2014).

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MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results

To comply with GASB Statement No. 67, MSRS engaged actuaries to compute the net pension liability (total pension liability less Fiduciary Net Position) and pension expense amounts. Contributing employers are required, under GASB Statement No. 68, to report these amounts in their financial statements for fiscal years beginning after June 15, 2014, (State Fiscal Year 2015). The NPL will often be one of the largest amounts reported in an employer's financial statements. The new measures of these amounts (e.g., net pension liability, pension expense) are substantially different from the funding measures (e.g., funding ratio, actuarial accrued liability, contribution sufficiency/deficiency rate, etc.) primarily due to the actuaries utilizing GASB-compliant actuarial assumptions, rather than the actuarial assumptions prescribed in Minnesota Statutes, in their computations.

The calculated NPL of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using the following methods and assumptions.

MINNESOTA STATE RETIREMENT SYSTEM GENERAL EMPLOYEES RETIREMENT PLAN
GASB 67 ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market value.
Long-term Expected Return	7.90%.
Inflation	2.75%
Salary Increases	Service related rates.
Payroll Growth	3.50%
Mortality Rates	RP-200 generational mortality tables projected with mortality improvement scale AA. These tables are set back or set forward to match fund experience.
Annual post-retirement benefit increases (e.g. cost of living adjustments	2.0% through 2015 and 2.5% thereafter

Sources: MSRS Comprehensive Annual Report, June 30, 2014 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2014.

First-time GASB Statements No. 67 and No. 68 actuarial valuation results show that on June 30, 2014, employers contributing to the MSRS' largest cost-sharing fund, the State Employees Retirement Fund (the General Employees Retirement Plan), incurred a Net Pension Liability of $1.6 billion. Actuaries determined this amount assuming a lower long-term expected rate of return of 7.9 percent, an inflation rate of 2.75 percent, and payroll growth and salary increase assumptions that were 25 basis points less than the prescribed assumptions. Employers will also report pension income of $257.9 million, instead of a pension expense, due to the significant 18.6 percent investment return for 2014. Lastly, as of the June 30, 2014 measurement date, Fiduciary Net Position as a percentage of the Total Pension Liability was 87.64 percent.

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GASB actuarial valuation results for all of the MSRS pension plans are depicted in the table below. Based on contributions received during Fiscal Year 2014, the State's proportionate share (including its component units: the University of Minnesota, Metropolitan Council, and the Minnesota Sports Facilities Authority) of the each MSRS defined benefit fund's Net Pension Liability and Pension Expense/(Income), and related dollar amounts, are also presented below.

MINNESOTA STATE RETIREMENT SYSTEM
GASB STATEMENTS NO. 67 AND NO. 68 ACTUARIAL VALUATION RESULTS
June 30, 2014
($ in Thousands)

Retirement Fund	Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Plan FNP As a % of TPL	State's Proportionate Share	State's Share of NPL	FY2014 Pension Expense / (Income)	State's Share of Pension Expense/ (Income)
State Employees	$13,120,176	$11,498,604	$1,621,572	87.64%	99.178%	$1,608,243	$(257,887)	$(255,744)
State Patrol	826,673	667,340	159,333	80.73%	100.000%	159,333	13,082	13,082
Correctional Employees	1,353,386	877,056	476,330	64.80%	99.802%	475,387	23,637	23,566
Judges	381.511	175,556	205,955	46.02%	100.000%	205,955	13,246	13,246
Legislators	146,499	8,258	138,241	5.64%	100.000%	138,241	16,555	16,555
Totals	$15,828,245	$13,226,814	$2,601,431			$2,587,159	$(191,370)	$(189,295)

Source: MSRS 2014 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014.

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MINNESOTA STATE RETIREMENT SYSTEM
GASB 67 STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2014
($'s in thousands)

Assets	**State Employees**	**State Patrol**	**Correctional Employees**	**Judges**	**Legislators**
Cash	$2,127	$85	$181	$34	$462
Short-Term Investments	290,338	17,395	24,279	5,164	109
Total Cash & Short-term Investments	**$292,465**	**$17,480**	**$24,460**	**$5,198**	**$571**
Receivables					
Accounts Receivable	$10,030	$679	$1,586	$52	$0
Accrued Interest	1	0	0	0	0
Due from Other Plans	$5,835	1	4	2	1
Due from the State's General Fund	0	0	0	0	0
Other Receivables	322	21	17	6	1
Total Receivables	**$16,188**	**$701**	**$1,607**	**$60**	**$2**
Investment (at fair value)					
Fixed Income Pool	$2,683,530	$155,810	$204,488	$40,879	$1,962
Growth Share Pool	3,469,715	201,457	264,396	52,855	2,537
Common Stock Index Pool	1,785,757	103,684	136,077	27,203	1,306
Alternative Investment Pool	1,450,587	84,223	110,536	22,097	1,061
International Equity Pool	1,797,462	104,364	136,938	27,381	1,314
Total Investment	**$11,187,051**	**$649,538**	**$852,465**	**$170,415**	**$8,180**
Securities Lending Collateral	**$1,244,402**	**$72,256**	**$94,843**	**$18,963**	**$909**
Capital Assets (net of depreciation and amortization)					
Land	$88	$0	$0	$0	$0
Building, Improvements, Equipment	5,566	0	0	0	0
Office Equipment and Fixtures	49	0	0	0	0
Computer and VoIP	150	0	0	0	0
Computer Software	10,416	0	0	0	0
Total Capital Assets	**$16,269**	**$0**	**$0**	**$0**	**$0**
Total Assets	**$12,756,375**	**$739,975**	**$973,375**	**$194,636**	**$9,662**
Deferred Outflows of Resources					
Total Deferred Outflow of Resources	**$0**	**$0**	**$0**	**$0**	**$0**
Liabilities					
Accounts Payable	$5,990	$237	$315	$65	$5
Compensated Absences	841	0	0	0	0
Securities Lending Collateral	1,244,402	72,256	94,843	18,963	909
Due to Other Plans	8	142	649	52	34
Due to the State's General Fund	0	0	0	0	454
Accrued OPEP Liability	70	0	0	0	0
Bonds Payable	5,358	0	0	0	0
Other Payables	1,102	0	512	0	2
Total Liabilities	**$1,257,771**	**$72,635**	**$96,319**	**$19,080**	**$1,404**
Total Deferred Inflow of Resources	**$0**	**$0**	**$0**	**$0**	**$0**
Net Position Restricted for Pensions	**$11,498,604**	**$667,340**	**$877,056**	**$175,556**	**$8,258**

Source: MSRS 2014 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014.

MINNESOTA STATE RETIREMENT SYSTEM
GASB 67 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2014
($'s in thousands)

Additions	State Employees	State Patrol	Correctional Employees	Judges	Legislators
Contributions					
Plan Member Contributions	$131,033	$7,930	$18,855	$3,578	$101
Employer Contributions	128,037	11,894	26,468	9,426	0
General Fund Contributions	0	0	0	0	3,436
Total Contributions	**$259,0770**	**$19,824**	**$45,323**	**$13,004**	**$3,537**
Investment Income					
Investment Income	$1,840,969	$107,847	$138,387	$28,185	$1,759
Less Investment Expenses	15,986	929	1,217	244	12
Net Investment Income	**$1,824,983**	**$106,918**	**$137,170**	**$27,941**	**$1,747**
Income from Securities Lending Activities					
Securities Lending Income	$6,908	$401	$526	$105	$5
Securities Lending Expenses					
Borrower Rebates	$61	$4	$5	$1	$0
Management Fees	2,209	128	168	34	2
Total Securities Lending Expenses	**$2,270**	**$132**	**$173**	**$35**	**$2**
Net Income From Securities Lending Activities	$4,638	$269	$353	$70	$3
Total Net Investment Income	**$1,829,621**	**$107,187**	**$137,523**	**$28,011**	**$1,750**
Other Additions					
Transfers From Other Plans	$20,832	$0	$0	$0	$0
Other Income	182	1,000	0	0	0
Total Other Additions	**$21,014**	**$1,000**	**$0**	**$0**	**$0**
Total Additions	**$2,109,705**	**$128,011**	**$182,846**	**$41,015**	**$5,287**
Deductions					
Annuity Benefits	$623,942	$53,697	$50,842	$20,802	$8,407
Refunds	11,986	25	1,447	0	79
Administrative Expenses	8,125	150	657	55	36
Other Expenses	486	0	1	0	0
Total Deductions	**$644,539**	**$53,872**	**$52,947**	**$20,857**	**$8,522**
Net Increases (Decrease) in Net Position	**$1,465,166**	**$74,139**	**$129,899**	**$20,158**	**$(3,235)**
Net Position Restricted for Pensions					
Beginning of Year, as Reported	**$10,033,499**	**$593,201**	**$747,157**	**$155,398**	**$11,493**
Change in Accounting Principle	(61)	0	0	0	0
Beginning of Year, as Restated	**$10,033,438**	**$593,201**	**$747,157**	**$155,398**	**$11,493**
End of Year	**$11,498,604**	**$667,340**	**$877,056**	**$175,556**	**$8,258**

Source: MSRS 2014 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014.

MINNESOTA STATE RETIREMENT SYSTEM
GASB 67 STATEMENT OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
As of June 30, 2014

($'s in thousands)

Total Pension Liability	***State Employees Retirement Fund***	***State Patrol Retirement Fund***	***Correctional Employees Retirement Fund***	***Judges Retirement Fund***	***Legislators Retirement Fund***
Service Cost	$256,155	$14,514	$54,443	$12,075	$398
Interest on the Total Pension Liability	922,181	60,183	85,702	20,535	6,177
Changes of Benefit Terms	0	0	0	0	0
Difference Between Expected and Actual Experience	(44,023)	(5,771)	4,103	5,080	(237)
Changes in Assumptions	(1,477,308)	30,058	(147,067)	(8,416)	11,201
Benefit Payments, Including Refunds of Member Contributions in the Measurement of the Total Pension Liability	(635,928)	(53,722)	(52,289)	(20,802)	(8,486)
Net Change in Total Pension Liability	**$(978,923)**	**$45,262**	**$(55,108)**	**$8,472**	**$9,053**
Total Pension Liability - Beginning	$14,099,099	$781,411	$1,408,494	$373,039	$137,446
Total Pension Liability - Ending	$13,120,176	$826,673	$1,353,386	$381,511	$146,499
Plan Fiduciary Net Position					
Contributions - Employer	$128,037	$12,894	$26,468	$9,426	$0
Contributions – Plan Member	131,033	7,930	18,855	3,578	101
Contributions – State General Fund Appropriation	0	0	0	0	0
Net Investment Income	1,829,621	107,187	137,523	28,011	1,750
Benefit Payments, Including Refunds of Member Contributions	(635,928)	(53,722)	(52,289)	(20,802)	(8,486)
Administrative Expense	(8,125)	(150)	(657)	(55)	(36)
Other	20,528	0	(1)	0	0
Net Change in Plan Fiduciary Position	**$1,465,166**	**$74,139**	**$129,899**	**$20,158**	**$(3,235)**
Plan Fiduciary Net Position – Beginning as Restated	10,033,438	593,201	747,157	155,398	11,493
Plan Fiduciary Net Position – Ending	$11,498,604	$667,340	$877,056	$175,556	$8,258
Net Pension Liability – Ending	**$1,621,572**	**$159,333**	**$476,330**	**$205,955**	**$138,241**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**87.64%**	**80.73%**	**64.80%**	**46.02%**	**5.64%**
Covered – Employee Payroll	**$2,620,660**	**$63,952**	**$219,244**	**$41,893**	**$1,122**
Net Pension Liability as a Percentage of Covered-Employee Payroll	**61.88%**	**249.14%**	**217.26%**	**491.62%**	**12,320.94%**

Source: MSRS 2014 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Post-employment benefits other than pensions are available to certain employees of the State, and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes, Section 43A.27, Subdivision 3, and Minnesota Statutes, Section 471.61, Subdivision 2a, and required under the terms of selected employment contracts. All pre-age-65 State retirees with at least five 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 percent 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, 2012, there were approximately 2,600 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 65. As of July 1, 2012, there were approximately 1,120 correctional and law enforcement retirees receiving an explicit rate subsidy. The State does not issue a separate financial report for its OPEB as the State does not fund an OPEB plan and operates on a pay-as-you-go basis.

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, 2014, the State contributed $35,398,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed $23,585,000 through their average required contribution of $475 per month for retiree-only coverage and $1,397 for retiree-family coverage. The plan is administered by the MSRS.

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 percent discount rate. For year ending June 30, 2014, the State's ARC is $69,136,000. The following table shows the components of the State's annual OPEB cost, the amount contributed to the plan, and the changes to the State's net OPEB obligation:

Net OPEB Obligation
($'s In Thousands)

Annual Required Contributions (ARC)(1)	$ 69,136
Interest on Net OPEB Obligation (NOO) (1)	10,524
Amortization Adjustment to ARC(1)	(8,857)
Annual OPEB Cost (Expense)	$ 70,803
Contributions	(35,398)
Increase in NOO	$ 35,405
NOO, Beginning Balance	$221,574
NOO, Ending(2)	$256,979

(1) Components of annual OPEB cost.
(2) Amount attributable to State's Governmental Funds, which includes the General Fund is $223,953. See page F-85 through F-88, Note 9 – Termination and Postemployment Benefits and page F-92 through F-93, Note 12 – Long-Term Liabilities – Primary Government.
Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal year Ended June 30, 2014.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2014, 2013, and 2012 are as follows:

Net OPEB Obligation
($'s In Thousands)

Fiscal Year Ended, June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$70,803	50%	$256,979
2013	$67,300	57%	$221,574
2012	$81,528	65%	$192,622

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014.

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the UAAL was $651,890,000. 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 $2,819,463,000 and the ratio of the UAAL to the covered payroll was 23.1 percent.

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APPENDIX C

STATE DEBT

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APPENDIX C

STATE DEBT

Table of Contents

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GENERAL OBLIGATION BONDS OUTSTANDING
AS OF THE DATE OF ISSUE OF THE BONDS
($'s in Thousands)

Category	Type	Principal Amount	
1	Building	$ 145	
	Transportation	235,945	
	Refunding Bonds	1,157,605	
	Various Purpose	3,006,075	
	Total Category 1		$ 4,399,770
2	School Loan	$ 12,035	
	Rural Farm Authority	28,405	
	Total Category 2		$ 40,440
3	Trunk Highway	$ 1,356,075	
	Trunk Highway Refunding	273,870	
	Total Category 3		$ 1,629,945
	Total Outstanding as of the Date of the Bonds		$ 6,070,155
1,2	Plus Series 2015A Bonds		$ 368,225
3	Plus Series 2015B Bonds		$ 310,000
1	Plus Series 2015C Bonds		$ 7,200
1	Plus Series 2015D Bonds		$ 376,655
3	Plus Series 2015E Bonds		$ 14,900
1	Less Various Purpose Refunded Bonds		$ (420,475)
3	Less Trunk Highway Refunded Bonds		$ (14,050)
	Total Outstanding as of the Date of the Bonds - Including These Issues		$ 6,712,610

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 AS OF THE DATE OF ISSUE OF THE BONDS

($'s in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization [1][2]	Previously Issued as Par Bonds [3]	Previously Issued as Premium[3]	The Bonds[3]	Remaining Authorization
Building	1990,Ch.610	$270,129.1	$270,126.0	$0.0	$0.0	$3.1
Building	1994,Ch.643	523,873.5	523,849.0	0.0	0.0	24.5
Building	X1997, Ch. 2	37,432.0	37,335.0	0.0	0.0	97.0
Building	1999, Ch. 240	439,425.1	438,865.0	0.0	0.0	560.1
Various Purpose	2000, Ch. 492	526,636.8	518,830.6	44.4	0.0	7,761.8
Various Purpose	2002, Ch. 393	600,589.5	599,595.0	0.0	0.0	994.5
Various Purpose	X2002, Ch. 1	15,273.0	15,055.0	0.0	0.0	218.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.5	399,990.0	0.0	0.0	201.5
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	0.0	0.0	326.5
Various Purpose	2005, Ch. 20	917,632.6	912,691.1	327.9	250.0	4,363.6
Various Purpose	2006, Ch. 258	991,158.0	987,243.3	460.7	3,300.0	154.0
Various Purpose	X2007, Ch. 2	41,320.0	40,926.0	394.0	0.0	0.0
Trunk Highway	2008, Ch. 152	1,782,448.2	1,305,178.0	0.0	160,000.0	317,270.2
Transportation	2008, Ch. 152	59,522.4	59,288.6	233.4	0.0	0.4
Various Purpose	2008, Ch. 179	790,444.4	785,466.9	2,480.1	0.0	2,497.4
Various Purpose	2008, Ch. 365	104,806.2	103,362.8	107.2	1,200.0	136.2
Trunk Highway	2009, Ch. 36	39,942.0	33,900.0	0.0	5,500.0	542.0
Various Purpose	2009, Ch. 93	256,100.8	245,544.5	2,490.5	4,500.0	3,565.8
Various Purpose	2010, Ch. 189	708,138.5	684,055.6	10,394.4	4,700.0	8,988.5
Trunk Highway	2010, Ch. 388	99,194.9	82,640.0	0.0	16,500.0	54.9
Various Purpose	X2010, Ch. 1	31,413.0	22,006.1	1,478.9	5,100.0	2,828.0
Various Purpose	X2011, Ch. 12	555,140.0	503,288.1	21,761.9	5,400.0	24,690.0
Trunk Highway	2012, Ch. 287	17,613.0	15,550.0	0.0	2,000.0	63.0
Various Purpose	2012, Ch. 293	566,858.0	432,361.5	33,280.5	61,000.0	40,216.0
Various Purpose	X2012, Ch. 1	56,695.0	31,861.8	4,038.2	14,000.0	6,795.0
Trunk Highway	X2012, Ch. 1	35,040.0	15,355.0	0.0	9,000.0	10,685.0
Trunk Highway	2013, Ch. 117	300,300.0	86,760.0	0.0	50,000.0	163,540.0
Various Purpose	2013, Ch. 136	178,795.0	112,273.8	12,726.2	35,000.0	18,795.0
Various Purpose	2014, Ch. 294	895,903.0	230,463.2	43,086.8	261,000.0	361,353.0
Various Purpose	X2015 Ch. 5	190,697.0	0.0	0.0	44,550.0	146,147.0
Trunk Highway	X2015 Ch. 5	140,140.0	0.0	0.0	67,000.0	73,140.0
Totals		$11,678,878.8	$9,599,561.9	$133,305.1	$750,000.0	$1,196,011.8

(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) Minnesota Statutes 16A.641, subd. 7b, allows for the premium, received on the sale of bonds after December 1, 2012, may be deposited to the bond proceeds fund where it is used to reduce the par amount of the bonds issued at the time of the bond sale or to the state bond fund.

TOTAL STATE GENERAL OBLIGATION BONDS OUTSTANDING BY SERIES
AS OF THE DATE OF ISSUE OF THE BONDS
($'s in Thousands)

Bond Issue	Original Principal		Final	Interest Rate Range	Outstanding Principal 06/30/2015		Outstanding Principal as of Date of Issue	
	Various Purpose	Trunk Highway	Maturity	Outstanding	Various Purpose	Trunk Highway	Various Purpose	Trunk Highway
Series Dated October 3, 2005	285,400	111,600	2025	5.00%	14,145	5,580	14,145	5,580
Series Dated October 3, 2005 (Refunding)	160,960	-	2025	5.00%	24,795	-	16,520	-
Series Dated August 1, 2006	289,450	55,550	2026	5.00%	14,220	2,780	14,220	2,780
Series Dated November 1, 2006	327,000	73,000	2026	5.00%	32,250	7,300	32,250	7,300
Series Dated April 25, 2007 (Refunding)	264,050	-	2018	5.00%	90,060	-	63,040	-
Series Dated August 14, 2007	656,000	14,000	2027	5.00%	399,925	2,130	67,150	1,420
Series 2008A August 5, 2008	275,000	-	2028	4.625% - 5.00%	153,575	-	40,575	-
Series 2008B August 5, 2008	-	33,500	2028	4.00% - 5.00%	-	19,075	-	5,025
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	79,805	-	63,760	-
Series 2009A January 29, 2009	325,000	-	2028	4.00% - 5.00%	220,580	-	220,580	-
Series 2009B January 29, 2009	-	70,000	2028	3.00% - 4.375%	-	46,770	-	46,770
Series 2009D August 26, 2009	192,275	-	2029	4.00% - 5.00%	141,550	-	132,110	-
Series 2009E August 26, 2009	-	80,000	2029	4.00% - 5.00%	-	60,000	-	56,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	174,960	-	147,540	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	2.00% - 5.00%	-	18,230	-	15,265
Series 2009H November 5, 2009	443,000		2029	2.00% - 5.00%	263,000	-	263,000	-
Series 2009I November 5, 2009		25,000	2029	2.00% - 5.00%	-	17,500	-	17,500
Series 2009K November 5, 2009 (Refunding)	100,395		2022	2.00% - 5.00%	97,230	-	97,230	-
Series 2010A August 19, 2010	635,000		2030	3.00% - 5.00%	508,900	-	472,875	-
Series 2010B August 19, 2010		225,000	2030	4.00% - 5.00%	-	180,000	-	168,750
Series 2010C August 19, 2010 (Taxable)	5,000		2015	3.00%	5,000	-	-	-
Series 2010D September 29, 2010 (Refunding)	687,115		2024	1.75% - 5.00%	430,165	-	371,640	-
Series 2010E September 29, 2010 (Refunding)		220,670	2024	2.00% - 5.00%	-	153,410	-	136,795
Series 2011A October 12, 2011	445,000		2031	2.00% - 5.00%	357,560	-	357,560	-
Series 2011B October 12, 2011		320,000	2031	3.00% - 5.00%	-	272,000	-	272,000
Series 2011C October 12, 2011 (Taxable)	4,000		2016	1.35%	4,000	-	4,000	-
Series 2012A August 16, 2012	422,000		2032	2.50% - 5.00%	329,315	-	295,380	-
Series 2012B August 16, 2012		234,000	2032	2.00% - 5.00%	-	210,600	-	198,900
Series 2012C August 16, 2012 (Taxable)	2,500		2017	2.00%	2,500	-	2,500	-
Series 2013A August 15, 2013	273,350		2033	4.00% - 5.00%	259,680		246,010	
Series 2013B August 15, 2013		200,000	2033	4.00% - 5.00%	-	190,000	-	180,000
Series 2013C August 15, 2013 (Taxable)	5,000		2018	2.50%	5,000	-	5,000	-
Series 2013D November 6, 2013	283,820		2033	3.00% - 5.00%	269,850	-	269,850	-
Series 2013E November 6, 2013		112,000	2033	2.00% - 5.00%	-	106,400	-	106,400
Series 2013F November 6, 2013 (Refunding)	373,940		2026	3.125% - 5.00%	373,940	-	373,940	-
Series 2014A August 21, 2014	429,670		2034	5.00%	429,670		408,375	
Series 2014B August 21, 2014		288,000	2034	3.00% - 5.00%		288,000		273,600
Series 2014C August 21, 2014 (Taxable)	26,040		2033	0.50% - 3.75%	26,040		24,825	
Series 2014D August 21, 2014 (Taxable Refunding)	28,210		2032	1.39% - 4.00%	28,210		15,660	
Series 2014E August 21, 2014 (Refunding)		123,315	2026	1.00% - 4.00%		123,315		121,810
Series 2015A August 19, 2015	368,225		2035	2.00% - 5.00%			368,225	
Series 2015B August 19, 2015		310,000	2035	2.95% - 5.00%				310,000
Series 2015C August 19, 2015 (Taxable)	7,200		2025	1.00% - 3.00%			7,200	
Series 2015D August 19, 2015 (Refunding)	376,655		2027	5.00%			376,655	
Series 2015E August 19, 2015 (Refunding)		14,900	2027	2.00% - 5.00%				14,900
Totals for Date:	**$ 8,144,420**	**$ 2,538,895**			**$ 4,735,925**	**$ 1,703,090**	**$ 4,771,815**	**$ 1,940,795**

The following table shows all debt service payments for outstanding general obligation bonds as of the date of this Official Statement.

DEBT SERVICE PAYMENTS ON GENERAL OBLIGATION BONDS OUTSTANDING AS OF THE DATE OF ISSUE OF THE BONDS[1][2]

($'s in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	Principal	Interest	Total	Principal	Interest	Total
2016	$ 158,515	$ 144,913	$ 303,428	$ 40,515	$ 44,999	$ 85,514
2017	433,450	192,261	625,711	113,205	64,867	178,072
2018	414,095	171,854	585,949	112,660	59,760	172,420
2019	372,155	152,863	525,018	112,125	54,656	166,781
2020	359,465	135,105	494,570	111,240	49,638	160,878
2021	324,015	118,288	442,303	110,425	44,685	155,110
2022	311,910	102,465	414,375	108,610	39,783	148,393
2023	289,190	87,500	376,690	105,525	34,905	140,430
2024	269,295	73,655	342,950	104,680	30,280	134,960
2025	255,615	61,066	316,681	97,315	26,056	123,371
2026	231,000	50,085	281,085	89,750	22,238	111,988
2027	204,950	40,487	245,437	81,520	18,709	100,229
2028	194,160	31,377	225,537	78,540	15,417	93,957
2029	152,930	23,280	176,210	77,135	12,305	89,440
2030	137,390	17,067	154,457	73,950	9,378	83,328
2031	114,650	11,769	126,419	68,950	6,621	75,571
2032	83,125	7,661	90,786	57,700	4,227	61,927
2033	62,880	4,631	67,511	41,700	2,409	44,109
2034	50,130	2,189	52,319	30,000	1,063	31,063
2035	21,290	532	21,822	14,400	234	14,634
	$ 4,440,210	$ 1,429,048	$ 5,869,258	$ 1,629,945	$ 542,230	$ 2,172,175

For additional information on State general obligation bonds and other long term liabilities of the State, refer to the State Financial Statements in APPENDIX F.

Note 10 – Long-Term Commitments (see pages F-89 through F-90)
Note 11 – Operating Lease Agreements (see page F-91)
Note 12 – Long-Term Liabilities (see pages F-92 through F-104).

[1] Totals do not include the Bonds.
[2] FY 2016 debt service excludes amounts paid prior to the date of issue of the Bonds.

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

NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND FOR GENERAL OBLIGATION BONDS DEBT SERVICE[1]
($'s in thousands)

In Fiscal Year	General Fund	Trunk Highway Fund	All Other Funds [2]	Transfer 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	394,221
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
2011	401,265	46,391	41,145	488,801
2012	190,799	72,601	74,703	338,103 [3]
2013	222,584	120,305	69,133	412,022 [3]
2014	619,935	136,488	53,685	810,108 [3]
2015	623,060	154,593	47,607	825,260
2016 (est)	632,513	187,880	46,159	866,552
2017 (est)	634,946	221,699	40,035	896,680

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

(2) 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.

(3) The debt service transfers for FY 2012 and FY 2013 is lower from prior fiscal years as a result of the Tobacco Securitization Bonds, Series 2011 (later refunded by the State Refunding Appropriation Bonds, Series 2012) which were used in part to refund, in part, and prepay certain general obligation indebtedness of the State. The debt service for FY 2014 is higher as the debt service no longer includes the reduction that had resulted from how the proceeds from the Tobacco Securitization Bonds, Series 2011 were used.

CAPITAL INVESTMENT GUIDELINES

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

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25 percent 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 six percent of State personal income.
3. 40 percent of general obligation debt shall be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and market conditions.

The capital investment 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[(1)] are recognized; and
- Continue Minnesota's conservative financial management practices.

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation. Total State personal income is derived from the IHS Economics data used to develop the February 2015 Forecast and reflects the State's 2015 Fiscal Year.

As of February 27, 2015, the last date of calculation, MMB was in compliance with the capital investment guidelines. The percentages as of that date were:

Guideline #1: Tax-supported principal outstanding as a percent of State personal income: 3.00 percent

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of State personal income: 4.25 percent

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2014, 40.5 percent were scheduled to mature within five years and 70.9 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds outstanding on June 30, 2015, 40.3 percent were scheduled to mature within five years and 71.0 percent were scheduled to mature with ten years.

[(1)] 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 Continuing 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 2014 valuation, was estimated by the Commissioner of Revenue to be $593,218,524,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown represent the value of real and personal property in the State subject to ad valorem taxation.

MARKET VALUE OF TAXABLE PROPERTY
($ in Thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Change 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	576,128,196	5,258,865	581,387,062	3.52
2009	577,697,830	5,510,840	583,208,669	0.31
2010	554,221,643	6,162,283	560,383,926	(3.91)
2011	515,531,688	6,815,342	522,347,003	(6.79)
2012	509,008,895	7,294,854	516,303,749	(1.16)
2013	538,667,874	7,639,228	546,307,102	5.81
2014	584,994,974	8,223,550	593,218,524	8.47

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CONTINGENT LIABILITIES

State Continuing Appropriations

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

Minnesota Department of Management and Budget. The 2009 Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State Certificates of Participation ("COPs"). These COPs 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 COPs. In December, 2012 MMB prepaid $11,495,000 from reverted proceeds that reduced the COP's outstanding balance. As of the date of this Official Statement, there are $31,830,000 of the COPs outstanding.

The 2011 Legislature authorized, in Minnesota Statutes, Section 16A.99, the issuance of State Appropriation Bonds. MMB issued $622,290,000 aggregate principal amount State General Fund Appropriation Refunding Bonds, Taxable Series 2012A and Tax-Exempt Series 2012B (the "State Appropriation Refunding Bonds"). Net proceeds of the State Appropriation Refunding Bonds were applied to the prepayment and refunding of TSA Bonds, as defined herein. As of the date of this Official Statement, there is $584,865,000 of State Appropriation Refunding Bonds outstanding.

The 2012 Legislature authorized, in Minnesota Statutes, Section 16A.965, the issuance of State Appropriation Bonds. MMB issued $462,065,000 aggregate principal amount State General Fund Appropriation Bonds, Tax-Exempt Series 2014A and Taxable Series 2014B (the "State Appropriation Bonds"), all of which are currently outstanding. Net proceeds of the State Appropriation Bonds were applied to the financing of a portion of the costs of acquisition, construction, improving and equipping of the professional football stadium project of the Minnesota Sports Facility Authority as provided by Minnesota Statutes, Section 473J. As of the date of this Official Statement, $462,065,000 of the State Appropriation Bonds remains outstanding. The project is under construction in downtown Minneapolis and is scheduled for completion for the 2016 National Football League season.

The 2013 Legislature authorized the Commissioner of Administration to enter into a long-term lease purchase agreement for the Legislative Office Facility that will provide office and hearing room space as well as parking for the Legislature. The same legislation also authorized the Commissioner of Management and Budget to issue lease revenue bonds or certificates of participation to finance the pre-design, design, and construction and equipping of the building and parking facilities. The lease purchase agreement must not be terminated, except for non-appropriation in respect of lease rental payments. The 2015 Legislature appropriated funds sufficient to pay the lease rental payments of the project through the end of the Current Biennium. The project costs are estimated at $89.6 million. Certificates of participation were issued in August 2014 in the amount of $80,100,000 for this project, all of which is outstanding. The project is under construction proximate to the State Capitol in St. Paul with completion and occupancy scheduled for Fiscal Year 2016.

Pursuant to the Minnesota Statutes, Section 16A.967, the Commissioner of Management and Budget may sell State Appropriation Bonds to finance the land acquisition, design, engineering, easement acquisition and construction of facilities and infrastructure necessary to complete the next phase of the Lewis and Clark Regional Water System project, including completion of a section of a water transmission pipeline in southwest Minnesota to fund up to $19 million in project costs. The State Appropriation Bonds will not be issued until a non-State match of $9 million has been committed to this phase of the project.

University of Minnesota. The 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 $10,250,000 in each of not more than 25 years, beginning in 2008, to the U of M for the payment of special purpose revenue bonds issued by the U of M to finance a portion of the stadium. The U of M issued $137,250,000 Special Purpose Revenue Bonds (State Supported Stadium Debt), Series 2006 ("Series 2006 Stadium Bonds") for the stadium in December 2006, of which $99,220,000 of these bonds remain outstanding. The bonds mature in August 2029. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. Pursuant to Minnesota Statutes, Section 137.54, U of M plans to issue bonds to refund the outstanding $99,220,000 of the Series 2006 Stadium Bonds and up to $10 million in bonds to finance the predesign and design of improved health education and clinical research facilities for the Medical School and the Academic Health Center. U of M anticipates issuing these bonds in August of 2015.

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 $15,550,000 in each year beginning in 2010, for up to 25 years after certification of the last facility 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. The U of M issued State secured appropriation bonds for the Biomedical Science Research Facilities in the amount of $111,400,000 in September 2010, $52,485,000 in bonds in October 2011, and $35,395,000 in November 2013. As of the date of this Official Statement, $182,420,000 of these State secured bonds is still outstanding..

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 and of foreclosure or vacant housing to be used for affordable rental housing. 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 nonprofit housing bonds issued by MHFA for the program. MHFA issued $13,270,000 in bonds to finance this program in 2009 and an additional $21,750,000 in 2011. As of the date of this Official Statement, there are $27,274,000 of the MHFA nonprofit housing bonds outstanding.

In 2012, the Legislature authorized MHFA to issue up to $30,000,000 of housing infrastructure bonds and appropriated from the General Fund up to $2.2 million per year beginning in Fiscal Year 2014 through Fiscal Year 2036 to MHFA for the payment of the bonds. MHFA issued $15,460,000 of the $30 million in bonds as authorized in this legislation in 2013 and an additional $14,540,000 in 2014. As of the date of this Official Statement, there are $28,360,000 of the MHFA housing infrastructure bonds outstanding.

In 2014, the Legislature authorized MHFA to issue an additional $80,000,000 of housing infrastructure bonds and appropriated from the General Fund up to $6.4 million per year beginning in Fiscal Year 2016 through Fiscal Year 2038 to MHFA for the payment of the bonds. MHFA issued $37,570,000 of the State Appropriation (Housing Infrastructure Bonds) in February of 2015 and anticipates issuing the remaining $42,430,000 in the August or September of 2015. As of the date of this Official Statement, there are $32,570,000 of the MHFA housing infrastructure bonds outstanding.

In 2015, the Legislature authorized MHFA to issue an additional $10,000,000 of housing infrastructure bonds and appropriated from the General Fund up to an additional $800,000 per year beginning in Fiscal Year 2018 through Fiscal Year 2039 to MHFA for the payment of the bonds. As of the date of this Official Statement, none of the $10,000,000 in housing infrastructure bonds have been issued.

Lease Purchase Financing For Equipment

The Commissioner of Management and Budget is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner of Management and Budget has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of date of this Official Statement, $25,297,367 of principal is 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 of Management and Budget'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 the date of this Official Statement, principal in the amount of $855,637 is 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.

The Minnesota Department of Commerce is authorized by Minnesota Statutes, Section 16C.144 to establish the Guaranteed Energy Savings Program that utilizes Energy Performance Contracts. The projects, the implementation of energy efficient and renewable energy measures in public facilities by state government agencies, including MnSCU, will be financed through lease purchase agreements. Payments for the lease purchase will be made through the energy and operational savings achieved by the projects. At this point in time, no lease purchase agreements have been entered into by any State agency.

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 the date of this Official Statement, $3,875,000 of the bonds 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 originally sold to finance both of the facilities was $193,105,000. In August 2008 the amount of $3,210,000 was deceased thereby reducing the State's liability. In May 2013 the balance of the original bond issues were refunded and as of the date of this Official Statement there are $103,225,000 of Port Authority Refunding Bonds outstanding. 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 of Management and Budget, 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 the date of this Official Statement, there are approximately $69 million of aid anticipation 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 the date of this Official Statement, 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 2043, is approximately $10.2 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 the date of this Official Statement is $1.9 billion, with the maximum amount of principal and interest payable in any one month being $723 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 and Rehabilitation Board ("IRRRB") 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. Minnesota Laws 2013, Chapter 143 authorized the issuance of an additional $38,000,000 in revenue bonds for the same purpose as previously authorized. The IRRRB issued $37,830,000 of these bonds in October 2013 for this program. As of the date of this Official Statement $36,400,000 of the bonds are outstanding. Laws 2006, Chapter 259, Article 12, Section 15, Minnesota Statutes, Section 298.2211 and an Order of the IRRRB Commissioner authorized the issuance of $7,860,000 in refunding revenue bonds. The proceeds of the bonds were used to refund the remaining outstanding balance of $8,310,000 of the Educational Facilities Revenue Bonds, Series 2006. As of the date of this Official Statement, there are $7,860,000 of the refunding bonds outstanding.

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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 of Management and Budget, 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, (ii) storm water 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 Management and Budget of potential defaults, and the Commissioner of Management and Budget 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 of Management and Budget 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 the date of this Official Statement, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2040, is approximately $533 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 the date of this Official Statement, is $45 million with the maximum amount of principal and interest payable in any one month being $29 million. On August 1, 2013, the State made a $603,000 debt service payment under the program on behalf of the City of Williams with respect to the $600,000 City of Williams, Minnesota General Obligation Grant Anticipation Notes, Series 2010. The City of Williams is contractually obligated to repay the State, with interest, for the $603,000 debt service payment. The current unpaid balance is $116,521. The City and MPFA have entered into a Credit Enhancement Program Loan Agreement and the City is scheduled to make its final loan payment in December 2019. The State does not expect to make any other debt service payments on behalf of cities or counties under the program 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.

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 and outstanding as of the date of this Official Statement 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 time (excluding the principal amount of any refunded bonds or notes) 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.

MINNESOTA HOUSING FINANCE AGENCY
Debt Outstanding as of the date of issue of the Bonds
($'s in Thousands)

	Number of Series	Final Maturity	Original Principal Amount	Outstanding Principal Amount
Rental Housing.........................	9	2049	$ 39,625	$ 36,395
Residential Housing Finance.....	51	2048	2,015,110	1,046,755
Multifamily Housing.................	1	2051	15,000	14,390
	61		$2,069,735	$1,097,540

The MHFA has also issued and there were outstanding as of the date of this Official Statement: three series of its conduit multifamily revenue bonds outstanding in the aggregate principal amount of $61,026,002, Twenty-three series of its Homeownership Finance Bonds outstanding in the aggregate principal amount of $822,803,122, and three series of its Home Ownership Mortgage-backed Exempt Securities in the aggregate principal amount of $28,667,593. These bonds (as well as the nonprofit housing bonds and housing infrastructure bonds described under "State Continuing Appropriations – Minnesota Housing Finance Agency") are subject to the MHFA's $5 billion debt limit, and the Homeownership Finance Bonds are also general obligations of the MHFA, but none of these bonds are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above.

University of Minnesota. Regents of the University of Minnesota (the "University") 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 University has sold and issued bonds, in addition to the special purpose revenue bonds previously mentioned, to finance the construction of buildings and structures, remodeling projects, and purchases of land and buildings needed by the University. The par amount of such bonds outstanding as of the date of this Official Statement is approximately $971,700,000. 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 Continuing 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 "MOHE Act"). 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 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. As amended in 2009 and 2011, Section 136A.1787 of the MOHE Act provides that MOHE must annually determine and certify to the Governor, and the Governor shall 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. If MOHE determines that there is an anticipated deficiency in the debt service reserve fund in the current fiscal year, the Governor shall include and submit the amounts certified in a Governor's supplemental budget if the regular budget for that year has previously been enacted. The Legislature is not legally obligated to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. As of the date of this Official Statement, MOHE has $518,905,000 of bonds outstanding payable from the Student Educational Loan Fund, of which $518,905,000 are secured by a debt service reserve fund subject to replenishment from legislative appropriation as described above. MOHE has never certified a deficiency to the Governor. Bonds issued by MOHE are limited obligations of MOHE and are not a debt or liability of the State, but are payable solely from loan repayments, external forms of credit enhancement, loan and investment earnings, other money of the MOHE (including debt service reserve fund amounts), and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities ("MnSCU"). MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes 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 and colleges within the Minnesota State Colleges and Universities System. As of the date of this Official Statement, MnSCU has $266,165,000 tax exempt bonds and $59,725,000 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, 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 guarantees have been issued to date with outstanding balances of $2,907,652 and the other for $7,700,000. The guarantees are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority ("MHEFA"). 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 the date of this Official Statement, MHEFA has $871,351,794 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. The bonds are not the general obligation or indebtedness of MHEFA or the State and the loan repayment obligation and security for each issue is the responsibility of the institution for which the project is financed.

Minnesota State Armory Building Commission ("MSABC"). 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 any time may not exceed $15,000,000. As of the date of this Official Statement, MSABC has $1,655,000 principal amount of bonds outstanding. 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 the date of this Official Statement, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Management and Budget is authorized to issue up to $239.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $224.6 million of these bonds 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 the date of this Official Statement, the RFA has $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 the date of this Official Statement, the MPFA has $245,930,000 Clean Water Revolving Fund Revenue Bonds outstanding, $93,530,000 Drinking Water Revolving Fund Revenue Bonds outstanding, $564,465,000 State Revolving Fund Revenue bonds outstanding and $9,060,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $912,985,000. The MPFA's bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at any time may not exceed $1,500,000,000, excluding bonds issued under Minnesota Statutes, Section 446A.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 the date of this Official Statement, MAEDB has called all pooled revenue bonds outstanding, therefore there are no bonds outstanding that 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 has $407,241,140 of revenue bonds outstanding 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.

Minnesota Department of Management and Budget ("MMB"). The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of State revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Management and Budget sold $29,000,000 of the revenue bonds in June 2000. The balance of the original bond issue, $22,900,000, was refunded in a current refunding bond issue in August 2012 and as of the date of this Official Statement; there are $17,045,000 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 of Management and Budget sold $35,000,000 of the revenue bonds in November 2006, an additional $42,205,000 of revenue bonds in November 2008, an additional $60,510,000 of revenue bonds in October 2009 and an additional $60,360,000 in revenue bonds in September 2011. As of the date of this Official Statement, there are $114,150,000 of the 911 Revenue Bonds outstanding.

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APPENDIX D

PROJECT DESCRIPTION AND SCHEDULE OF BONDS BEING REFUNDED

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PROJECT DESCRIPTION

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose. In the Order authorizing the issuance of the Bonds the Commissioner has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "General Obligation Bonds Authorized, Issued and Unissued" and on page C-2 of Appendix C.

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
2005, Chapter 20				
	DNR	Systemwide	State Trail Develop	7,910
	BWSR	Statewide	Local Gov't Wetland Road	4,362
	DEED	Statewide	Redevelopment Grants	15,000
2006, Chapter 258				
	DNR	Statewide	Trail Connections Grants	2,010
	PCA	Koochiching	County Clean Energy Facility	2,500
	DHS	Systemwide	Redevelopment	5,000
	Met Council	Bloomington	Cedar Avenue Busway	5,000
	MHFA	Statewide	Permanent Support. Housing Loans	17,500
2008, Chapter 152				
	Transportation	Statewide	State Road Construction	1,717,694
	Transportation	Statewide	Great River Road	4,299
	Transportation	Statewide	Urban Partnership Agreement	24,778
	Transportation	Mankato	District Headquarters	23,983
	Transportation	Chaska	Chaska Truck Station	8,649
	Transportation	Rochester	Truck Station Design	2,000
	Administration	St. Paul	Transportation Building Exterior Repair	18,197
	Finance	Statewide	Bond Sale Expense - Trunk Highway	1,800
	Transportation	Statewide	Local Bridge Replacement and Rehab	50,000
	Transportation	Statewide	Local Road Improvement Program	10,000
2008, Chapter 365				
	DN R	Systemwide	Asset Preservation	3,400
	DNR	Lake Vermilion	Lake Vermilion State Park Land Acquisition	20,000
	Metro Council	Bloomington	Old Cedar Avenue Bridge	2,000
2009, Chapter 36				
	MnDOT	Systemwide	Interchange Construction	40,000
	MMB	Statewide	Bond Sale Expenses	40
2009, Chapter 93				
	DNR	Statewide	Flood Hazard Mitigation Grants	53,800
	BWSR	Statewide	RIM Conservation Reserve	500
	MnDOT	Statewide	Local Bridge Replacement & Rehabilitation	10,000
	MnDOT	Statewide	MN Valley Railroad Track Rehabilitation	4,000
	MnDOT	Statewide	Intercity Passenger Rail Projects	26,000
	MnDOT	Systemwide	Port Development Assistance	3,000
	MnDOT	Alexandria	Aircraft Surveillance Facility	2,000
	MnDOT	Big Fork	Airport Runway	1,700
	MnDOT	Duluth	Airport Terminal	4,900
	Met Cncl	Systemwide	Transit Capital Improve. Prog.	21,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Met Cncl	Minneapolis	Veterans Victory Memorial Parkway	1,000
	Vets Affair	Systemwide	Asset Preservation	1,000
	Vets Affair	Systemwide	Veterans Cemeteries	1,500
	Correction	Systemwide	Asset Preservation	4,000
	DEED	St. Louis Cty	Redevelopment Grant Program	750
	MnHFA	Statewide	Public Housing	2,000
	Hist Soc.	Systemwide	Historic Sites Asset Preservation	2,165
	MMB	Statewide	Bond Sale Expenses	343
	Public Saf.	Statewide	State & Local Match for Fed. Asst.	3,900
	BWSR	Statewide	RIM Conservation Easements	500
	MMB	Statewide	Bond Sale Expenses-Var. Purpose	250
2010, Chapter 189				
	MN Academies	Systemwide	Asset Preservation	2,000
	DNR	Statewide	Asset Preservation	1,000
	DNR	Statewide	Flood Hazard Mitigation	63,500
	DNR	Statewide	Ground Water Monitor & Observation Wells	1,000
	DNR	Statewide	Dam Renovation and Removal	4,000
	DNR	Statewide	WMA and AMA Acquisition	1,000
	DNR	Statewide	RIM Critical Habitat Match	3,000
	DNR	Statewide	MN Forests for the Future	500
	DNR	Statewide	State Forest Land Reforestation	3,000
	DNR	Statewide	Shade Tree Program	3,000
	DNR	Statewide	State Park Rehabilitation	4,659
	DNR	Statewide	State Park and Recreation Area Acq.	2,150
	DNR	Cuyuna	State Park and Recreation Area Dev.	1,250
	DNR	Glendalough	State Park and Recreation Area Dev.	350
	DNR	Statewide	State Trail Rehabilitation	4,000
	DNR	Aitkin County	Regional Trail - NW Reg. ATV Trail	500
	DNR	Statewide	Trail Connections	3,292
	DNR	Fort Ripley	St. Mathias Trail Paving	50
	BWSR	Statewide	Wetland Replacement	2,500
	Administration	Statewide	CAPRA	2,000
	Administration	Statewide	Asset Preservation	8,075
	Administration	Eagan	Public Servant Memorial	100
	Mil. Affairs	Systemwide	Asset Preservation	4,000
	Mil. Affairs	Systemwide	Facility Life Safety Improvements	1,000
	Public Safety	Arden Hills	State Emergency Operations Center	2,250
	MnDOT	Statewide	Local Bridge Replacement & Rehabilitation.	66,000
	MnDOT	Statewide	Rail Service Improvement	2,000
	MnDOT	Statewide	MN Valley Railroad Track Rehab..	5,000
	MnDOT	St. Cloud	Northstar Commuter Rail Extension	1,000
	MnDOT	Statewide	RR Grade Warning Devices Replace.	2,500
	MnDOT	Duluth	Airport Terminal	11,700

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnDOT	Rochester	Trunk Highway-Maintenance Fac.	26,430
	Metro Council	Metro	Parks and Trails	10,500
	Metro Council	Bloomington	Old Cedar Avenue Bridge	2,000
	Metro Council	Inver Grove Hts.	Rock Island Bridge Park & Trl Dev.	1,000
	DHS	Systemwide	Asset Preservation	2,000
	DHS	Moose Lake	MSOP Phase II	47,500
	Vets Affairs	Systemwide	Asset Preservation	4,000
	Vets Affairs	Minneapolis	Building 17	9,450
	Corrections	Systemwide	Asset Preservation	8,000
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Prog.	10,000
	DEED	Statewide	Innovative Business Dev. Grant Prog	4,000
	DEED	Statewide	Redevelopment Account	5,000
	DEED	Minneapolis	Orchestra Hall	16,000
	DEED	Ramsey County	Rice Street Bioscience Corridor	5,000
2010, Chapter 388				
	MnDOT	Systemwide	State Road Construction	30,000
	MnDOT	Systemwide	Interchange Construction	70,000
Special Session 2010, Chapter 1				
	MnDOT	Statewide	Local Bridge Replacement/Rehab	10,000
	DNR	Statewide	Flood Hazard Mitigation	10,000
	DNR	Statewide	Dam Renovation/Removal	1,000
	BWSR	Statewide	RIM Conservation Reserve	10,000
Special Session 2011, Chapter 12				
	MnSCU	Systemwide	HEAPR	30,000
	MnSCU	Anoka-Ramsey	Fine Arts Building Renovation	5,357
	MnSCU	Hennepin TC	Learning Res. & Student Serv. Ren.	10,566
	MnSCU	Metro State	Sci. Ed. Ctr Design & Property Acq.	3,444
	MnSCU	Moorhead	Lord Library & Info. Tech. Ren.	14,901
	MnSCU	Normandale	Academic Part. Ctr & Student Serv..	21,984
	MnSCU	Virginia	Iron Range Eng. Program Facilities	3,000
	MN Academies	Systemwide	Asset Preservation	2,160
	DNR	Statewide	Asset Preservation	17,000
	DNR	Statewide	Flood Hazard Mitigation	50,000
	DNR	Statewide	Roads and Bridges	4,800
	DNR	Lake Vermilion	Park Development	8,000
	DNR	Statewide	Ground Water Monitoring and Observation Wells	600
	DNR	Coon Rapids	Dam Renovation	16,000
	DNR	Statewide	State Trail Acquisition and Development	5,800
	DNR	Two Harbors	Lake Superior Campground Expansion	1,250
	PCA	Statewide	Closed Landfill Cleanup Program	7,000
	BWSR	Statewide	RIM Conservation Reserve	20,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	BWSR	MN River Basin	Area II - Floodwater Retention Grants	1,000
	BWSR	Willmar	Easement Acquisition, Water Control, Wetland	1,614
	MN Zoo	Apple Valley	Asset Preservation and Exhibit Renewal	4,000
	Administration	Statewide	CAPRA	2,830
	Administration	Statewide	Asset Preservation	4,150
	Administration	Capitol Complex	Asset Preservation	4,000
	OET	Systemwide	Renovate Three Data Centers	5,659
	Mil. Affairs	Systemwide	Asset Preservation	3,775
	Mil. Affairs	Camp Ripley	State Education Complex Addition Design	1,830
	Public Safety	Hennepin County	Regional 911 Emergency Comm. Center	4,700
	MnDOT	Statewide	Local Bridge Replacement/Rehab	33,000
	MnDOT	Statewide	Local Road Improvement Fund Grants	10,000
	MnDOT	Statewide	Railroad Grade Warning Devices Replace.	3,000
	MnDOT	Greater MN	Transit Assistance	2,500
	MnDOT	Statewide	Port Development Assistance	3,000
	MnDOT	Statewide	Airport Infrastructure Program	3,700
	MnDOT	St. Louis Park	Rail Service - Noise Abatement	700
	Metro Council	Systemwide	Transit Capital Improve Program	20,000
	Metro Council	Systemwide	Regional Parks and Trails	5,000
	DHS	Systemwide	Asset Preservation	4,700
	DHS	Systemwide	Early Childhood Learning Facilities	1,900
	DHS	St. Peter	MSOP - Shantz Bldg Renovation	7,000
	DHS	Systemwide	Remembering with Dignity	300
	Vets Affairs	Systemwide	Asset Preservation	2,300
	Corrections	Systemwide	Asset Preservation	19,000
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Program	4,000
	DEED	Statewide	Innovative Business Dev.Grant Program	5,000
	DEED	Bloomington	Lindau Lane Corridor	15,450
	DEED	Hennepin County	African American History Museum	1,000
	Historical Soc.	Statewide	Historic Sites Asset Preservation	1,900
	MMB	Statewide	Bond Sale Expenses	553
2012, Chapter 287				
	MnDOT	Rochester	Maintenance Facility	16,100
	MMB	Statewide	Bond Sale Expenses	20
2012, Chapter 293				
	U of M	Systemwide	HEAPR	50,000
	U of M	Itasca	Facility Improvements	4,060
	MnSCU	Systemwide	HEAPR	20,000
	MnSCU	Anoka-Ramsey	Bioscience/Health Addn	980
	MnSCU	Century College	Classroom Addition	5,000
	MnSCU	Dakota County TC	Trans and Tech Lab Renovation	7,230
	MnSCU	Mankato	Clinical Science Building Design	2,065
	MnSCU	Minneapolis TC	Workforce Program Renovation	13,389
	MnSCU	North Hennepin CC	Bioscience/Health Addition	26,292

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnSCU	Ridgewater CC	Technical Instruction Lab Renovation	13,851
	MnSCU	St. Cloud	Medium Heavy Truck and Autobody Addition	4,000
	MnSCU	St. Paul	Health and Science Alliance Center Addition/Renovation Design	1,500
	MnSCU	Worthington	Classroom Renovation/Addition	4,606
	MnSCU	Itasca CC	Renovation, Addition, Demo.	4,549
	MnSCU	Rochester	Work Force Center Colocation	8,746
	MnSCU	Faribault	Classroom Renovation & Addition	13,315
	MnSCU	SWSU-Marshall	Science Lab Renovation/Addition Design	500
	MnSCU	Systemwide	Engineering & Math Lab Initiatives	2,500
	Education	Statewide	Library Accessibility and Improvement Grants	1,000
	MN Academies	Systemwide	Asset Preservation	1,000
	Perpich Ctr Arts	Golden Valley	Loading Dock Repair	64
	Perpich Ctr Arts	Golden Valley	Road Repair	99
	Perpich Ctr Arts	Golden Valley	Storm Drainage	100
	DNR	Statewide	Flood Hazard Mitigation	30,000
	DNR	Statewide	Dam Repair, Reconstruction and Removal	3,000
	DNR	Statewide	Roads and Bridges	2,000
	DNR	Statewide	Forest Land Reforestation	2,500
	DNR	Statewide	Parks and Trails Renewal and Development	4,000
	DNR	Lake Vermilion	State Park Development	2,000
	DNR	Lake Zumbro	Sedimentation Dredging	3,000
	PCA	Statewide	Closed Landfill Cleanup Program	2,000
	BWSR	Statewide	RIM Conservation Reserve	6,000
	BWSR	Statewide	Wetland Restoration -Public Road Projects	6,000
	Agriculture	St. Paul	Emergency Power Supply for MDA/MDH Labs	706
	RFA	Statewide	Rural Finance Authority Loans	33,000
	Administration	Capitol Complex	Asset Preservation	500
	Administration	Capitol Complex	Capitol Restoration	44,000
	Administration	Statewide	CAPRA - Asset Preservation	1,000
	Administration	Hennepin County	Washburn Center for Children	5,000
	Administration	Capitol Complex	Peace Officers' Memorial Renovation	55
	Mil. Affairs	Systemwide	Asset Preservation	4,000
	Mil. Affairs	Camp Ripley	State Education Complex Addition	19,500
	MnDOT	Statewide	Local Bridge Replacement/Rehab	30,000
	MnDOT	Statewide	Local Road Improvement Fund Grants	10,000
	MnDOT	Statewide	Greater Minnesota Transit Assistance	6,400

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnDOT	Statewide	Railroad Warning Devices Replacement	2,000
	MnDOT	Statewide	Port Development Assistance	1,000
	Metro Council	Systemwide	Metropolitan Regional Parks	4,586
	Metro Council	Systemwide	Municipal Wastewater Systems Inflow & Infiltration Abatement Grants	4,000
	Metro Council	Minneapolis	Phillips Community Center Pool	1,750
	DHS	Systemwide	Asset Preservation	2,000
	DHS	St. Peter	Security Hospital (MSH) Phase I design	3,683
	Vets Affairs	Systemwide	Asset Preservation	3,000
	Vets Affairs	Minneapolis	Veterans Home Bldg 17 South Design	3,050
	Vets Affairs	Minneapolis	Veterans Home Centralized Pharmacy Bldg 13	1,366
	Corrections	Systemwide	Asset Preservation	5,000
	Corrections	Stillwater	Well and Water Treatment Facility	3,391
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Prog.	6,000
	DEED	Statewide	Redevelopment Account Grants	3,000
	DEED	Statewide	Transportation Economic Development Program	3,000
	DEED	Statewide	Business Development Capital Project Grant Program	47,500
	DEED	Austin	Research and Technology Center	13,500
	DEED	Bemidji	Regional Public Television Station	3,000
	MHFA	Statewide	Public Housing Rehabilitation	5,500
	Historical Soc.	Statewide	Historic Sites Asset Preservation	2,500
	Historical Soc.	Statewide	County and Local Preservation Grants	750
	MMB	Statewide	Bond Sale Expenses	560
Special Session 2012, Chapter 1				
	Public Safety	Statewide	State Match for Public Assistance	2,285
	Transportation	Statewide	Local Road and Bridges	30,000
	DNR	Systemwide	Facility and DNR Damage	6,855
	DNR	Systemwide	Flood Hazard Mitigation Grants	9,000
	BWSR	Statewide	RIM Conservation Easements	1,500
	MMB	Statewide	Bond Sale Expense	61
	Transportation	Systemwide	Trunk Highways and Bridges	35,000
	MMB	Statewide	Bond Sale Expense - THF	40
2013, Chapter 117				
	MnDOT	Systemwide	Trunk Highway Project	300,000
	MMB	Statewide	Bond Sale Expenses	300
2013, Chapter 136				
	DNR	Statewide	Flood Hazard Mitigation	20,000
	Administration	Capitol Complex	Capitol Renovation & Restoration	109,000
	Administration	Capitol Complex	Parking Facility	22,680
	Vets Affairs	Minneapolis	Veterans Home Bldg 17 and Surrounding Area	18,935
	MMB	Statewide	Bond Sale Expenses	180

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
2014, Chapter 294				
	U of M	Systemwide	HEAPR	42,500
	U of M	Twin Cities	Tate Science and Teaching Renovation	56,700
	U of M	Crookston	Campus Wellness Center	10,000
	U of M	Systemwide	Research Laboratory Improvement Fund	8,667
	U of M	Duluth	Chemical Sciences & Advanced Materials Bldg.	1,500
	MnSCU	Systemwide	HEAPR	42,500
	MnSCU	Metro State	Science Education Center	35,865
	MnSCU	Bemidji	Business Bldg Ren and Demo	13,790
	MnSCU	Duluth	Lake Superior College Allied Health	5,266
	MnSCU	Minneapolis	C&TC Workforce Program	3,600
	MnSCU	St. Paul	College Initiatives	1,500
	MnSCU	Winona	College-SE Tech Initiatives	1,700
	MnSCU	Staples	Campus Rightsizing	4,234
	MnSCU	Mankato	Clinical Sciences Facility	25,818
	MnSCU	Moorhead	MSCTC - Moorhead Transportation Center	6,544
	MnSCU	Rochester	Rochester C&TC Design, Post-Demolition	1,000
	MnSCU	Maplewood	Century College Initiatives	2,020
	MnSCU	Thief River Falls	C&TC - Aviation Maintenance Facility	5,864
	MnSCU	Minneapolis	NHED - Initiatives & Demolition	3,344
	MnSCU	Winona	Winona State - Education Village	5,902
	MnSCU	St. Cloud	St. Cloud State Student Health & Academic Ren.	865
	Education	Red Lake	Red Lake ISD #38 Capital Loan	5,491
	Education	Statewide	Library Accessibility and Improvement Grants	2,000
	MN Academies	Faribault	New Dormitory	10,654
	MN Academies	Faribault	Asset Preservation	700
	Ctr for Arts	Golden Valley	Asset Preservation	2,000
	DNR	Systemwide	Asset Preservation	10,000
	DNR	Systemwide	Buildings and Facilities Development	2,000
	DNR	Systemwide	Flood Hazard Mitigation	4,500
	DNR	Systemwide	Dam Repair / Reconstruction / Removal	6,500
	DNR	Systemwide	Reforestation and Stand Improvement	2,963
	DNR	Systemwide	Vermilion State Park Development	14,000
	DNR	Systemwide	Fish Hatchery Improvements	2,000
	DNR	Systemwide	State Parks and Trails Acquisition and Devel.	17,667
	DNR	St. Paul	Fort Snelling Upper Post Paths	500
	DNR	E. Grand Forks	Red River Recreation Area	250
	DNR	Grant County	Elbow Lake to Pomme de Terre Lake	100
	DNR	Olmsted Cty	Lake Zumbro Reclamation	500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DNR	Sartell	Central Minnesota Regional Parks	500
	PCA	Statewide	Capital Assist Program	2,625
	BWSR	Statewide	Reinvest in Minnesota Reserve Program	6,000
	BWSR	Statewide	Local Roads Wetlands Replacement Program	2,000
	Agriculture	St. Paul	Agricultural Lab Sample Storage Room	203
	MN Zoo	Apple Valley	Heart of the Zoo II	5,000
	MN Zoo	Apple Valley	Asset Preservation	7,000
	Administration	St. Paul	Capitol Restoration Continue	126,300
	Administration	St. Paul	Hmong Veterans Memorial	450
	Administration	St. Paul	Workers Memorial	250
	Amateur Sports	Marshall	Southwest Reg. Sports Center	4,298
	Amateur Sports	Blaine	National Sports Ctr. Tournament Fields	3,200
	Public Safety	Cottage Grove	Public Safety Training Center	1,460
	Public Safety	Maplewood	Public Safety Training Center	1,650
	Public Safety	Montgomery	Public Safety Facility	220
	Public Safety	St. Louis County	Sheriff's Rescue and Storage	700
	Mil. Affairs	Systemwide	Asset Preservation	2,000
	Mil. Affairs	Brooklyn Park	Addition/Renovation	1,244
	MnDOT	Statewide	Local Bridge Replacement Program	12,257
	MnDOT	Statewide	Local Road Improvement Fund Grants	24,356
	MnDOT	Systemwide	Greater Minnesota Transit	1,500
	MnDOT	Statewide	Highway/Rail Grade Crossings	2,000
	MnDOT	Statewide	Port Development Assistance	2,000
	MnDOT	Chisholm/Hibbing	Range Regional Airport	5,000
	MnDOT	International Falls	Airline Terminal	2,200
	Metro Council	Metropolitan	Regional Parks	4,000
	Metro Council	Systemwide	Transitway Capital Improvement	15,000
	Metro Council	Systemwide	Metro Municipalities - Inflow and Infiltration	2,000
	Metro Council	Inver Grove Hgts	Heritage Village Park	2,000
	Metro Council	Fridley	Springbrook Nature Center	5,000
	Metro Council	Maplewood	Fish Creek Greenway Corridor	318
	Metro Council	Minneapolis	Park Sculpture Garden	8,500
	Metro Council	Oakdale	Mud Lake Trail and Boardwalk ADA	150
	Metro Council	St. Paul	Como Regional Park Access	5,400
	Metro Council	Hastings	Hastings Bridge Trail	1,600
	Metro Council	West St. Paul	North Urban Regional Trail Bridge	2,000
	DHS	St. Peter	Security Hospital - Design, Construct, Remodel	56,317
	DHS	St. Peter	MSOP - Remodel, Construct	7,405
	DHS	Systemwide	Asset Preservation	3,000
	DHS	Systemwide	Early Childhood Facilities	6,000
	DHS	Maplewood	Harriet Tubman Center	720
	DHS	Hennepin Cty	St. David's Center	3,750
	DHS	St. Louis County	AEOA & RMH Office Building	3,000
	DHS	St. Paul	Dorothy Day Center	6,000
	DHS	Statewide	Remembering with Dignity	195
	Vets Affairs	Systemwide	Asset Preservation	2,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Vets Affairs	Minneapolis	Deep Tunnel	700
	Vets Affairs	North St. Paul	Veterans Memorial	100
	Corrections	Systemwide	Asset Preservation	5,500
	Corrections	Shakopee	Perimeter Security Fence	5,381
	Corrections	Saginaw	NE Regional Corrections Center	1,000
	DEED	Statewide	Business Development Public Infrastructure	4,000
	DEED	Alexandria	Jefferson High School Redevelopment	1,400
	DEED	Chatfield	Center for the Arts	5,352
	DEED	Clara City	South Hawk Creek Business Park	748
	DEED	Cosmos	Municipal Building Project	600
	DEED	Fosston	Second Street South	400
	DEED	Grand Rapids	ISD - Performing Arts Center	3,897
	DEED	Hanover	Crow River Bridge	78
	DEED	Lake Elmo	Water Main Extension	3,500
	DEED	Litchfield	Power Generation Predesign	250
	DEED	Minneapolis	Nicollet Mall Revitalization	21,500
	DEED	Minneapolis	Park Brd Brian Coyle Comm. Ctr	330
	DEED	Minneapolis	Minneapolis -	550
	DEED	Park Rapids	Upper Mississippi Center	2,500
	DEED	Red Wing	Red Wing River Town Renaissance	1,560
	DEED	St. Paul	Children's Museum	6,515
	DEED	St. Paul	Historic Palace Theater Renovation	5,000
	DEED	St. Paul	MN Public Media Commons	9,000
	DEED	Thief River Falls	Airport, Elim Wastewater Ponds	650
	DEED	Thief River Falls	Public Infrastructure	800
	DEED	Virginia	PUC - Expand Utilities and Trails	19,500
	PFA	Statewide	Wastewater Infrastructure Funding	18,333
	PFA	Big Lake	Sanitary Dist. - Wastewater Collection	4,500
	PFA	Koochiching Cty	Clean Water Project	8,567
	PFA	Rice Lake	East Calvary Water Main Replacement	1,168
	PFA	Truman	Storm Water Project	1,425
	MHFA	Statewide	Public Housing Rehabilitation	20,000
	Historical Soc.	Elk River	Oliver Kelley Farm Historic Site Visitor Center	10,562
	Historical Soc.	Systemwide	Historic Sites Asset Preservation	1,440
	MMB	Statewide	Bond Sale Expenses	900
Special Session 2015, Chapter 5				
	U of M	Willmar	Poultry Testing Laboratory	8,529
	U of M	St. Paul	Veterinary Isolation Facility Replacement	18,000
	MnSCU	Minnesota West CTC	Classrooms, Power line Facility & Geothermal	3,267
	MnSCU	Dakota County TC	Transportation and Emerging Tech Reno.	7,733
	MnSCU	Anoka TC	Manufacturing Tech Hub & Auto Tech Lab Reno.	2,114
	MnSCU	St. Paul College	Health & Science Alliance Center Addition	18,829

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Natural Resources	Ottertail County	Flood Hazard Mitigation	10,000
	Natural Resources	Statewide	Flood Hazard Mitigation	13,549
	PCA	Clay, McLeod & Dodge	County Capital Assistance Program	1,276
	PCA	Polk County	County Capital Assistance Program	8,000
	PCA	Statewide	Superfund Drinking Water Program	1,750
	BWSR	MN River Basin	Flood Mitigation	1,000
	Agriculture	E. Grand Forks	Potato Inspection Facility	50
	Administration	St. Paul	Capitol Restoration - Out of Scope Items	26,724
	Administration	St. Paul	Capitol Restoration - Security Items	6,200
	MnDOT	Statewide	Local Bridge Program	7,410
	MnDOT	Statewide	Local Road Program	4,290
	MnDOT	Sandstone	Local Road Program	850
	MnDOT	Willmar	Local Road Program	3,770
	MnDOT	MN Valley RRA	Bridge Rehabilitation Grant	1,000
	MnDOT	Plymouth	Vicksburg Lane Railroad Crossing Grant	4,700
	MnDOT	Rainy River	Railroad Grade Crossing Grant	460
	MnDOT	Richfield	77th Street Underpass Grant	10,000
	MnDOT	Statewide	Trunk Highway Bonding	140,000
	Metro Council	Statewide	Inflow and Infiltration Grants	1,500
	Vets Affairs	Minneapolis	Veterans Home Bridge	650
	Corrections	St. Louis County	Northeast Regional Corrections Center	1,200
	DEED	Greater Minnesota	Business Development Public Infrastructure Grants	1,000
	DEED	Statewide	Transportation Economic Development Grants	2,000
	PFA	Statewide	Wastewater Infrastructure Fund	10,000
	Historical Soc.	Fort Snelling	Visitor Services and History Program Pre-design	500
	MMB	Statewide	Bond Sale Expenses	180
	MMB	Statewide	Trunk Highway Bond Sale Expenses	140
	Natural Resources	Systemwide	DNR Facility and Natural Resource Damage Repair	2,140
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	2,515
	BWSR	Statewide	RIM Conservation Easements	4,700
	MnDOT	Statewide	Local Roads	800
	DEED	Steele County	Public works Building Grant	4,000
	MMB	Statewide	Bond Sale Expenses	11

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SCHEDULE OF BONDS BEING REFUNDED

Various Purpose Refunding Bonds:

Proceeds of the Series 2015D Bonds will be used to refund the following bonds.

General Obligation State Various Purpose Bonds dated October 1, 2005, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on October 1, 2016, will be called for redemption and prepayment on October 1, 2015, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
10/1/2016	$8,275,000	5.000%	60412ABZ5

* 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 14, 2007, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2018, will be called for redemption and prepayment on August 1, 2017, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
8/1/2018	$29,920,000	5.000%	60412ACA9
8/1/2019	29,920,000	5.000%	60412ACB7
8/1/2020	29,920,000	5.000%	60412ACC5
8/1/2021	29,920,000	5.000%	60412ACD3
8/1/2022	29,920,000	5.000%	60412ACE1
8/1/2023	29,920,000	5.000%	60412ACF8
8/1/2024	29,920,000	5.000%	60412ACG6
8/1/2025	29,920,000	5.000%	60412ACH4
8/1/2026	29,920,000	5.000%	60412ACJ0
8/1/2027	29,920,000	5.000%	60412ACK7

* 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 5, 2008, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after June 1, 2019, will be called for redemption and prepayment on June 1, 2018, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
6/1/2019	$11,300,000	5.000%	604129HJ8
6/1/2020	11,300,000	5.000%	604129HK5
6/1/2021	11,300,000	5.000%	604129HL3
6/1/2022	11,300,000	5.000%	604129HM1
6/1/2023	11,300,000	5.000%	604129HN9
6/1/2024	11,300,000	5.000%	604129HP4
6/1/2025	11,300,000	5.000%	604129HQ2
6/1/2026	11,300,000	4.625%	604129HR0
6/1/2027	11,300,000	4.750%	604129HS8
6/1/2028	11,300,000	4.750%	604129HT6

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Trunk Highway Refunding Bonds:

Proceeds of the Series 2015E Bonds will be used to refund the following bonds.

General Obligation State Trunk Highway Bonds dated August 5, 2008, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after June 1, 2019, will be called for redemption and prepayment on June 1, 2018, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
6/1/2019	$1,405,000	4.000%	604129JE7
6/1/2020	1,405,000	4.125%	604129JF4
6/1/2021	1,405,000	4.125%	604129JG2
6/1/2022	1,405,000	4.500%	604129JH0
6/1/2023	1,405,000	4.500%	604129JJ6
6/1/2024	1,405,000	5.000%	604129JK3
6/1/2025	1,405,000	4.500%	604129JL1
6/1/2026	1,405,000	4.500%	604129JM9
6/1/2027	1,405,000	4.500%	604129JN7
6/1/2028	1,405,000	5.000%	604129JP2

* 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.

APPENDIX E

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

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SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Minnesota Share of U.S.	% Change U.S.	% Change Minnesota
Census (April 1)					
2000	281,425	4,920	1.75 %	-	-
2010	308,746	5,304	1.72	-	-
Intercensal Population Estimates (July 1)					
2000	282,162	4,934	1.75 %	1.1 %	1.2 %
2001	284,969	4,983	1.75	1.0	1.0
2002	287,625	5,019	1.74	0.9	0.7
2003	290,108	5,054	1.74	0.9	0.7
2004	292,805	5,088	1.74	0.9	0.7
2005	295,517	5,120	1.73	0.9	0.6
2006	298,380	5,164	1.73	1.0	0.9
2007	301,231	5,207	1.73	1.0	0.8
2008	304,094	5,247	1.73	1.0	0.8
2009	306,772	5,281	1.72	0.9	0.7
2010	309,347	5,310	1.72	0.8	0.6
2011	311,722	5,348	1.72	0.8	0.7
2012	314,112	5,381	1.71	0.8	0.6
2013	316,498	5,422	1.71	0.8	0.8
2014	318,857	5,457	1.71	0.7	0.6

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff in June 2015.

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NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2014
(Thousands of Jobs)

Industry	**Minnesota**	**% of Total**	**U.S.**	**% of Total**
Total Private	2,393.7	85.1	117,180	84.3
Goods-Producing	426.3	15.2	19,223	13.8
Mining and Logging	7.1	0.3	896	0.6
Construction	107.0	3.8	6,138	4.4
Manufacturing Durables	198.8	7.1	7,685	5.5
Manufacturing Non-Durables	113.4	4.0	4,503	3.2
Private Service Providing	1,967.4	69.9	97,957	70.5
Wholesale Trade	131.9	4.7	5,826	4.2
Retail Trade	289.3	10.3	15,364	11.1
Transportation, Warehousing, Utilities	95.6	3.4	5,193	3.7
Information	52.8	1.9	2,740	2.0
Financial Activities	178.6	6.3	7,979	5.7
Professional and Business Services	352.8	12.5	19,096	13.7
Education and Health Services	498.8	17.7	21,475	15.4
Leisure and Hospitality	254.3	9.0	14,710	10.6
Other Services	113.4	4.0	5,573	4.0
Government	419.6	14.9	21,863	15.7
Total (Non-Farm)	**2,813.3**	**100.0**	**139,042**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2015.

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EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2014
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Wood Products	10.7	5.4	372	4.8
Fabricated Metal Products	42.6	21.4	1,455	18.9
Machinery	32.4	16.3	1,129	14.7
Computers and Electronic Products	45.1	22.7	1,050	13.7
Transportation Equipment	11.5	5.8	1,563	20.3
Medical Equipment and Supplies	15.5	7.8	308	4.0
Other Durables	40.9	20.6	1,809	23.5
Total Durable Goods Manufacturing	**198.8**	**100.0**	**7,685**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2015.

EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2014
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	45.9	40.5	1,481	32.9
Paper Mfg., & Printing and Related	33.3	29.4	824	18.3
Other Non-Durables	34.2	30.1	2,198	48.8
Total Non-Durable Goods	113.4	100.0	4,503	100.0

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2015.

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NON-FARM EMPLOYMENT-MIX OF UNITED STATES AND MINNESOTA: 1990, 2000 AND 2010 (Thousands of Jobs)

	Minnesota					United States				
				%Change					% Change	
Category	**1990**	**2000**	**2010**	**90-00**	**00-10**	**1990**	**2000**	**2010**	**90-00**	**00-10**
Total Private	1,788.0	2,277.3	2,224.1	27.4	(2.3)	91,072	111,230	107,785	22.1	(3.1)
Goods-Producing	427.8	523.5	386.3	22.4	(26.2)	23,723	24,649	17,751	3.9	(28.0)
Mining and Logging	8.4	8.1	6.0	(3.6)	(26.3)	765	599	705	(21.7)	17.7
Construction	77.9	118.8	87.6	52.5	(26.3)	5,263	6,787	5,518	29.0	(18.7)
Manufacturing Durables	217.2	255.4	183.4	17.6	(28.2)	10,737	10,877	7,064	1.3	(35.1)
Manufacturing Non-Durables	124.2	141.1	109.3	13.6	(22.5)	6,958	6,386	4,464	(8.2)	(30.1)
Private Service Providing	1,360.2	1,753.7	1,837.8	28.9	4.8	67,349	86,581	90,034	28.6	4.0
Wholesale Trade	106.6	129.0	123.2	21.0	(4.5)	5,268	5,933	5,452	12.6	(8.1)
Retail Trade	255.8	307.1	277.1	20.1	(9.8)	13,182	15,280	14,440	15.9	(5.5)
Transportation, Warehousing, Utilities	85.8	103.3	89.7	20.4	(13.1)	4,216	5,012	4,744	18.9	(5.3)
Information	54.3	69.2	54.1	27.4	(21.8)	2,688	3,630	2,707	35.0	(25.4)
Financial Activities	129.3	164.8	170.8	27.5	3.6	6,614	7,783	7,695	17.7	(1.1)
Professional and Business Services	214.5	319.2	315.2	48.8	(1.3)	10,848	16,666	16,728	53.6	0.4
Education and Health Services	241.8	324.5	458.4	34.2	41.3	10,984	15,247	19,889	38.8	30.4
Leisure and Hospitality	180.5	221.6	235.2	22.8	6.1	9,288	11,862	13,049	27.7	10.0
Other Services	91.3	114.6	114.1	25.5	(0.5)	4,261	5,168	5,331	21.3	3.2
Government	347.9	407.6	416.5	17.2	2.2	18,415	20,790	22,490	12.9	8.2
Total (Non-Farm)	**2,135.9**	**2,684.9**	**2,640.6**	**25.7**	**(1.7)**	**109,487**	**132,019**	**130,275**	**20.6**	**(1.3)**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2015.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1995	$24,156	$23,551	102.6%
1996	25,764	24,709	104.3
1997	26,922	25,929	103.8
1998	29,024	27,488	105.6
1999	30,180	28,611	105.5
2000	32,326	30,587	105.7
2001	33,324	31,524	105.7
2002	33,881	31,800	106.5
2003	35,222	32,677	107.8
2004	36,881	34,300	107.5
2005	37,746	35,888	105.2
2006	39,587	38,127	103.8
2007	41,596	39,804	104.5
2008	43,074	40,873	105.4
2009	41,230	39,379	104.7
2010	42,571	40,142	106.1
2011	45,213	42,313	106.9
2012	47,368	44,166	107.2
2013	47,485	44,713	106.2
2014	48,711	46,129	105.6

Note: Per capita personal income is total personal income divided by total midyear population estimates of the Census Bureau.
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2015.

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PERSONAL INCOME GROWTH AND RESIDENT POPULATION IN TWELVE STATE NORTH CENTRAL REGION
1990-2000 AND 2000-2010

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Growth Rank 1990-2000	2010 Personal Income (Millions)	2000-2010 Annual Compound Rate of Increase (%)	Regional Growth Rank 2000-2010	2000 Census Population (Thousands)	2000 Per Capita Personal Income ($)	2000 Regional Rank	2010 Census Population (Thousands)	2010 Per Capita Personal Income ($)	2010 Regional Rank
Illinois	$240,684	$409,511	5.5%	6	$539,689	2.8%	9	12,419	$32,974	1	12,831	$42,063	3
Indiana	$98,245	$171,265	5.7	4	$222,888	2.7	10	6,080	$28,166	8	6,484	$34,376	12
Iowa	$49,035	$80,792	5.1	10	$119,062	4.0	3	2,926	$27,609	10	3,046	$39,083	6
Kansas	$45,658	$77,482	5.4	8	$110,957	3.7	5	2,688	$28,821	6	2,853	$38,890	7
Michigan	$176,379	$298,722	5.4	9	$346,470	1.5	12	9,938	$30,057	3	9,884	$35,055	11
Minnesota	$86,859	$159,485	6.3	1	$226,071	3.6	6	4,919	$32,419	2	5,304	$42,623	2
Missouri	$91,726	$157,035	5.5	5	$219,490	3.4	7	5,595	$28,066	9	5,989	$36,649	9
Nebraska	$29,197	$49,645	5.5	7	$73,059	3.9	4	1,711	$29,011	5	1,826	$40,003	5
North Dakota	$10,285	$16,611	4.9	11	$29,182	5.8	1	642	$25,865	12	673	$43,388	1
Ohio	$202,763	$325,228	4.8	12	$417,929	2.5	11	11,353	$28,646	7	11,537	$36,227	10
South Dakota	$11,499	$20,604	6.0	2	$33,149	4.9	2	755	$27,296	11	814	$40,714	4
Wisconsin	$90,107	$157,907	5.8	3	$220,327	3.4	8	5,364	$29,440	4	5,687	$38,742	8
Region	**$1,132,436**	**$1,924,287**	**5.4%**		**$2,558,273**	**2.9%**		**64,393**	**$29,884**		**66,927**	**$38,225**	
U.S.	**$4,888,493**	**$8,630,550**	**5.8%**		**$12,417,659**	**3.7%**		**281,422**	**$30,668**		**308,746**	**$40,220**	

Note: Per capita personal income is total personal income divided by Census population.
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2015.

PERSONAL INCOME GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2013-2014
(Millions of Dollars)

Growth Rank	State	2013 Personal Income	2014 Personal Income	Percent Growth
1	North Dakota	$38,472	$40,635	5.6%
2	Michigan	386,471	401,901	4.0
3	Ohio	474,973	493,578	3.9
4	Wisconsin	248,335	256,699	3.4
5	Minnesota	257,466	265,824	3.2
6	Kansas	128,541	132,267	2.9
7	Missouri	245,771	252,325	2.7
8	Indiana	253,779	260,133	2.5
9	Illinois	605,201	619,808	2.4
10	South Dakota	38,897	39,541	1.7
11	Iowa	138,337	140,177	1.3
12	Nebraska	88,114	$88,569	0.5
	Region	**$2,904,358**	**$2,991,456**	**3.0**
	U.S.	**$14,151,427**	**$14,708,582**	**3.9**

Note: Columns may not add due to rounding
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi
Data extracted by MMB staff June 2015.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION: 1990-2000 AND 2000-2010
(Thousands of Jobs)

State	1990 Employment	2000 Employment	1990-2000 Percent Increase	Regional Growth Rank 1990-2000	2010 Employment	2000-2010 Percent Increase	Regional Growth Rank 2000-2010
Illinois	5,288	6,045	14.3%	12	5,613	(7.1)%	10
Indiana	2,522	3,004	19.1	8	2,799	(6.8)	9
Iowa	1,226	1,479	20.6	7	1,469	(0.6)	4
Kansas	1,092	1,346	23.3	6	1,328	(1.3)	5
Michigan	3,946	4,676	18.5	9	3,863	(17.4)	12
Minnesota	2,136	2,685	25.7	2	2,641	(1.6)	6
Missouri	2,345	2,749	17.2	10	2,658	(3.3)	7
Nebraska	731	913	24.9	3	945	3.5	3
North Dakota	266	328	23.3	5	376	14.7	1
Ohio	4,882	5,625	15.2	11	5,036	(10.5)	11
South Dakota	289	378	31.0	1	403	6.7	2
Wisconsin	2,291	2,832	23.6	4	2,725	(3.8)	8
Region	**27,014**	**32,059**	**18.7%**		**29,857**	**(6.9)**	
U.S.	**109,527**	**132,019**	**20.5%**		**130,275**	**(1.3)**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2015.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION:
2012-2013 AND 2013-2014
(Thousands of Jobs)

State	2012 Employment	2013 Employment	2012-2013 Percent Increase	Regional Growth Rank 2012-2013	2014 Employment	2013-2014 Percent Increase	Regional Growth Rank 2013-2014
Illinois	5,751	5,805	1.0%	11	5,873	1.2%	11
Indiana	2,902	2,938	1.2	6	2,980	1.5	4
Iowa	1,509	1,528	1.3	4	1,548	1.3	8
Kansas	1,356	1,372	1.2	8	1,393	1.5	3
Michigan	4,033	4,109	1.9	2	4,180	1.7	2
Minnesota	2,730	2,776	1.7	3	2,813	1.3	6
Missouri	2,685	2,711	1.0	10	2,734	0.9	12
Nebraska	969	980	1.2	7	993	1.3	7
North Dakota	429	444	3.6	1	462	3.8	1
Ohio	5,198	5,263	1.2	5	5,331	1.3	10
South Dakota	414	418	0.9	12	423	1.4	5
Wisconsin	2,781	2,809	1.0	9	2,845	1.3	9
Region	**30,756**	**31,154**	**1.3%**		**31,575**	**1.3%**	
U.S.	**134,104**	**136,393**	**1.7%**		**139,042**	**1.9%**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2015.

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MINNESOTA & UNITED STATES UNEMPLOYMENT RATES
(Percent)

	Annual Average	
Year	**Minnesota %**	**U.S. %**
2000	3.2	4.0
2001	3.8	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.7	5.5
2005	4.1	5.1
2006	4.0	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	7.8	9.3
2010	7.4	9.6
2011	6.5	9.0
2012	5.6	8.1
2013	5.0	7.4
2014	4.1	6.2

	Monthly Figures (Seasonally Adjusted)	
Month	**Minnesota %**	**U.S. %**
2014		
January	4.5	6.6
February	4.4	6.7
March	4.4	6.7
April	4.2	6.3
May	4.1	6.3
June	3.9	6.1
July	3.8	6.2
August	3.7	6.1
September	3.7	5.9
October	3.7	5.8
November	3.7	5.8
December	3.7	5.6
2015		
January	3.7	5.7
February	3.7	5.5
March	3.8	5.5
April	3.7	5.4
May	3.8	5.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2015.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2014	Rank 2013	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Rank
14	14	UnitedHealth Group	130,474,000	86,382,000	5,619,000	Health Care: Insurance & Managed Care	1
36	36	Target	74,520,000	41,404,000	(1,636,000)	General Merchandisers	2
69	62	Cenex Harvest States (CHS)	42,664,000	15,147,000	1,081,000	Food Production	2
72	60	Best Buy	41,903,000	15,256,000	1,233,000	Specialty Retailers: Other	4
98	101	Minnesota Mining & Mfg. (3M)	31,821,000	31,269,000	4,956,000	Miscellaneous	1
138	140	U.S. Bancorp	21,392,000	402,529,000	5,851,000	Commercial Banks	9
164	94	Supervalu	18,390,000	4,374,000	182,000	Food & Drug Stores	7
171	159	General Mills	17,910,000	23,146,000	1,824,000	Food Consumer Products	4
203	199	Land O'Lakes	15,199,000	6,992,000	267,000	Food Consumer Products	6
213	213	Ecolab	14,281,000	19,467,000	1,203,000	Chemicals	5
225	220	C.H. Robinson Worldwide	13,470,000	3,214,000	450,000	Transportation & Logistics	1
247	249	Ameriprise Financial	12,296,000	148,810,000	1,619,000	Diversified Financials	6
255	257	Xcel Energy	11,686,000	36,958,000	1,021,000	Utilities: Gas & Electric	14
310	311	Hormel Foods	9,316,000	5,456,000	603,000	Food Consumer Products	10
320	283	Mosaic	9,056,000	18,283,000	1,029,000	Chemicals	11
333	335	Thrivent Financial for Lutherans	8,521,000	80,376,000	753,000	Insurance: Life, Health (Mutual)	6
466	462	St. Jude Medical	5,622,000	10,207,000	1,002,000	Medical Products & Equipment	6

Source: Fortune Magazine, dated June 2015.

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APPENDIX F
STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2014

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APPENDIX F
SELECTED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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BASIC FINANCIAL STATEMENTS

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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. James Schowalter, Commissioner, Minnesota Management and Budget

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2014, which collectively comprise the state's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund and represents 62 percent, 56 percent, and 28 percent, respectively, of the total assets, total net position, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, total net position, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The financial statements of the National Sports Center Foundation and the Workers' Compensation Assigned Risk Plan, which are discretely presented nonmajor component units, were not audited in accordance with *Government Auditing Standards*.

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

Opinion

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 12, 2014

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, 2014, and identifies changes in the financial position of the state that 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 position and the statement of activities that are prepared using the economic resources measurement focus and the accrual basis of accounting. All current year revenues and expenses are included in the statements regardless of whether the related cash has been received or paid. Revenues and expenses are reported in the statement of activities for some items that will not result in cash flows until future fiscal periods (e.g. uncollected taxes, accounts receivable, and earned but unused vacation leave). This reporting method produces a view of financial activities and position similar to that presented by most private-sector companies. The statements provide both short-term and long-term information about the state's financial position, which assists readers in assessing the state's economic condition at the end of the fiscal year.

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

The statement of net position 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 position 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 position 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 position 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 position 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 may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. Discretely presented component units are shown separately from the primary government. 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. 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 as discretely presented component units and 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 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
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan
- Minnesota Sports Facilities Authority

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.

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 assist 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 23 individual state 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 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 majority of the activity reported in the General Fund. A budgetary comparison statement has been provided for the General Fund activity with appropriations included in the biennial budget 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 18 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 position and in the proprietary funds statement of revenues, expenses, and changes in net position. Information from the ten nonmajor enterprise funds and the six 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 ensure that the assets reported in fiduciary funds are used for their intended purposes.

The state maintains 20 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which account 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 discretely presented component units in a single column on the statement of net position. Also, some information on the statement of changes in net position is aggregated for component units. The discretely presented component units' statements of net position and statements of changes in net position provide detail for each major discretely presented component unit and aggregate the detail for nonmajor discretely presented component units. Individual nonmajor discretely presented 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 the 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, 2014, by $17.7 billion (presented as net position). Of this amount, a deficit of $2.5 billion was reported as unrestricted net position. For discussion on the variances from the prior year, see the Government-wide Financial Analysis section.

- The state's total net position increased by $2.1 billion (13.1 percent) during fiscal year 2014. Net position of governmental activities increased by $1.6 billion (13.4 percent), while net position of the business-type activities showed an increase of $412 million (12.3 percent). For discussion on the variances from the 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 $7.8 billion, an increase of $2.0 billion compared to the prior year. Included in the ending fund balance is a General Fund unassigned balance of $505 million. For discussion on the variances from the prior year, see the State Funds Financial Analysis section.

Long-Term Debt

- The state's total long-term liabilities increased by $981 million (10.4 percent) during the current fiscal year. The increase is primarily a result of the state issuing general obligation bonds for trunk highway projects and other various state purposes. In addition, the state issued state General Fund appropriation bonds for the state and the City of Minneapolis shares of the Minnesota Sports Facilities Authority's (component unit) professional football stadium project.

Government-wide Financial Analysis

As noted earlier, net position serves as a useful indicator of a government's financial position over time. The state's combined net position (governmental and business-type activities) totaled $17.7 billion at the end of fiscal year 2014, compared to $15.7 billion at the end of the previous year.

Net Position
June 30, 2014, and 2013
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current Assets[1]	$ 13,752,537	$ 12,112,818	$ 2,767,200	$ 2,381,976	$ 16,519,737	$ 14,494,794
Noncurrent Assets:						
Capital Assets[1]	14,102,687	13,379,358	2,168,250	2,121,745	16,270,937	15,501,103
Other Assets	867,669	796,531	120,109	142,144	987,778	938,675
Total Assets	$ 28,722,893	$ 26,288,707	$ 5,055,559	$ 4,645,865	$ 33,778,452	$ 30,934,572
Current Liabilities[1]	$ 5,515,574	$ 5,648,829	$ 417,361	$ 395,815	$ 5,932,935	$ 6,044,644
Noncurrent Liabilities[1]	8,703,497	7,838,069	877,600	901,420	9,581,097	8,739,489
Total Liabilities	$ 14,219,071	$ 13,486,898	$ 1,294,961	$ 1,297,235	$ 15,514,032	$ 14,784,133
Deferred Inflows of Resources[1]	$ 549,392	$ 492,200	$ -	$ -	$ 549,392	$ 492,200
Net Position:						
Net Investment in Capital Assets[1]	$ 10,969,710	$ 10,229,481	$ 1,489,631	$ 1,457,116	$ 12,459,341	$ 11,686,597
Restricted[1]	5,508,417	4,050,489	2,279,417	1,899,771	7,787,834	5,950,260
Unrestricted[1]	(2,523,697)	(1,970,361)	(8,450)	(8,257)	(2,532,147)	(1,978,618)
Total Net Position	$ 13,954,430	$ 12,309,609	$ 3,760,598	$ 3,348,630	$ 17,715,028	$ 15,658,239

[1] 2013 has been restated to be consistent with 2014 presentation.

The largest portion, $12.4 billion of $17.7 billion, of the state's net position 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 $7.8 billion of the state's net position represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net position restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net position balance represents a deficit in unrestricted net position of $2.5 billion. 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 position; 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 position for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net position for governmental and business-type activities increased $2.1 billion (13.1 percent) over the course of this fiscal year. This resulted from a $1.6 billion (13.4 percent) increase in net position of governmental activities, and a $412 million (12.3 percent) increase in net position of business-type activities.

Changes in Net Position
Fiscal Years Ended June 30, 2014, and 2013
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services[1]	$ 1,308,638	$ 1,506,436	$ 2,877,379	$ 3,155,884	$ 4,186,017	$ 4,662,320
Operating Grants and Contributions[1]	9,759,375	9,099,096	551,820	710,153	10,311,195	9,809,249
Capital Grants	249,144	167,097	-	-	249,144	167,097
General Revenues:						
Individual Income Taxes	9,915,021	9,209,954	-	-	9,915,021	9,209,954
Corporate Income Taxes	1,308,578	1,242,912	-	-	1,308,578	1,242,912
Sales Taxes	5,283,785	5,004,330	-	-	5,283,785	5,004,330
Property Taxes	823,949	831,316	-	-	823,949	831,316
Motor Vehicle Taxes	1,312,982	1,241,242	-	-	1,312,982	1,241,242
Fuel Taxes	883,619	860,837	-	-	883,619	860,837
Other Taxes	2,489,475	2,436,828	-	-	2,489,475	2,436,828
Tobacco Settlement	175,386	171,338	-	-	175,386	171,338
Investment/Interest Income	26,728	23,129	33,688	17,545	60,416	40,674
Other Revenues	27,339	128,115	9,107	2,215	36,446	130,330
Total Revenues	$ 33,564,019	$ 31,922,630	$ 3,471,994	$ 3,885,797	$ 37,036,013	$ 35,808,427
Expenses:						
Agricultural, Environmental and Energy Resources[1]	$ 984,197	$ 961,721	$ -	$ -	$ 984,197	$ 961,721
Economic and Workforce Development	641,424	571,265	-	-	641,424	571,265
General Education[1]	9,048,212	8,200,311	-	-	9,048,212	8,200,311
General Government[1]	1,013,415	983,418	-	-	1,013,415	983,418
Health and Human Services[1]	13,647,672	13,059,913	-	-	13,647,672	13,059,913
Higher Education[1]	912,083	865,510	-	-	912,083	865,510
Intergovernmental Aid	1,291,075	1,269,078	-	-	1,291,075	1,269,078
Public Safety and Corrections[1]	998,054	974,095	-	-	998,054	974,095
Transportation	2,685,688	2,683,545	-	-	2,685,688	2,683,545
Interest[1]	177,244	233,954	-	-	177,244	233,954
State Colleges and Universities	-	-	1,936,061	1,891,779	1,936,061	1,891,779
Unemployment Insurance	-	-	888,665	1,060,431	888,665	1,060,431
Lottery	-	-	404,705	425,541	404,705	425,541
Other	-	-	350,729	288,926	350,729	288,926
Total Expenses	$ 31,399,064	$ 29,802,810	$ 3,580,160	$ 3,666,677	$ 34,979,224	$ 33,469,487
Excess (Deficiency) Before Transfers	$ 2,164,955	$ 2,119,820	$ (108,166)	$ 219,120	$ 2,056,789	$ 2,338,940
Transfers	(520,134)	(489,364)	520,134	489,364	-	-
Change in Net Position	$ 1,644,821	$ 1,630,456	$ 411,968	$ 708,484	$ 2,056,789	$ 2,338,940
Net Position, Beginning[1]	$ 12,309,609	$ 10,679,153	$ 3,348,630	$ 2,640,146	$ 15,658,239	$ 13,319,299
Net Position, Ending	$ 13,954,430	$ 12,309,609	$ 3,760,598	$ 3,348,630	$ 17,715,028	$ 15,658,239

[1] 2013 has been reclassified to be consistent with 2014 presentation.

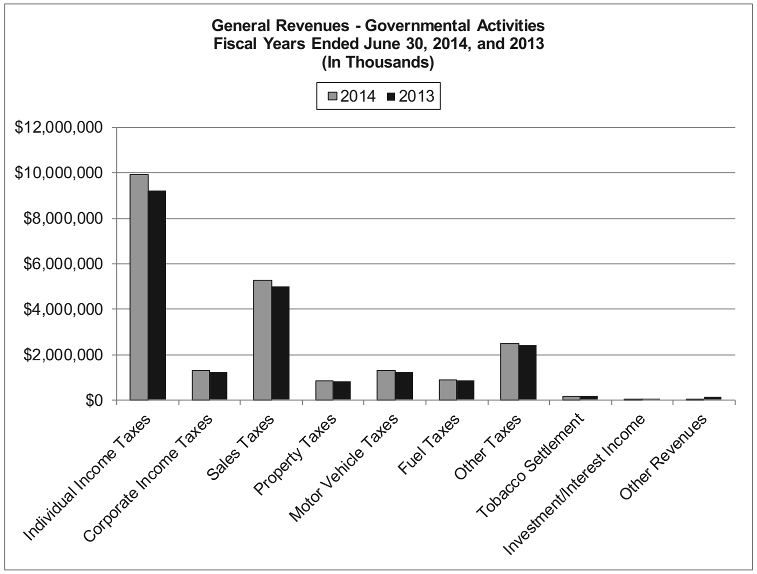
Approximately 59 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 11 percent of the total revenues. The remaining 1 percent came from other general revenues.

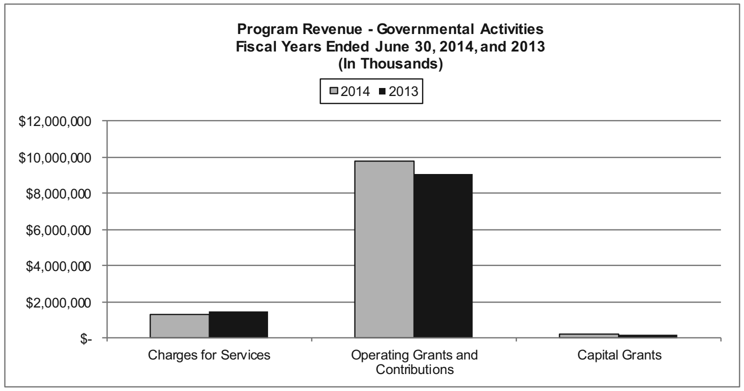
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

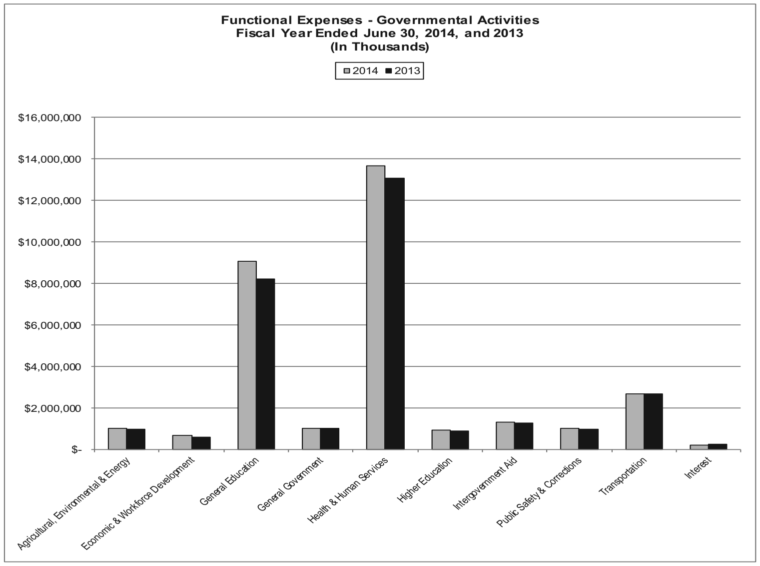
Governmental activities increased the state's net position by $1.6 billion in both the current year and prior year.

There was a net increase in revenues from the prior year which was primarily attributable to the increase in income and sales taxes as a result of the strengthening economy. In addition, individual income tax revenues increased due to the addition of a fourth tier income bracket. The increase in operating grants and contributions was partially due to revenue from the federal government related to a higher federal participation rate for medical assistance expansion groups, primary care physicians, and federally funded programs as a result of the Affordable Care Act. Both operating and capital grants increases are due to the federal government's and other governmental entities' share of several large bridge and pavement projects. The cigarette excise tax rate was increased and the tax was expanded to little cigars, causing an increase in other taxes. Increases in net revenue were partially offset by decreases in both charges for services and other revenues. The decrease in charges for services was primarily due to one-time caps placed on HMO profits, which required remittance back to the state in the prior year. Other revenues decreases are a result of the Department of Commerce's increased outreach and education to identify owners of unclaimed property remitted to the state. As a result, amounts to be paid to claimants are expected to increase.



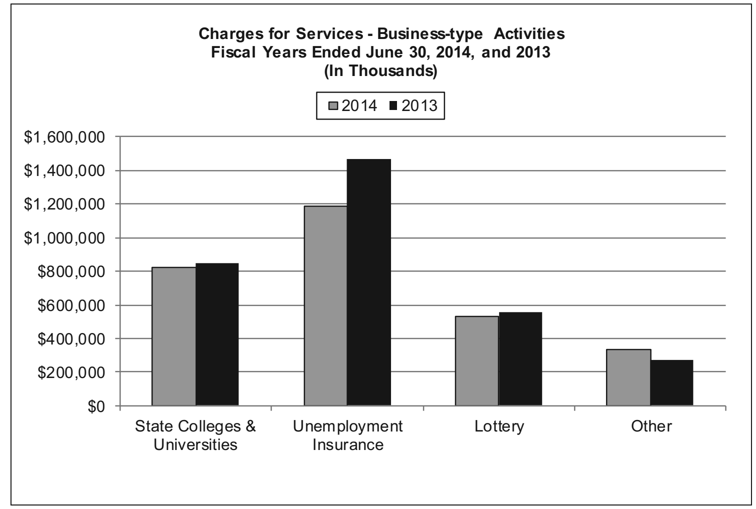


There was an increase in functional expenses compared to the prior year. The increase in health and human services expenses was attributable to an increase in the rate for primary care physicians and nursing facilities and more programs as a result of the Affordable Care Act. This increase was partially offset by the receipt of federal grants. The increase in general education was primarily due to a $78 per pupil formula increase, a slight increase in the number of pupils, and an increase in aid to school districts.



Business-type Activities

Net position for the state's proprietary funds increased by $412 million during the current year compared to a $708 million increase in the prior year. This resulted primarily from a $16 million increase in net position in the State Colleges and Universities Fund and a $394 million increase in net position in the Unemployment Insurance Fund. The State Colleges and Universities Fund's increase was slightly lower than the increase in net position in the prior year. Tuition and fee revenue decreases are due to a reduction in enrollment. Operating expenses increased because of bargaining unit negotiated salary increases and an increase in the employer portion of insurance premiums. As a result of the continued strengthening economy, the Unemployment Insurance Fund had continued reductions in benefits paid during the current year as applicants transitioned to other programs or found employment. Reductions in grants and subsidies also continued as the state no longer qualified for federal programs during the current year since the unemployment rate continued to decrease. A corresponding decrease occurred in insurance premiums because of a tax rate decrease while the taxable wage base was consistent between years.



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 unassigned 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 $7.8 billion, an increase of $2.0 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 unassigned fund balance of the General Fund was $505 million, an increase in the unassigned fund balance of $295 million during the current year.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund. As previously noted, the increase in revenue was primarily attributable to the increase in income and sales taxes as a result of the strengthening economy and the additional income bracket. Other taxes revenue showed an increase over the prior year due to an increase in cigarette excise taxes and an expansion of the tax to little cigars. These increases were partially offset by decreases in other revenues resulting from an increase in expected claims to be paid out related to additional outreach and educational programs at the Department of Commerce on unclaimed property, as well as the one-time caps placed on HMO profits in the prior year, which required remittance back to the state. The net revenue increases were also partially offset by increases in education expenditures due to a $78 per pupil formula increase, a slight increase in the number of pupils, and an increase in aid to school districts as previously discussed in the Government-wide Financial

Analysis section. Higher education expenditures also increased due to an increase in grants to the University of Minnesota and the Office of Higher Education (component units). Health and human services expenditure decreases due to shifting some medical assistance expenditures from the General Fund to the Health Care Access Fund (special revenue fund) were offset by increases in rates for nursing facilities and expanded programs for child care and home and community-based services.

The remittance of the HMO profits back to the state in the prior year also impacted the Federal Fund and the Health Care Access Fund (special revenue fund). In addition, federal revenue and corresponding expenditure increases in the Federal Fund were due to an increase in the federal participation rate for medical assistance expansion groups, increases in the rate for primary care physicians, and additional federally funded programs as a result of the Affordable Care Act. Federal revenue and corresponding expenditure increases in the Trunk Highway Fund (special revenue fund) were due to an increase in federally funded infrastructure projects. The increases in other revenues in the Miscellaneous Special Revenue Fund (special revenue fund) were due to revenue from other governmental units for several large bridge and pavement projects.

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 position increased by $412 million during the current year. This primarily resulted from a $16 million increase in net position of the State Colleges and Universities Fund and an increase of $394 million in net position of the Unemployment Insurance 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 2014. These are material to understanding changes in General Fund balances that occurred in fiscal year 2014. 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 highlights material actions taken by the Minnesota legislature and the governor affecting fiscal year 2014.

Actions Establishing the Fiscal Year 2014 Budget

The budget for state fiscal year 2014 was adopted in May 2013. During the 2013 legislative session, the February 2013 Budget and Economic Forecast reduced the projected budget shortfall for the 2014-15 biennium from $1.1 billion to $627 million. General fund revenues for 2014-15 biennium were forecast to be $36.1 billion and projected current law spending was expected to be $36.7 billion. Legislative actions during the 2013 session resolved the $627 million projected budget deficit, increased net General Fund revenues by $2.3 billion, and appropriated $1.6 billion for state and local programs.

Changes to General Fund revenues included the addition of a fourth tier to the income tax, increases to the cigarette excise taxes, increases to the corporate income taxes and a series of changes to the sales taxes. Medical Assistance surcharges were also increased in the legislative session. In total, General Fund revenues increased $2.3 billion above February's estimates. The spending increases of $1.6 billion for the 2014-15 biennium were concentrated in K-12 education ($606 million), property tax aids and credits ($305 million), and higher education ($249 million).

After the 2013 legislative session, the enacted budget included $18.955 billion in General Fund revenues, $18.803 billion in General Fund spending, $1.007 billion in cash and budget reserves, $27.8 million in a stadium reserve account, and a $126 million budgetary balance for fiscal year 2014. The projected budgetary balance for the end of fiscal year 2015 is $46 million.

Budget and Forecast Actions Impacting Fiscal Year 2014

The November 2013 Budget and Economic Forecast improved the budget outlook for the 2014-15 biennium by $1.038 billion. Forecast revenues were increased $787 million, primarily from stronger employment and income growth in 2013. Higher income and corporate tax estimates were the sources of 95 percent of the increase in tax revenue. Spending was reduced $247 million, primarily due to savings in health and human services spending resulting from cost growth in the community alternatives for disabled individuals waiver program and the recognition of inter-governmental reimbursements. Savings in other spending areas was modest. From the forecast balance, $246 million was automatically allocated by state law to complete repayment of the K-12 school property tax recognition shift, thereby increasing education aid spending in fiscal year 2014. Additionally, $15 million was transferred to the state airports fund, restoring money originally borrowed in 2008. The November 2013 Budget and Economic Forecast completed repayment of accounting shifts from prior budget solutions and reduced the 2014-15 biennium forecast balance to $825 million.

The February 2014 Budget and Economic Forecast increased General Fund revenues by $366 million and spending was reduced by $48 million. Those changes, offset by a $6 million increase in stadium reserves, increased the 2014-15 biennium forecast balance by $408 million to $1.233 billion. The February forecast for fiscal year 2014 reflected $19.443 billion in General Fund revenue, $19.458 billion in General Fund spending, $1.011 billion in cash and budget reserves, $37 million in the stadium reserve, and a $648 million budgetary balance.

The 2014 legislative session ended in May 2014. Changes enacted in the session included $483 million in tax reductions and other revenue changes and $568 million in supplemental spending for 2014-15 biennium. A number of the changes impacted the fiscal year 2014 budget. The changes in revenues primarily occurred in income, sales and corporate taxes, as well as gift and estate taxes. The majority of spending changes were made in K-12 education, property tax aids and credits, health and human services, capital projects and economic development. After the legislative changes, fiscal year 2014 General Fund revenues were estimated to be $19.304 billion, down $139 million from February's forecast. Fiscal year 2014 General Fund expenditures were projected to be $19.678 billion, up $220 million from February's forecast. No changes were made to the fiscal year 2014 reserve levels, leaving a $289 million budgetary balance for fiscal year 2014.

Fiscal year 2014 officially closed in August 2014. Actual revenues for fiscal year 2014 were $19.522 billion, $218 million higher than end of session estimates, including $188 million in higher tax collections. Spending for fiscal year 2014 was $19.374 billion, $304 million below previous estimates; however, $179 million of unspent appropriations in fiscal year 2014 were authorized to carryforward into fiscal year 2015. Health and human services was $144 million lower than previously forecast. The budgetary balance for fiscal year 2014 was $631 million, $341 million higher than end of session estimates.

Since the budget was initially adopted in May 2013, total General Fund resources for fiscal year 2014 increased by $1.271 billion. Of that total change, $704 million was attributable to changes in fiscal year 2013 and nearly 40 percent, $501 million, was the result of higher tax revenues in fiscal year 2014. Total spending in fiscal year 2014 increased $570 million since the budget was initially adopted in May 2013. Lower spending in health and human services ($281 million), and property tax aids and credits ($51 million) were offset by increased K-12 spending associated with school shift buybacks and increased capital projects spending because of legislation passed in the 2014 legislative session. In total, K-12 school aid spending was $786 million higher than originally enacted primarily due to state law that required the entire ending balance of FY 2013 to be used to buyback K-12 school shifts. The school aid payment shift and property tax recognition shifts were repaid by the close of fiscal year 2014.

Budget and GAAP Based Financial Outlook

Minnesota budgets and manages its financial affairs on a budgetary basis, which primarily uses a cash basis of accounting. Revenues are recorded when received and expenditures are recorded when the payments are made, with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. GAAP requires that the modified accrual basis of accounting be used to prepare governmental fund statements. The modified accrual basis of accounting recognizes revenues when they become both measureable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Expenditures are recognized when a liability occurs.

On a budgetary basis, the state's General Fund ended fiscal year 2014 with a balance of $672 million. On a GAAP basis, the General Fund reported a balance of $1.777 billion for fiscal year 2014, a difference of $1.105 billion from the budgetary General Fund balance. The difference between the General Fund budgetary and GAAP fund balance results from two primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. Second, several funds are included in the GAAP fund balance which are not included in the budgetary fund balance. These additional funds reported a fund balance of $1.278 billion. The difference between the GAAP basis and budgetary basis General Fund fund balance, excluding these additional funds not reported in the budgetary fund balance, was $173 million. Additional information on the differences between the budgetary basis and the GAAP basis for the General Fund is included in Note 18 – Budgetary Basis vs. GAAP of the notes to the financial statements.

In the November 2014 forecast, Minnesota's budget outlook improved slightly from previous estimates despite expectations of slightly slower economic activity. The fiscal year 2014-15 forecast was based on actual spending and revenue data for fiscal year 2014 and revised forecasts for fiscal year 2015. Strong income growth in 2013 contributed to higher than expected income tax revenues in fiscal year 2014, while increases in non-wage income more than offset lower wage growth for fiscal year 2015. These factors contributed to a $279 million increase in forecast revenues for the current biennium. Forecast spending was reduced $250 million due primarily to lower forecasts of human services Medical Assistance spending. These changes produced a forecast balance of $556 million for the fiscal year 2014-15 biennium. New statutory provisions enacted in the 2014 legislative session allocated 33 percent ($183 million) of the forecast balance to the budget reserve, in fiscal year 2015 - leaving a projected budgetary balance of $373 million for the current 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, 2014, was $19.6 billion, less accumulated depreciation of $3.3 billion, resulting in a net book value of $16.3 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures, internally generated computer software, and equipment. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

Capital Assets
June 30, 2014, and 2013
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Capital Assets not Depreciated:						
Land	$ 2,222,072	$ 2,168,036	$ 90,848	$ 89,618	$ 2,312,920	$ 2,257,654
Buildings, Structures, Improvements	40,051	38,870	-	-	40,051	38,870
Construction in Progress	347,513	255,595	173,687	181,115	521,200	436,710
Development in Progress	98,011	69,146	-	-	98,011	69,146
Infrastructure	8,985,905	8,480,170	-	-	8,985,905	8,480,170
Easements	345,088	334,733	-	-	345,088	334,733
Art and Historical Treasures	6,756	4,599	-	-	6,756	4,599
Total Capital Assets not Depreciated	$ 12,045,396	$ 11,351,149	$ 264,535	$ 270,733	$ 12,309,931	$ 11,621,882
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 2,695,503	$ 2,627,335	$ 3,190,347	$ 3,044,383	$ 5,885,850	$ 5,671,718
Infrastructure	229,525	199,099	-	-	229,525	199,099
Internally Generated Computer Software	76,647	74,108	12,928	14,819	89,575	88,927
Easements	5,363	4,211	-	-	5,363	4,211
Library Collections	-	-	43,880	45,038	43,880	45,038
Equipment, Furniture, Fixtures	668,485	641,212	353,340	348,246	1,021,825	989,458
Total Capital Assets Depreciated	$ 3,675,523	$ 3,545,965	$ 3,600,495	$ 3,452,486	$ 7,276,018	$ 6,998,451
Less: Accumulated Depreciation	1,618,232	1,517,579	1,696,780	1,601,651	3,315,012	3,119,230
Capital Assets Net of Depreciation	$ 2,057,291	$ 2,028,386	$ 1,903,715	$ 1,850,835	$ 3,961,006	$ 3,879,221
Total	$ 14,102,687	$ 13,379,535	$ 2,168,250	$ 2,121,568	$ 16,270,937	$ 15,501,103

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 2013, indicated that the average PQI for principal arterial pavement was 3.4 and 3.3 for all other pavements. The state has maintained a stable condition of pavement over the past several 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 2013, indicated that 95 percent of principal arterial system bridges and 94 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 overall expenditures were fairly consistent with budget. The increase in capitalized costs related to the bridge and pavement costs associated with the St. Croix and Dresbach bridge projects. In addition, expenditures were under budget in the prior year primarily due to the delay of planned capital projects due to bad weather in May and June 2013.

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 general obligation 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 were rated on June 30, 2014, as follows:

- Aa1 by Moody's Investors Service
- AA+ by Standard & Poor's
- AA+ by Fitch Ratings

The legislature also statutorily authorizes other types of debt.

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

The Certificates of Participation were issued by the state to finance the statewide systems and integrated tax system.

The state issued state General Fund appropriation refunding bonds to refund bonds issued by a blended component unit, Tobacco Securitization Authority, which no longer exists. The state also issued state General Fund appropriation bonds to finance the state and City of Minneapolis shares of the costs of a professional football stadium project.

Outstanding Bonded Debt and Unamortized Premium
June 30, 2014, and 2013
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General Obligation	$ 6,008,352	$ 5,510,530	$ 239,123	$ 232,645	$ 6,247,475	$ 5,743,175
Revenue	47,135	10,260	423,575	447,950	470,710	458,210
State General Fund Appropriation Bonds	1,084,355	656,220	-	-	1,084,355	656,220
Certificate of Participation	38,960	45,815	-	-	38,960	45,815
Total	$ 7,178,802	$ 6,222,825	$ 662,698	$ 680,595	$ 7,841,500	$ 6,903,420

During fiscal year 2014, the state issued the following bonds:

- $557.2 million in general obligation state various purpose bonds
- $312.0 million in general obligation state trunk highway bonds

- $5.0 million in general obligation Rural Finance Authority bonds
- $373.9 million in general obligation state various purpose refunding bonds
- $462.1 million in General Fund appropriation bonds for the state and City of Minneapolis shares of the professional football stadium project

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.

STATEMENT OF NET POSITION
JUNE 30, 2014
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Current Assets:				
Cash and Cash Equivalents	$ 8,058,492	$ 2,237,767	$ 10,296,259	$ 1,054,083
Investments	1,790,629	26,919	1,817,548	434,021
Accounts Receivable	2,410,825	476,366	2,887,191	447,227
Due from Component Units	19,885	-	19,885	-
Due from Primary Government	-	-	-	88,337
Accrued Investment/Interest Income	20,535	-	20,535	33,892
Federal Aid Receivable	1,372,876	16,423	1,389,299	4,120
Inventories	27,726	23,608	51,334	54,864
Loans and Notes Receivable	18,380	6,269	24,649	212,248
Internal Balances	22,266	(22,266)	-	-
Other Assets	10,923	2,114	13,037	30,462
Total Current Assets	$ 13,752,537	$ 2,767,200	$ 16,519,737	$ 2,359,254
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 93,892	$ 93,892	$ 734,695
Investments-Restricted	-	-	-	1,308,359
Accounts Receivable-Restricted	-	-	-	139,785
Due from Primary Government-Restricted	-	-	-	19,130
Other Assets-Restricted	-	298	298	-
Due from Primary Government	-	-	-	10,338
Due from Component Units	59,119	-	59,119	-
Investments	-	-	-	5,062,941
Accounts Receivable	612,356	-	612,356	504,189
Loans and Notes Receivable	195,515	25,919	221,434	3,876,510
Depreciable Capital Assets (Net)	2,057,291	1,903,715	3,961,006	5,299,527
Nondepreciable Capital Assets	3,059,491	264,535	3,324,026	1,567,910
Infrastructure (Not depreciated)	8,985,905	-	8,985,905	-
Other Assets	679	-	679	13,832
Total Noncurrent Assets	$ 14,970,356	$ 2,288,359	$ 17,258,715	$ 18,537,216
Total Assets	$ 28,722,893	$ 5,055,559	$ 33,778,452	$ 20,896,470
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Interest Rate Swap Agreements	$ -	$ -	$ -	$ 21,532
Bond Refunding	-	-	-	19,082
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ 40,614
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 4,457,588	$ 259,684	$ 4,717,272	$ 359,800
Due to Component Units	30,438	12	30,450	-
Due to Primary Government	-	-	-	42,045
Unearned Revenue	168,839	69,688	238,527	109,854
Accrued Interest Payable	106,508	494	107,002	64,395
Bonds and Notes Payable	597,870	47,126	644,996	608,678
Capital Leases Payable	8,309	4,545	12,854	6,054
Certificates of Participation Payable	7,130	-	7,130	-
Claims Payable	100,195	2,676	102,871	50,782
Compensated Absences Payable	38,697	18,134	56,831	157,154
Other Liabilities	-	15,002	15,002	1,692
Total Current Liabilities	$ 5,515,574	$ 417,361	$ 5,932,935	$ 1,400,454
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 118,274
Unearned Revenue-Restricted	-	-	-	77,160
Accrued Interest Payable-Restricted	-	-	-	12,333
Due to Primary Government	-	-	-	59,119
Unearned Revenue	-	-	-	3,158
Bonds and Notes Payable	7,358,310	657,626	8,015,936	5,888,753
Due to Component Units	10,338	-	10,338	-
Capital Leases Payable	98,512	25,974	124,486	46,197
Certificates of Participation Payable	34,851	-	34,851	-
Claims Payable	583,801	2,900	586,701	605,746
Compensated Absences Payable	254,474	127,740	382,214	52,062
Other Postemployment Benefits	224,584	32,325	256,909	180,326
Net Pension Obligation	138,627	-	138,627	-
Funds Held in Trust	-	-	-	338,721
Other Liabilities	-	31,035	31,035	92,834
Total Noncurrent Liabilities	$ 8,703,497	$ 877,600	$ 9,581,097	$ 7,474,683
Total Liabilities	$ 14,219,071	$ 1,294,961	$ 15,514,032	$ 8,875,137

STATEMENT OF NET POSITION
JUNE 30, 2014
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
DEFERRED INFLOWS OF RESOURCES				
Interest Rate Swap Agreements	$ -	$ -	$ -	$ 21,532
Bond Refunding	42,550	-	42,550	-
Capital Lease Restructuring	19,387	-	19,387	-
Deferred Revenue	487,455	-	487,455	19,301
Total Deferred Inflows of Resources	$ 549,392	$ -	$ 549,392	$ 40,833
NET POSITION				
Net Investment in Capital Assets	$ 10,969,710	$ 1,489,631	$ 12,459,341	$ 4,484,882
Restricted for:				
Agricultural, Environmental and Energy Resources	$ 1,486,124	$ -	$ 1,486,124	$ -
Arts and Cultural Heritage	19,611	-	19,611	-
Capital Projects	-	821	821	-
Debt Service	937,939	122,465	1,060,404	-
Economic and Workforce Development	142,628	423	143,051	-
General Education	45,218	-	45,218	-
General Government	41,490	-	41,490	-
Health and Human Services	13,818	-	13,818	-
Higher Education	-	511,064	511,064	-
Public Safety and Corrections	48,498	65,329	113,827	-
School Aid-Expendable	6,415	-	6,415	-
School Aid-Nonexpendable	1,127,491	-	1,127,491	-
Transportation	1,639,185	-	1,639,185	-
Unemployment Benefits	-	1,537,760	1,537,760	-
Other Purposes	-	41,555	41,555	-
Component Units	-	-	-	6,650,013
Total Restricted	$ 5,508,417	$ 2,279,417	$ 7,787,834	$ 6,650,013
Unrestricted	$ (2,523,697)	$ (8,450)	$ (2,532,147)	$ 886,219
Total Net Position	$ 13,954,430	$ 3,760,598	$ 17,715,028	$ 12,021,114

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
Agricultural, Environmental and Energy Resources	$ 984,197	$ 350,950	$ 341,235	$ -	$ (292,012)		$ (292,012)	
Economic and Workforce Development	641,424	60,754	243,773	-	(336,897)		(336,897)	
General Education	9,048,212	22,042	896,511	-	(8,129,659)		(8,129,659)	
General Government	1,013,415	279,835	11,789	3,495	(718,296)		(718,296)	
Health and Human Services	13,647,672	407,644	7,352,174	-	(5,887,854)		(5,887,854)	
Higher Education	912,083	337	2,043	-	(909,703)		(909,703)	
Intergovernment Aid	1,291,075	-	-	-	(1,291,075)		(1,291,075)	
Public Safety and Corrections	998,054	158,690	188,760	-	(650,604)		(650,604)	
Transportation	2,685,688	28,386	723,090	245,649	(1,688,563)		(1,688,563)	
Interest	177,244	-	-	-	(177,244)		(177,244)	
Total Governmental Activities	$ 31,399,064	$ 1,308,638	$ 9,759,375	$ 249,144	$ (20,081,907)		$ (20,081,907)	
Business-type Activities:								
State Colleges and Universities	$ 1,936,061	$ 824,190	$ 474,439	$ -		$ (637,432)	$ (637,432)	
Unemployment Insurance	888,665	1,188,214	77,225	-		376,774	376,774	
Lottery	404,705	531,550	-	-		126,845	126,845	
Other	350,729	333,425	156	-		(17,148)	(17,148)	
Total Business-type Activities	$ 3,580,160	$ 2,877,379	$ 551,820	$ -		$ (150,961)	$ (150,961)	
Total Primary Government	$ 34,979,224	$ 4,186,017	$ 10,311,195	$ 249,144	$ (20,081,907)	$ (150,961)	$ (20,232,868)	
Component Units:								
University of Minnesota	$ 3,703,624	$ 1,452,278	$ 972,312	$ 113,911				$ (1,165,123)
Metropolitan Council	922,782	330,114	183,084	340,425				(69,159)
Housing Finance	351,994	156,693	194,763	-				(538)
Others	431,924	172,329	45,617	52,514				(161,464)
Total Component Units	$ 5,410,324	$ 2,111,414	$ 1,395,776	$ 506,850				$ (1,396,284)

General Revenues:	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Taxes:				
Individual Income Taxes	$ 9,915,021	$ -	$ 9,915,021	$ -
Corporate Income Taxes	1,308,578	-	1,308,578	-
Sales Taxes	5,283,785	-	5,283,785	-
Property Taxes	823,949	-	823,949	-
Motor Vehicle Taxes	1,312,982	-	1,312,982	-
Fuel Taxes	883,619	-	883,619	-
Other Taxes	2,489,475	-	2,489,475	297,870
Tobacco Settlement	175,386	-	175,386	-
Unallocated Investment/Interest Income	26,728	33,688	60,416	516,322
Other Revenues	27,339	9,107	36,446	491,958
State Grants Not Restricted	-	-	-	913,179
Special Item	-	-	-	13,556
Transfers	(520,134)	520,134	-	-
Total General Revenues and Transfers	$ 21,726,728	$ 562,929	$ 22,289,657	$ 2,232,885
Change in Net Position	$ 1,644,821	$ 411,968	$ 2,056,789	$ 836,601
Net Position, Beginning, as Reported	$ 12,298,348	$ 3,347,932	$ 15,646,280	$ 11,196,694
Change in Accounting Principle	11,959	-	11,959	(12,181)
Change in Fund Structure	(698)	698	-	-
Net Position, Beginning, as Restated	$ 12,309,609	$ 3,348,630	$ 15,658,239	$ 11,184,513
Net Position, Ending	$ 13,954,430	$ 3,760,598	$ 17,715,028	$ 12,021,114

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 3,054,211	$ 7,776	$ 4,676,669	$ 7,738,656
Investments	706,938	-	1,068,896	1,775,834
Accounts Receivable	2,426,796	204,083	387,524	3,018,403
Interfund Receivables	49,987	10,672	303,045	363,704
Due from Component Unit	-	-	79,004	79,004
Accrued Investment/Interest Income	15,085	-	5,390	20,475
Federal Aid Receivable	131	1,272,828	99,917	1,372,876
Inventories	-	-	27,445	27,445
Loans and Notes Receivable	85,132	3,494	125,269	213,895
Investment in Land	-	-	16,006	16,006
Total Assets	$ 6,338,280	$ 1,498,853	$ 6,789,165	$ 14,626,298
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 2,480,514	$ 1,415,012	$ 509,138	$ 4,404,664
Interfund Payables	179,580	17,646	141,817	339,043
Due to Component Unit	22,417	1,647	3,921	27,985
Unearned Revenue	90,606	64,424	1,959	156,989
Total Liabilities	$ 2,773,117	$ 1,498,729	$ 656,835	$ 4,928,681
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	$ 1,787,993	$ -	$ 127,318	$ 1,915,311
Total Deferred Inflows of Resources	$ 1,787,993	$ -	$ 127,318	$ 1,915,311
Fund Balances:				
Nonspendable	$ 912,814	$ -	$ 1,154,936	$ 2,067,750
Restricted	128,025	124	4,011,128	4,139,277
Committed	-	-	639,048	639,048
Assigned	231,559	-	199,900	431,459
Unassigned	504,772	-	-	504,772
Total Fund Balances	$ 1,777,170	$ 124	$ 6,005,012	$ 7,782,306
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 6,338,280	$ 1,498,853	$ 6,789,165	$ 14,626,298

The notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 7,782,306
Amounts reported for governmental activities in the Statement of Net Position 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	$ 8,985,905	
Nondepreciable Capital Assets	3,043,191	
Depreciable Capital Assets	3,559,854	
Accumulated Depreciation	(1,548,190)	
		14,040,760
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.		1,427,857
Deferred Inflows resulting from the refunding of debt and restructuring of capital leases.		(61,937)
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 Position.		280,868
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Accrued Interest Payable	$ (106,492)	
General Obligation Bonds Payable	(6,008,352)	
State General Fund Appropriation Bonds Payable	(1,084,355)	
Revenue Bonds Payable	(47,135)	
Bond Premium Payable	(787,728)	
Due to Component Units	(12,791)	
Capital Leases Payable	(106,821)	
Certificate of Participation Payable	(38,960)	
Certificate of Participation Premium Payable	(3,021)	
Claims Payable	(674,465)	
Compensated Absences Payable	(282,724)	
Net Other Post-Employment Benefits Obligation	(223,953)	
Net Pension Obligation	(138,627)	
		(9,515,424)
Net Position of Governmental Activities		$ 13,954,430

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 9,859,403	$ -	$ -	$ 9,859,403
Corporate Income Taxes	1,302,563	-	-	1,302,563
Sales Taxes	4,980,503	-	300,881	5,281,384
Property Taxes	830,759	-	-	830,759
Motor Vehicle Taxes	260,503	-	1,052,334	1,312,837
Fuel Taxes	-	-	882,649	882,649
Other Taxes	1,750,926	-	822,110	2,573,036
Tobacco Settlement	175,399	-	-	175,399
Federal Revenues	3,670	8,830,461	639,228	9,473,359
Licenses and Fees	205,965	4,884	343,980	554,829
Departmental Services	200,708	25,176	218,867	444,751
Investment/Interest Income	138,728	73	176,632	315,433
Other Revenues	213,123	44,859	333,080	591,062
Net Revenues	$ 19,922,250	$ 8,905,453	$ 4,769,761	$ 33,597,464
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources	$ 245,734	$ 166,790	$ 567,737	$ 980,261
Economic and Workforce Development	178,859	236,723	232,008	647,590
General Education	8,243,607	722,092	76,922	9,042,621
General Government	694,465	18,844	187,208	900,517
Health and Human Services	5,644,686	7,228,378	753,311	13,626,375
Higher Education	823,664	9	88,313	911,986
Intergovernmental Aid	1,290,612	-	463	1,291,075
Public Safety and Corrections	592,058	140,226	207,571	939,855
Transportation	400,551	257,497	1,972,597	2,630,645
Total Current Expenditures	$ 18,114,236	$ 8,770,559	$ 4,086,130	$ 30,970,925
Capital Outlay	28,182	78,591	804,356	911,129
Debt Service	34,722	-	627,334	662,056
Total Expenditures	$ 18,177,140	$ 8,849,150	$ 5,517,820	$ 32,544,110
Excess of Revenues Over (Under) Expenditures	$ 1,745,110	$ 56,303	$ (748,059)	$ 1,053,354
Other Financing Sources (Uses):				
Bond Issuance	$ -	$ -	$ 1,310,429	$ 1,310,429
Revenue Bond Issuance	37,830	-	-	37,830
Proceeds from Refunding Bonds	-	-	373,940	373,940
Payment to Refunded Bonds Escrow Agent	-	-	(373,940)	(373,940)
Bond Issue Premium	241	-	180,542	180,783
Transfers-In	366,779	2,226	1,229,048	1,598,053
Transfers-Out	(1,657,555)	(58,528)	(428,066)	(2,144,149)
Net Other Financing Sources (Uses)	$ (1,252,705)	$ (56,302)	$ 2,291,953	$ 982,946
Net Change in Fund Balances	$ 492,405	$ 1	$ 1,543,894	$ 2,036,300
Fund Balances, Beginning, as Reported	$ 1,284,765	$ 123	$ 4,461,118	$ 5,746,006
Fund Balances, Ending	$ 1,777,170	$ 124	$ 6,005,012	$ 7,782,306

The notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ 2,036,300
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 $123,086 in the current period.	788,043
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.	(67,263)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities reported in governmental activities.	17,386
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(40,629)
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 Position.	(1,902,982)
Net changes due to the amortization of deferred inflows related to the refunding of debt and restructuring of capital leases reported in the Statement of Activitities.	7,472
Repayment of bonds, loans and capital leases are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	862,237
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.	(55,743)
Change in Net Position of Governmental Activities	$ 1,644,821

The notes are an integral part of the financial statements.

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 9,193,180	$ 9,465,530	$ 9,659,554
Corporate Income Taxes	1,275,270	1,337,318	1,278,209
Sales Taxes	5,005,268	4,970,566	5,020,085
Property Taxes	834,521	832,057	835,554
Motor Vehicle Taxes	675	650	670
Other Taxes	1,734,010	1,758,912	1,759,768
Tobacco Settlements	163,042	164,529	175,399
Licenses and Fees	214,937	214,958	205,518
Departmental Services	83,411	80,604	83,010
Investment/Interest Income	4,048	4,648	6,777
Other Revenues	316,103	312,005	304,255
Net Revenues	$ 18,824,465	$ 19,141,777	$ 19,328,799
Expenditures:			
Agricultural Environmental and Energy Resources	$ 194,987	$ 194,643	$ 186,715
Economic and Workforce Development	153,358	153,634	148,033
General Education	7,786,371	8,516,962	8,483,350
General Government	827,365	824,795	781,543
Health and Human Services	5,679,397	5,549,625	5,373,128
Higher Education	804,247	804,247	792,177
Intergovernment Aid	1,248,836	1,248,836	1,248,836
Public Safety and Corrections	594,203	594,207	587,946
Transportation	128,472	128,472	127,764
Total Expenditures	$ 17,417,236	$ 18,015,421	$ 17,729,492
Excess of Revenues Over (Under) Expenditures	$ 1,407,229	$ 1,126,356	$ 1,599,307
Other Financing Sources (Uses):			
Transfers-In	$ 158,734	207,148	$ 206,613
Transfers-Out	(1,682,167)	(1,682,167)	(1,682,167)
Net Other Financing Sources (Uses)	$ (1,523,433)	$ (1,475,019)	$ (1,475,554)
Net Change in Fund Balances	$ (116,204)	$ (348,663)	$ 123,753
Fund Balances, Beginning, as Reported	$ 1,736,676	$ 1,736,676	$ 1,736,676
Prior Period Adjustments	-	-	59,254
Fund Balances, Beginning, as Restated	$ 1,736,676	$ 1,736,676	$ 1,795,930
Budgetary Fund Balances, Ending	$ 1,620,472	$ 1,388,013	$ 1,919,683
Less: Appropriation Carryover	-	-	192,411
Less: Reserved for Long-Term Receivables	-	-	6,145
Less: Budgetary Reserve	-	-	1,048,436
Unassigned Fund Balance, Ending	$ 1,620,472	$ 1,388,013	$ 672,691

The notes are an integral part of the financial statements.

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PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 856,260	$ 1,221,910	$ 159,597	$ 2,237,767	$ 319,835
Investments	26,919	-	-	26,919	14,795
Accounts Receivable	57,887	381,159	37,320	476,366	49,124
Interfund Receivables	27,588	-	2,399	29,987	59
Accrued Investment/Interest Income	-	-	-	-	60
Federal Aid Receivable	15,891	532	-	16,423	-
Inventories	15,353	-	8,255	23,608	281
Loans and Notes Receivable	6,269	-	-	6,269	-
Prepaid Expenses	1,119	-	790	1,909	10,923
Other Assets	-	-	205	205	-
Total Current Assets	$ 1,007,286	$ 1,603,601	$ 208,566	$ 2,819,453	$ 395,077
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 93,892	$ -	$ -	$ 93,892	$ -
Other Assets-Restricted	298	-	-	298	-
Loans and Notes Receivable	25,919	-	-	25,919	-
Depreciable Capital Assets (Net)	1,767,541	-	136,174	1,903,715	45,627
Nondepreciable Capital Assets	247,971	-	16,564	264,535	294
Prepaid Expenses	-	-	-	-	679
Total Noncurrent Assets	$ 2,135,621	$ -	$ 152,738	$ 2,288,359	$ 46,600
Total Assets	$ 3,142,907	$ 1,603,601	$ 361,304	$ 5,107,812	$ 441,677
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 180,075	$ 19,236	$ 60,373	$ 259,684	$ 97,724
Interfund Payables	12,308	19,774	20,171	52,253	2,000
Due to Component Unit	-	-	12	12	-
Unearned Revenue	39,918	26,831	2,939	69,688	11,850
Accrued Interest Payable	-	-	494	494	16
Bonds and Notes Payable	34,463	-	12,663	47,126	11,487
Capital Leases Payable	4,396	-	149	4,545	-
Claims Payable	2,676	-	-	2,676	9,531
Compensated Absences Payable	16,226	-	1,908	18,134	1,127
Other Liabilities	15,002	-	-	15,002	-
Total Current Liabilities	$ 305,064	$ 65,841	$ 98,709	$ 469,614	$ 133,735
Noncurrent Liabilities:					
Bonds and Notes Payable	$ 531,635	$ -	$ 125,991	$ 657,626	$ 17,123
Capital Leases Payable	25,930	-	44	25,974	-
Claims Payable	2,900	-	-	2,900	-
Compensated Absences Payable	116,618	-	11,122	127,740	9,320
Other Postemployment Benefits	31,014	-	1,311	32,325	631
Other Liabilities	31,035	-	-	31,035	-
Total Noncurrent Liabilities	$ 739,132	$ -	$ 138,468	$ 877,600	$ 27,074
Total Liabilities	$ 1,044,196	$ 65,841	$ 237,177	$ 1,347,214	$ 160,809
NET POSITION					
Net Investment in Capital Assets	$ 1,464,361	$ -	$ 25,270	$ 1,489,631	$ 16,080
Restricted for:					
Bond Covenants	$ 72,499	$ -	$ -	$ 72,499	$ -
Capital Projects	821	-	-	821	-
Debt Service	49,966	-	-	49,966	-
Economic and Workforce Development	-	-	423	423	-
Higher Education	511,064	-	-	511,064	-
Public Safety and Corrections	-	-	65,329	65,329	-
Unemployment Benefits	-	1,537,760	-	1,537,760	-
Other Purposes	-	-	41,555	41,555	-
Total Restricted	$ 634,350	$ 1,537,760	$ 107,307	$ 2,279,417	$ -
Unrestricted	$ -	$ -	$ (8,450)	$ (8,450)	$ 264,788
Total Net Position	$ 2,098,711	$ 1,537,760	$ 124,127	$ 3,760,598	$ 280,868

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 704,798	$ -	$ -	$ 704,798	$ -
Restricted Student Payments, Net	105,294	-	-	105,294	-
Net Sales	-	-	771,102	771,102	243,822
Insurance Premiums	-	1,165,191	89,389	1,254,580	792,229
Other Income	14,098	23,023	4,484	41,605	9,229
Total Operating Revenues	$ 824,190	$ 1,188,214	$ 864,975	$ 2,877,379	$ 1,045,280
Less: Cost of Goods Sold	-	-	398,424	398,424	-
Gross Margin	$ 824,190	$ 1,188,214	$ 466,551	$ 2,478,955	$ 1,045,280
Operating Expenses:					
Purchased Services	$ 234,002	$ -	$ 61,700	$ 295,702	$ 179,924
Salaries and Fringe Benefits	1,296,889	-	140,615	1,437,504	94,171
Student Financial Aid	38,446	-	-	38,446	-
Unemployment Benefits	-	875,988	-	875,988	-
Claims	-	-	68,593	68,593	685,396
Depreciation and Amortization	113,497	-	14,948	128,445	11,871
Supplies and Materials	141,157	-	10,916	152,073	10,853
Repairs and Maintenance	32,031	-	2,072	34,103	9,256
Indirect Costs	-	-	3,890	3,890	1,607
Other Expenses	46,339	-	8,295	54,634	4,759
Total Operating Expenses	$ 1,902,361	$ 875,988	$ 311,029	$ 3,089,378	$ 997,837
Operating Income (Loss)	$ (1,078,171)	$ 312,226	$ 155,522	$ (610,423)	$ 47,443
Nonoperating Revenues (Expenses):					
Investment Income	$ 6,927	$ 25,912	$ 849	$ 33,688	$ 1,631
Federal Grants	354,652	-	155	354,807	3,490
Private Grants	22,418	-	1	22,419	-
Grants and Subsidies	97,369	77,225	-	174,594	5
Other Nonoperating Revenues	-	-	10,195	10,195	-
Interest and Financing Costs	(23,464)	-	(5,167)	(28,631)	(375)
Grants, Aids and Subsidies	(10,236)	(12,677)	(19,117)	(42,030)	(18)
Other Nonoperating Expenses	-	-	(21,697)	(21,697)	(7,499)
Gain (Loss) on Disposal of Capital Assets	567	-	(1,655)	(1,088)	584
Total Nonoperating Revenues (Expenses)	$ 448,233	$ 90,460	$ (36,436)	$ 502,257	$ (2,182)
Income (Loss) Before Transfers and Contributions	$ (629,938)	$ 402,686	$ 119,086	$ (108,166)	$ 45,261
Capital Contributions	54,729	-	-	54,729	-
Transfers-In	591,242	-	11,414	602,656	233
Transfers-Out	-	(8,245)	(129,006)	(137,251)	(28,108)
Total Income (Loss)	$ 16,033	$ 394,441	$ 1,494	$ 411,968	$ 17,386
Change in Net Position	$ 16,033	$ 394,441	$ 1,494	$ 411,968	$ 17,386
Net Position, Beginning, as Reported	$ 2,082,678	$ 1,143,319	$ 121,935	$ 3,347,932	$ 263,482
Change in Fund Structure	-	-	698	698	-
Net Position, Beginning, as Restated	$ 2,082,678	$ 1,143,319	$ 122,633	$ 3,348,630	$ 263,482
Net Position, Ending	$ 2,098,711	$ 1,537,760	$ 124,127	$ 3,760,598	$ 280,868

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 825,472	$ 1,298,050	$ 857,969	$ 2,981,491	$ 1,034,317
Receipts from Other Revenues	-	-	3,623	3,623	7,433
Receipts from Repayment of Program Loans	4,396	-	-	4,396	-
Financial Aid Disbursements	(38,507)	-	-	(38,507)	-
Payments to Claimants	-	(868,973)	(386,422)	(1,255,395)	(687,212)
Payments to Suppliers	(450,995)	-	(127,355)	(578,350)	(201,548)
Payments to Employees	(1,279,654)	-	(139,486)	(1,419,140)	(90,992)
Payments to Others	-	-	(36,400)	(36,400)	(6,433)
Payments of Program Loans	(4,965)	-	-	(4,965)	-
Net Cash Flows from Operating Activities	$ (944,253)	$ 429,077	$ 171,929	$ (343,247)	$ 55,565
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 477,421	$ 83,943	$ -	$ 561,364	$ -
Grant Disbursements	(10,236)	(12,692)	(15,858)	(38,786)	-
Transfers-In	591,242	-	12,178	603,420	233
Transfers-Out	-	(8,076)	(125,554)	(133,630)	(28,107)
Advances from Other Funds	-	-	389	389	36
Repayments of Advances to Other Funds	-	-	(75)	(75)	-
Repayment of Bond Principal	-	-	(11,820)	(11,820)	-
Interest Paid	-	-	(6,443)	(6,443)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,058,427	$ 63,175	$ (147,183)	$ 974,419	$ (27,838)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 67,984	$ -	$ -	$ 67,984	$ -
Investment in Capital Assets	(175,743)	-	(20,331)	(196,074)	(16,751)
Proceeds from Disposal of Capital Assets	1,011	-	5,386	6,397	2,745
Proceeds from Capital Bonds	28,266	-	-	28,266	-
Proceeds from Loans	-	-	-	-	9,004
Capital Lease Payments	(4,563)	-	(199)	(4,762)	-
Repayment of Loan Principal	(779)	-	-	(779)	(7,077)
Repayment of Bond Principal	(31,548)	-	(335)	(31,883)	-
Interest Paid	(24,468)	-	-	(24,468)	(381)
Net Cash Flows from Capital and Related Financing Activities	$ (139,840)	$ -	$ (15,479)	$ (155,319)	$ (12,460)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 3,871	$ -	$ -	$ 3,871	$ 2,503
Purchase of Investments	(3,316)	-	-	(3,316)	-
Investment Earnings	2,599	25,912	848	29,359	1,753
Net Cash Flows from Investing Activities	$ 3,154	$ 25,912	$ 848	$ 29,914	$ 4,256
Net Increase (Decrease) in Cash and Cash Equivalents	$ (22,512)	$ 518,164	$ 10,115	$ 505,767	$ 19,523
Cash and Cash Equivalents, Beginning, as Reported	$ 972,664	$ 703,746	$ 149,482	$ 1,825,892	$ 300,312
Cash and Cash Equivalents, Ending	$ 950,152	$ 1,221,910	$ 159,597	$ 2,331,659	$ 319,835

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (1,078,171)	$ 312,226	$ 155,522	$ (610,423)	$ 47,443
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization	$ 113,497	$ -	$ 14,948	$ 128,445	$ 11,871
Miscellaneous Nonoperating Revenues	-	-	10,044	10,044	3,489
Miscellaneous Nonoperating Expenses	(451)	-	(25,054)	(25,505)	(7,053)
Loan Principal Repayments	4,396	-	-	4,396	-
Loans Issued	(4,965)	-	-	(4,965)	-
Provision for Loan Defaults	25	-	-	25	-
Loans Forgiven	448	-	-	448	-
Change in Valuation of Assets	4,452	-	-	4,452	-
Change in Assets and Liabilities:					
Accounts Receivable	226	120,680	(4,740)	116,166	(5,445)
Inventories	(704)	-	44	(660)	(32)
Other Assets	-	-	819	819	(2,085)
Accounts Payable	12,098	(6,402)	19,007	24,703	4,971
Compensated Absences Payable	3,286	-	743	4,029	4,253
Unearned Revenues	1,056	2,607	(39)	3,624	(1,897)
Other Liabilities	554	(34)	635	1,155	50
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 133,918	$ 116,851	$ 16,407	$ 267,176	$ 8,122
Net Cash Flows from Operating Activities	$ (944,253)	$ 429,077	$ 171,929	$ (343,247)	$ 55,565
Noncash Investing, Capital and Financing Activities:					
Capital Assets Purchased on Account	$ 14,891	$ -	$ -	$ 14,891	$ -
Bond Premium Amortization	3,025	-	1,240	4,265	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalent Investments	$ 26,121	$ -	$ 110,727
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 4,000,270	$ 95,568	$ -
Investments	64,784,500	720,683	-
Accrued Interest and Dividends	124,427	1,516	-
Securities Trades Receivables (Payables)	(1,015,418)	(1,161)	-
Total Investment Pool Participation	$ 67,893,779	$ 816,606	$ -
Receivables:			
Accounts Receivable	$ -	$ -	$ 27,125
Interfund Receivables	7,179	-	-
Other Receivables	141,960	-	-
Accrued Interest and Dividends	1	-	-
Total Receivables	$ 149,140	$ -	$ 27,125
Securities Lending Collateral	$ 6,532,370	$ 63,347	$ -
Depreciable Capital Assets (Net)	39,783	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 74,641,622	$ 879,953	$ 137,852
LIABILITIES			
Accounts Payable	$ 22,095	$ -	$ 137,852
Interfund Payables	7,633	-	-
Accrued Expense	32	-	-
Revenue Bonds Payable	19,979	-	-
Bond Interest	14	-	-
Compensated Absences Payable	2,438	-	-
Securities Lending Liabilities	6,532,370	63,347	-
Other Liabilities	1,686	-	-
Total Liabilities	$ 6,586,247	$ 63,347	$ 137,852
Net Position Held in Trust for Pension Benefits and Pool Participants	$ 68,055,375	$ 816,606	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 1,089,106	$ -
Member	1,276,905	-
Contributions From Other Sources	7,437	-
Participating Plans	-	285,818
Total Contributions	$ 2,373,448	$ 285,818
Net Investment Income:		
Investment Income	$ 10,663,124	$ 94,195
Less: Investment Expense	(87,149)	-
Net Investment Income	$ 10,575,975	$ 94,195
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 36,259	$ 388
Securities Lending Rebates and Fees	(11,912)	(130)
Net Securities Lending Revenue	$ 24,347	$ 258
Total Investment Income	$ 10,600,322	$ 94,453
Transfers From Other Funds	$ 74,669	$ -
Other Additions	13,943	-
Total Additions	$ 13,062,382	$ 380,271
Deductions:		
Benefits	$ 4,203,428	$ -
Refunds and Withdrawals	299,572	35,011
Administrative Expenses	44,555	559
Transfers To Other Funds	20,832	-
Total Deductions	$ 4,568,387	$ 35,570
Net Increase (Decrease)	$ 8,493,995	$ 344,701
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 59,554,513	$ 475,180
Change in Accounting Principle	(61)	-
Change in Reporting Entity	3,653	-
Change in Fund Structure	3,275	(3,275)
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 59,561,380	$ 471,905
Net Position Held in Trust for Pension Benefits and Pool Participants, Ending	$ 68,055,375	$ 816,606

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013 and JUNE 30, 2014
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 69,727	$ 61,921	$ 338,138	$ 584,297	$ 1,054,083
Investments	69,797	24,240	57,129	282,855	434,021
Accounts Receivable	3,823	29,156	362,804	51,444	447,227
Due from Primary Government	-	73,838	5,801	8,698	88,337
Accrued Investment/Interest Income	12,636	2,185	1,887	17,184	33,892
Federal Aid Receivable	2,552	-	-	1,568	4,120
Inventories	-	32,243	22,519	102	54,864
Loans and Notes Receivable	-	-	10,803	201,445	212,248
Prepaid Expenses	-	-	-	5,981	5,981
Other Assets	8,846	2,139	12,619	877	24,481
Total Current Assets	$ 167,381	$ 225,722	$ 811,700	$ 1,154,451	$ 2,359,254
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 326,836	$ 138,647	$ 66,888	$ 202,324	$ 734,695
Investments-Restricted	1,108,884	42,161	137,672	19,642	1,308,359
Accounts Receivable-Restricted	-	139,785	-	-	139,785
Due from Primary Government-Restricted	-	19,130	-	-	19,130
Due from Primary Government	-	-	-	10,338	10,338
Investments	-	692,618	4,331,186	39,137	5,062,941
Accounts Receivable	-	-	130,454	373,735	504,189
Loans and Notes Receivable	1,489,486	48,816	71,682	2,266,526	3,876,510
Depreciable Capital Assets (Net)	3,385	2,591,318	2,697,813	7,011	5,299,527
Nondepreciable Capital Assets	-	1,239,074	275,330	53,506	1,567,910
Prepaid Expenses	-	-	-	10,650	10,650
Other Assets	-	-	3,104	78	3,182
Total Noncurrent Assets	$ 2,928,591	$ 4,911,549	$ 7,714,129	$ 2,982,947	$ 18,537,216
Total Assets	$ 3,095,972	$ 5,137,271	$ 8,525,829	$ 4,137,398	$ 20,896,470
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Interest Swap Agreements	$ 21,532	$ -	$ -	$ -	$ 21,532
Bond Refunding	1,070	-	-	18,012	19,082
Total Deferred Outflows of Resources	$ 22,602	$ -	$ -	$ 18,012	$ 40,614
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 7,281	$ 81,202	$ 241,189	$ 30,128	$ 359,800
Due to Primary Government	-	-	3,667	38,378	42,045
Unearned Revenue	-	9,276	68,527	32,051	109,854
Accrued Interest Payable	32,884	3,216	12,283	16,012	64,395
Bonds and Notes Payable	85,885	184,498	258,875	79,420	608,678
Capital Leases Payable	-	640	5,414	-	6,054
Claims Payable	-	4,432	31,062	15,288	50,782
Compensated Absences Payable	260	20,938	135,646	310	157,154
Other Liabilities	-	-	1,572	120	1,692
Total Current Liabilities	$ 126,310	$ 304,202	$ 758,235	$ 211,707	$ 1,400,454
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 64,404	$ 53,870	$ -	$ 118,274
Unearned Revenue-Restricted	-	77,160	-	-	77,160
Accrued Interest Payable-Restricted	-	12,333	-	-	12,333
Due to Primary Government	-	-	17,844	41,275	59,119
Unearned Revenue	-	-	3,158	-	3,158
Bonds and Notes Payable	1,933,027	1,508,544	959,480	1,487,702	5,888,753
Capital Leases Payable	-	8,970	37,227	-	46,197
Claims Payable	-	12,463	11,571	581,712	605,746
Compensated Absences Payable	1,851	7,937	41,333	941	52,062
Other Postemployment Benefits	162	78,825	101,288	51	180,326
Funds Held in Trust	88,545	-	250,176	-	338,721
Other Liabilities	-	-	91,896	938	92,834
Total Noncurrent Liabilities	$ 2,023,585	$ 1,770,636	$ 1,567,843	$ 2,112,619	$ 7,474,683
Total Liabilities	$ 2,149,895	$ 2,074,838	$ 2,326,078	$ 2,324,326	$ 8,875,137
DEFERRED INFLOWS OF RESOURCES					
Interest Rate Swap Agreements	$ 21,532	$ -	$ -	$ -	$ 21,532
Deferred Revenue	7,231	-	-	12,070	19,301
Total Deferred Inflows of Resources	$ 28,763	$ -	$ -	$ 12,070	$ 40,833
NET POSITION					
Net Investment in Capital Assets	$ 3,385	$ 2,719,469	$ 1,701,714	$ 60,314	$ 4,484,882
Restricted-Expendable	936,531	525,498	2,270,455	1,676,737	5,409,221
Restricted-Nonexpendable	-	-	1,240,792	-	1,240,792
Unrestricted	-	(182,534)	986,790	81,963	886,219
Total Net Position	$ 939,916	$ 3,062,433	$ 6,199,751	$ 1,819,014	$ 12,021,114

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 and JUNE 30, 2014
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 351,994	$ 922,782	$ 3,703,624	$ 431,924	$ 5,410,324
Program Revenues:					
Charges for Services	$ 156,693	$ 330,114	$ 1,452,278	$ 172,329	$ 2,111,414
Operating Grants and Contributions	194,763	183,084	972,312	45,617	1,395,776
Capital Grants and Contributions	-	340,425	113,911	52,514	506,850
Net (Expense) Revenue	$ (538)	$ (69,159)	$ (1,165,123)	$ (161,464)	$ (1,396,284)
General Revenues:					
Taxes	$ -	$ 297,057	$ -	$ 813	$ 297,870
Investment Income	-	30,332	476,892	9,098	516,322
Other Revenues	706	-	486,570	4,682	491,958
Total General Revenues before Grants	$ 706	$ 327,389	$ 963,462	$ 14,593	$ 1,306,150
State Grants Not Restricted	58,038	-	614,791	240,350	913,179
Total General Revenues	$ 58,744	$ 327,389	$ 1,578,253	$ 254,943	$ 2,219,329
Special Item	$ -	$ -	$ 13,556	$ -	$ 13,556
Change in Net Position	$ 58,206	$ 258,230	$ 426,686	$ 93,479	$ 836,601
Net Position, Beginning, as Reported	$ 885,549	$ 2,804,203	$ 5,773,065	$ 1,733,877	$ 11,196,694
Change in Accounting Principle	(3,839)	-	-	(8,342)	(12,181)
Net Position, Beginning, as Restated	$ 881,710	$ 2,804,203	$ 5,773,065	$ 1,725,535	$ 11,184,513
Net Position, Ending	$ 939,916	$ 3,062,433	$ 6,199,751	$ 1,819,014	$ 12,021,114

The notes are an integral part of the financial statements.

Index of 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 GASB statements for the fiscal year ended June 30, 2014:

GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities” was issued in March 2012. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement resulted in a reevaluation of items previously reported as assets and liabilities plus some terminology changes. In the governmental funds, when an asset is recorded but the revenue is not available, the amount is reported as a deferred inflow of resources until the revenue becomes available. Significant balances previously reported as liabilities are now reported as deferred inflows of resources in the governmental funds. Amounts that are not permitted to be used until the next fiscal year are reported as deferred inflows of resources in the government-wide statements. In addition, differences between the reacquisition price and the net carrying amounts on refunding general obligation bonds as well as the adjustments to the lease obligations on a capital lease restructuring due to the refunding of the debt by the lessor are reported as a deferred inflow of resources on the government-wide financial statements. These amounts are amortized as interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The beginning balance is reported as a change in accounting principle and the impacts of restating the general obligation bonds premium is recorded in the reductions to general obligation bonds in Note 12 – Long-Term Liabilities – Primary Government.

GASB Statement No. 66 “Technical Corrections – 2012” was issued March 2012. The statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,” and GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” This statement has no material impact on the state.

GASB Statement No. 67 “Financial Reporting for Pension Plans” was issued in June 2012. The statement improves financial reporting, provides decision-useful information, supports assessments of accountability and interperiod equity, and creates additional transparency by state and local governments for pensions. See the separately-issued financial reports for plan administrators of the state’s pension plans for additional information on implementation of this statement. GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” is related to this statement as the objective is to improve information provided by state and local government employers about financial support for pensions that is provided by other entities. The state is not required and has not implemented GASB Statement No. 68 during the current year since information needed for implementation was not available as of the publication date of this report. The state’s note disclosures reflect current GAAP primarily related to GASB Statement No. 27 “Accounting for Pensions by State and Local Governmental Employers.”

GASB Statement No. 69 "Government Combinations and Disposals of Government Operations" was issued in January 2013. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement has no material impact on the state.

GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees" was issued in April 2013. The statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement has no material impact on the state.

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. 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. Blended component units, although legally separate entities, are, in substance, part of the state's operations. All of the state's component units are discretely presented component units that are 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. Discretely presented component units are also identified separately in the note disclosures because of their separate legal status. All discretely presented component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

Discretely Presented Component Units

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. The state has the ability to significantly influence the programs, projects, and levels of services provided by HFA. 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 state has the ability to significantly influence the projects and levels of services provided by MC. The regional administrator, appointed by the council, is responsible for the administration of council activities. 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. The state has the ability to significantly influence the programs and projects of AEDB. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.

- 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. PFA 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.

- Minnesota Sports Facilities Authority ("Authority") – The Authority's mission is to provide for the construction, financing, and long-term use of a new multi-purpose stadium and related stadium infrastructure as a venue for professional football and a broad range of other civic, community, athletic, educational, cultural, and commercial activities. The Authority has five members, including a chair and two members who are appointed by the governor. The state will provide administrative funding to the Authority. The fiscal year for the Authority ends December 31.

A discretely presented 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 Position 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 400 Sibley Street, Suite 300 St. Paul, Minnesota 55101-1998	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite W820 St. Paul, Minnesota 55101-1378
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 5600 West 83rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	Minnesota Sports Facilities Authority 511 11th Avenue South, Suite 401 Minneapolis, Minnesota 55415

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 (HEFA) – The governor appoints a majority of the board. HEFA 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 2645 Long Lake Road Roseville, Minnesota 55113	Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, Minnesota 55103
Public Employees Retirement Association 60 Empire Drive, Suite 200 St. Paul, Minnesota 55103	Teachers Retirement Association 60 Empire Drive, Suite 400 St. Paul, Minnesota 55103
State Board of Investment 60 Empire Drive, Suite 355 St. Paul, Minnesota 55103	Minnesota State Colleges and Universities Financial Reporting Unit 500 Wells Fargo Place, 30 East 7th Street St. Paul, Minnesota 55101

The financial reports, 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 Position 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 Position, 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 bond 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 trust, 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. The fund types included in this category are the General Fund plus special revenue, capital project, debt service, and permanent funds.

- General Fund, which accounts for all financial resources not accounted for and reported in another fund.
- Special revenue funds, which account for revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Capital project funds, which account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude capital-related outflows financed by proprietary funds or for assets that will be held in trust.
- 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 is the state's only major special revenue fund. It receives and disburses federal government grants, reimbursements, recoveries, and premiums.

Proprietary Fund Types – These funds focus on determining net income, changes in net position, 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 services, employee insurance, technology services, plant management, and risk management.

The state has two major enterprise funds, the State Colleges and Universities Fund and the Unemployment Insurance Fund. 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 trust, 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 individuals, private organizations, or other governmental units. Some examples include resources held for inmates of correctional facilities or residents of veterans and group homes, sales taxes to be distributed to local governments, and child support collections to be distributed to custodial parents.

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. Receivables not collected by the close of the books in late August are reported as deferred revenue. In addition, revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are also 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, capital leases, 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 (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 trust, 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.

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, Investments, and Derivative Instruments for additional information regarding cash, investments, and derivative instruments.

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. The exception primarily relates to the Trunk Highway Fund (special revenue fund) and 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 Position 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 Position; or the Statement of Changes in Net Position, as appropriate for the particular fund type.

Restricted Net Position

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted net position. 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 Position. 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, infrastructure, intangible assets, and art and historical treasures, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. Capital assets are generally defined by the state as assets with an initial, individual cost of more than $300,000 for buildings, $30,000 for equipment, $300,000 for infrastructure, $30,000 to $2,000,000 for internally generated computer software depending on the fund type, and $30,000 for art and historical treasures. All land and easement assets are capitalized, regardless of cost. Capital assets must also have 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 1985. 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 generally based on the following useful lives: 20-50 years for buildings, 20-50 years for large improvements, 3-10 years for small improvements, 3-12 years for equipment, 8-12 years for internally generated computer software, and 20-50 years for easements. Transportation infrastructure assets using the modified approach, land, construction and development in progress, permanent easements with indefinite useful lives, 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, supplementary and second injury benefit claims, pollution remediation obligations, capital leases, 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 Inflows of Resources

In the governmental funds, when an asset is recorded but the revenue is not available, the amount is reported as a deferred inflow of resources until the revenue becomes available. Amounts that are not permitted to be used until the next fiscal year remain as deferred inflows of resources in the government-wide statements. In addition, differences between the reacquisition price and the net carrying amounts on refunding general obligation bonds as well as the adjustments to the lease obligations on a capital lease restructuring due to the refunding of the debt by the lessor are reported as a deferred inflow of resources on the government-wide financial statements. These amounts are amortized as interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

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 Position/Fund Balances and Fund Balance Classification Policies and Procedures

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

Net Investment in Capital Assets 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 as well as deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of these assets or related debt. Significant unspent related debt proceeds are included in Restricted for Capital Projects.

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

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by the state legislature by passing a bill, which is signed by the Governor, are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the state legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts. Amounts that are constrained by the state’s intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by agency heads to whom the Governor has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The state’s policy is that restricted amounts are spent first when expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the state’s policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 the majority of the expenditures from the General Fund. The accounts not requiring specific appropriations are considered perspective differences in the budgetary basis vs. GAAP reconciliation. Specific appropriations are also required for all special revenue funds except the Federal, Municipal State-Aid Street, County State-Aid Highway, Douglas J. Johnson Economic Protection Trust, Endowment, 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 accounting system maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting point for the financial statements. The second ledger tracks information on a budgetary basis of accounting, which approximates a cash basis with the exception that, at year-end, encumbered amounts are included as expenditures of the year appropriated for budgetary reporting. The budget ledger controls expenditures by appropriation line item as established in the legally adopted appropriation bills. 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 Position, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

New Enterprise Funds, Change in Fund Structure

The State Auditor Fund (enterprise fund) was created in fiscal year 2014 to account for the audit services provided to local governments by the Office of the State Auditor’s Audit Practice Division. These services were previously accounted for in the General Fund. This is reported as a change in fund structure of $698,000.

The MNsure Fund (enterprise fund) was created in fiscal year 2014 to account for the operations of Minnesota Insurance Marketplace (MNsure), the state-run health insurance exchange under the federal Affordable Care Act.

Change in Reporting Entity related to Pension Trust Funds

Minnesota Statutes, Section 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2014, six firefighter groups joined the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association board of directors. Investment balances of $3.7 million were reported as a change in reporting entity in the Volunteer Firefighter Retirement Fund.

Change in Fund Structure related to Investment and Pension Trust Funds

Minnesota Statutes, Section 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2014, seven firefighter groups moved from the volunteer fire accounts, part of the Supplemental Retirement Fund (investment trust fund), into the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association board of directors. The transfer was reported as a change in fund structure of $3.3 million in the Supplemental Retirement Fund and the Volunteer Firefighter Retirement Fund.

Note 2 – Cash, Investments, and Derivative Instruments

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.

Investment Derivative Instruments

Minnesota Statutes, Section 11A.24, provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This provision applies to foreign currency forward contracts used to offset the currency risk of a security. All other derivatives are exchange traded. The purpose of the SBI derivative activity is to equitize cash in the portfolio, to adjust the duration of the portfolio, or to offset current futures positions.

The cash inflows, cash outflows, and changes in fair value of investment derivatives are reported as investment income. The June 30, 2014, fair value of investment derivatives is reported as investments.

Synthetic Guaranteed Investment Contract (SGIC): SBI maintains a fully benefit-responsive SGIC for the Supplemental Investment Pool - Fixed Interest Account of the pension trust and investment trust funds' portfolio. The investment objective of the Fixed Interest Account is to protect investors in defined contribution and deferred compensation plans from loss of their original investment and to provide a competitive interest rate. On June 30, 2014, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $1,348,012,000 that is $31,135,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool with a fair value of $232,380,000.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2014:

Primary Government
Derivative Activity for the Year Ended June 30, 2014
By Derivative Type
(In Thousands)

	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	$ 19,731	$ 141,567	$ -
Fiduciary Activities:			
Futures	$ 67,346	$ 327,206	$ -
Futures Options Bought	(2,366)	5,104	239
Futures Options Written	3,565	(2,520)	(287)
FX Forwards	(5,594)	776,707	(1,046)
Warrants/Stock Rights	705	1,056	653
	$ 63,656	$ 1,107,553	$ (441)

Credit Risk: Minnesota is exposed to credit risk through six counter parties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counter parties combined exposes the state to a maximum loss of $2,959,000 should these counter parties fail to perform. These counter parties have S&P credit ratings of A or better.

Foreign Currency Risk: Currency futures and foreign stock index futures are exposed to foreign currency risk. Their currency risks are included in the investment Foreign Currency Risk schedule of this note.

Component Unit Derivative Activity: Derivative activity of the state's component units is disclosed in the last section of this note.

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 rate 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 Barclays Capital U.S. 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 include guidelines or limitations regarding credit risk. The exposure to credit risk is based on the lower of Standard and Poor's or Moody's Quality Ratings. For clarity of reporting, Moody's ratings are displayed in this exhibit using the comparable Standard and Poor's rating.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
Year Ended June 30, 2014
(In Thousands)

Quality Rating	Fair Value
AAA	$ 257,450
AA	213,633
A	1,978,646
BBB	651,843
BB	87,767
B	8,815
CCC	1,100
CC	3,687
Unrated	4,501,655
Agencies	1,025,016
U.S. Governments	1,081,456
Total Investments	$ 9,811,068

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
Year Ended June 30, 2014
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
U.S. Treasury	$ 1,025,282	2.04
U.S. Agencies	763,822	1.53
Mortgage-backed Securities	138,899	7.95
State or Local Government Bonds	140,274	3.68
Corporate Bonds	2,474,296	2.35
Yankee Bonds	390,612	2.21
Short Term Notes	4,877,883	0.21
Total Debt Securities	$ 9,811,068	
Equity Investments:		
Corporate Stock	$ 1,159,747	
Other Investments:		
Escheat Property	$ 13,031	
Money Market Accounts	5,678	
Total Other Investments	$ 18,709	
Total Investments	$ 10,989,524 (1)	

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

Primary Government
Pension Trust and Investment Trust Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
Year Ended June 30, 2014
(In Thousands)

Quality Rating	Fair Value
AAA	$ 755,443
AA	235,642
A	1,045,562
BBB	2,389,955
BB	918,139
B	197,959
CCC	89,848
CC	51,915
C	1,704
D	24,281
Unrated	3,929,027
Agencies	4,325,009
U.S. Governments	3,393,093
Total Investments	$17,357,577

Primary Government
Pension Trust and Investment Trust Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
Year Ended June 30, 2014
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
U.S. Treasury	$ 3,393,093	8.41
U.S. Agencies	796,270	5.82
Mortgage-backed Securities	4,938,590	4.81
State or Local Government Bonds	182,631	15.07
Corporate Bonds	3,320,312	9.27
Yankee Bonds	985,287	9.12
Foreign Country Bonds	158,623	4.84
Asset-backed Securities	559,599	2.93
Short Term Notes	3,023,172	0.37
Total Debt Securities	$ 17,357,577	
Other Investments		
Guaranteed Investment Account		
Synthetic Guaranteed Investment Contract (GIC)	$ 1,316,877	
Short Term Investment Pool	232,380	
Total Guaranteed Investment Account	$ 1,549,257	
Futures Options	(48)	
Mutual Funds	6,134,716	
Total Other Investments	$ 7,683,925	
Equity Investments:		
Corporate Stock	$ 37,144,988	
Alternative Equities	7,427,718	
Stock Rights/Warrants	653	
Total Equity Investments	$ 44,573,359	
Total Investments	$ 69,614,861[1]	

[1]Total Investments do not include $13,840 of cash that is included in the cash and cash equivalent investments line on the pension and investments trust funds statements.

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 five 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 did not have concentration of credit risk over five percent as of June 30, 2014.

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, 2014.

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2014
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 8,331	$ -	$ 466,971
Brazilian Real	115	-	120,294
Canadian Dollar	11,004	608	673,778
Danish Krone	341	-	133,698
Euro Currency	31,072	150,898	2,296,899
Hong Kong Dollar	4,755	-	578,614
Indian Rupee	517	-	187,412
Japanese Yen	28,825	-	1,431,017
New Taiwan Dollar	5	-	149,936
New Zealand Dollar	33	6,709	11,807
Pound Sterling	23,386	24,871	1,510,702
Singapore Dollar	1,470	-	84,079
South African Rand	274	-	84,149
South Korean Won	-	-	252,521
Swedish Krona	4,290	-	197,526
Swiss Franc	268	-	595,646
Other	445	-	419,810
Total	$ 115,131	$ 183,086	$ 9,194,859

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counterparty, 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 a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as agent in lending state securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the state, certain securities held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. State Street does not have 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 at least 100 percent of the fair value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the state in the event of default by a borrower. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default.

During the fiscal year, the state and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan, together with the cash collateral of other qualified tax-exempt plan lenders, was invested in a collective investment pool. As of June 30, 2014, such investment pool had an average duration of 12.64 days and an average weighted maturity of 44.22 days for USD collateral.

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, 2014, 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.

The fair value of collateral held and the fair value of securities on loan for the state as of June 30, 2014, were $11,846,402,000 and $11,337,038,000, respectively. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

Housing Finance Agency

As of June 30, 2014, Housing Finance Agency (HFA) had $396,563,000 of cash and cash equivalents and $1,178,681,000 of investments. As of June 30, 2014, $386,512,000 of deposits and $1,120,357,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 3.1 – 29.2 years.

HFA cash equivalents included $10,051,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2014, all the investment agreement providers had a Standard & Poor's long-term credit rating of 'AA-' and a Moody's long-term credit rating of 'A1.' 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 $1,178,681,000 as of June 30, 2014. Included in these investments were $10,983,000 in U.S. Treasuries (not rated), and $1,094,989,000 in U.S. Agencies having a Standard & Poor's rating of 'AA+' and Moody's Investors Services rating of 'Aaa.' An additional $35,465,000 in municipal debt investments had a Standard & Poor's rating of 'AA' and Moody's Investors Services rating of 'Aa2.'

HFA had investments in single issuers as of June 30, 2014, excluding investments issued or explicitly guaranteed by the U.S. Government that exceeded five percent or more of total investments. These investments of $156,635,000 were issued by Federal National Mortgage Association.

HFA has entered into interest rate swap agreements to hedge its issuance of variable rate mortgage revenue bonds for the objective of reducing HFA's cost of capital compared to using long-term fixed rate bonds. These interest rate swap agreements have been determined to be effective hedges by HFA's consultant and are reported at fair value as of June 30, 2014, as Interest Rate Swap Agreements deferred inflows of resources. The change in fair value for fiscal year 2014 is reported in "Deferred Loss on Interest Swap Agreements" deferred outflows of resources.

As of June 30, 2014, HFA had eight and six interest rate swap agreements with counterparties the Bank of New York Mellon and Royal Bank of Canada for total notional amounts of $168,765,000 and $148,990,000 having fair values of ($7,910,000) and ($13,622,000), respectively. For these counterparties, respectively, the increase in fair values for fiscal year ended June 30, 2014, were $3,234,000 and $2,663,000.

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, the Bank of New York Mellon and Royal Bank of Canada, have been rated by Moody's as 'A1,' and 'Aa3,' respectively, and by Standard & Poor's as 'A,' and 'AA-,' respectively.

All swaps are pay-fixed/receive-variable with initial notional amounts that matched the original principal amounts and have terms which reduce the notional amounts to approximately follow the anticipated reductions in outstanding principal. HFA has also purchased the right, generally based upon a 300 percent PSA prepayment rate (the standard prepayment model of the Security Industries and Financial Market Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match outstanding principal amounts of the associated bonds. HFA also has the right to terminate outstanding swaps in whole or in part at any time if it is not in default. The swap contracts may also be terminated by the counterparties but are generally limited to HFA payment default or other HFA defaults that remain uncured for 30 days.

The variable rate HFA pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one month taxable LIBOR rate or the SIFMA index rate. This exposes HFA to basis risk (the risk that the rates do not equal), and this risk will vary over time due to inter-market conditions.

HFA assumes the risk that changes in the tax code may vary from the historical long-term relationship between taxable and tax-exempt short-term interest rates for economic reasons.

Metropolitan Council

As of December 31, 2013, Metropolitan Council (MC), had $200,568,000 in cash and cash equivalents and $759,019,000 in investments. Of this amount, $704,428,000 was subject to rating. Using the Moody's Investors Services rating scale, $369,292,000 of these investments were rated 'Aaa,' $153,652,000 were rated 'Aa3,' while $181,484,000 were not rated. U.S. Treasury State and Local Government Securities (SLGS) of $255,094,000 and net outstanding checks of $65,000 comprise the remaining cash and investment amount.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $168,789,000 U.S. agency investments, MC has a custodial credit risk exposure of $2,001,000 because the related securities are held by a custodial agent in the broker's name.

MC has adopted a 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, 2013. The investment portfolio has an average yield of 1.95 percent, modified duration of 4.0 years, effective duration of 3.7 years, and convexity of -0.08.

The following table presents the estimated fair value of MC investments subject to interest rate risk using the simulation model.

Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2013
(In Thousands)

		Estimated Fair Value
Fair Value of Portfolio Before Basis Point Increase	$	961,480
Fair Value of Portfolio After Basis Point Increase of:		
50 Points	$	947,886
100 Points	$	940,009
150 Points	$	932,137
200 Points	$	924,881

MC has used commodity futures as an energy forward pricing mechanism (EFPM) permitted by Minnesota Statutes, Section 473.1293. Statutorily, MC may not hedge more than 100 percent of the projected consumption of any of its commodities and only up to 23 months into the future. Since 2004, MC has hedged most of its annual diesel fuel consumption but discontinued its fuel hedging for one fund and natural gas hedging for all funds in 2013. The hedging transactions are separate from fuel purchase transactions. For 2013, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2013, MC had 265 New York Mercantile Exchange (NYMEX) heating oil futures contracts (11.1 million gallons) acquired from July 23, 2012, through December 10, 2013, to terminate on dates from January 31, 2014, through November 30, 2015. As of December 31, 2013, the heating oil futures contracts had a fair value of $33,069,000.

MC is using NYMEX heating oil futures to hedge diesel fuel consumption. MC will be exposed to basis risk if the prices significantly deviate from each other. Historically, there has been a strong correlation between the two products.

University of Minnesota

As of June 30, 2014, University of Minnesota (U of M), including its discretely presented component units, had $405,026,000 of cash and cash equivalents and $4,525,987,000 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 $309,937,000 and investments of $2,092,394,000.

Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts were fully insured, regardless of balance, at qualified FDIC-insured institutions. As of June 30, 2014, U of M's bank balance of $244,132,000 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 meet respective investment objectives 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, 2014, $1,320,501,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $1,173,545,000 was rated AA or better
- $127,696,000 was rated BBB to A
- $19,260,000 was not rated

The securities subject to interest rate risk were comprised of the following:

- $707,467,000 in government agencies with weighted average maturities of 2.9 to 3.2 years
- $97,179,000 in mortgage-backed securities with a weighted average maturity of 19.8 years
- $246,211,000 in cash and cash equivalents with a weighted average maturity of 0.0 years
- $250,384,000 in mutual funds with a weighted average maturity of 4.3 years

As of June 30, 2014, U of M had $219,517,000 of equity investments subject to foreign currency risk. The two largest components of this amount are $70,441,000 in Euro Currency and $39,855,000 in British Pound Sterling.

As of June 30, 2014, the U of M has one pay-fixed, receive-variable swap that is considered ineffective. At June 30, 2014, the total fair value was ($9,498,000), with changes in fair value reported as investment income.

U of M is exposed to interest rate risk, termination risk (upon default of the other party), and basis risk.

Nonmajor Component Units

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2013, or June 30, 2014, as applicable
(In Thousands)

Component Unit		Cash and Cash Equivalents		Investments
Agricultural and Economic Development Board	$	1,338	$	19,642
National Sports Center Foundation		400		-
Office of Higher Education		375,229		-
Public Facilities Authority		375,421		39,137
Rural Finance Authority		15,619		-
Workers' Compensation Assigned Risk Plan		11,189		282,855
Minnesota Sports Facilities Authority		7,425		-
Total	$	786,621	$	341,634

Note 3 – Disaggregation of Receivables

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2014
(In Thousands)

	Governmental Activities			
	General Fund[2]	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 982,747	$ -	$ -	$ 982,747
Sales and Use	401,077	-	23,846	424,923
Property	407,142	-	-	407,142
Health Care Provider	280,772	-	98,729	379,501
Motor Vehicle/Fuel	-	-	66,801	66,801
Child Support	56,873	56,992	4	113,869
Workers' Compensation	-	-	97,473	97,473
Other	298,639	147,091	104,995	550,725
Net Receivables	$ 2,427,250	$ 204,083	$ 391,848	$ 3,023,181

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	$ -	$ 381,159	$ -	$ 381,159
Tuition and Fees	57,887	-	-	57,887
Other	-	-	37,320	37,320
Net Receivables	$ 57,887	$ 381,159	$ 37,320	$ 476,366
Total Government-wide Net Receivables				$ 3,499,547

[1]Includes $4,324 Internal Service Funds.

[2]Includes $454 Interfund Receivables from Fiduciary Funds reclassified to Accounts Receivable on the Government-wide Statement of Net Position.

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

- Corporate and Individual Taxes $130,271,000
- Sales and Use Taxes $34,886,000
- Child Support $245,158,000

Receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes $187,209,000
- Sales and Use Taxes $76,755,000
- Child Support $111,837,000
- Health Care Provider $126,147,000
- Other Receivables $110,408,000

Note 4 – Loans and Notes Receivable

Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2014
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 32,188
Economic Development	35,102	3,494	47,550	-	-
School Districts	46,714	-	-	-	-
Agricultural, Environmental and Energy Resources	-	-	60,699	-	-
Transportation	-	-	15,419	137	-
Other	3,316	-	1,464	-	-
Total	$ 85,132	$ 3,494	$ 125,132	$ 137	$ 32,188

Component Units
Loans and Notes Receivable
As of December 31, 2013, or June 30, 2014, as applicable
(In Thousands)

Housing Finance Authority	$ 1,489,486
Metropolitan Council	48,816
University of Minnesota	82,485
Agricultural and Economic Development Board	841
Office of Higher Education	615,770
Public Facilities Authority	1,799,484
Rural Finance Authority	51,876
Total	$ 4,088,758

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. During fiscal year 2014, the Minnesota State Legislature authorized a General Fund appropriation of $198,748,000 to the General Projects Fund (capital projects fund) for capital improvement projects.

In the fund financial statements, these transactions are generally recorded as transfers in/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.

Primary Government
Interfund Receivables and Payables
As of June 30, 2014
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 17,646
Nonmajor Governmental Funds	13,705
Nonmajor Enterprise Funds	16,182
Internal Service Funds	2,000
Fiduciary Funds	454
Total Due to General Fund From Other Funds	$ 49,987
Due to the Federal Fund From:	
General Fund	$ 4,454
Nonmajor Governmental Funds	5,945
Unemployment Insurance Fund	273
Total Due to Federal Fund From Other Funds	$ 10,672
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 27,588
Total Due to State Colleges and Universities Fund From Other Funds	$ 27,588
Due to the Nonmajor Enterprise Funds From:	
General Fund	$ 401
Nonmajor Enterprise Funds	1,998
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,399
Due to the Internal Services Funds From:	
General Fund	$ 59
Total Due to Internal Service Funds From Other Funds	$ 59
Due to Fiduciary Funds From:	
Fiduciary Funds	$ 7,179
Total Due to Fiduciary Funds From Other Funds	$ 7,179
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 174,666
State Colleges and Universities Fund	12,308
Unemployment Insurance Fund	19,501
Nonmajor Governmental Funds	94,579
Nonmajor Enterprise Funds	1,991
Total Due to Nonmajor Governmental Funds From Other Funds	$ 303,045

Primary Government
Interfund Transfers
Year Ended June 30, 2014
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 56,824
Nonmajor Governmental Funds	179,168
Nonmajor Enterprise Funds	103,983
Internal Service Funds	26,804
Total Transfers to General Fund From Other Funds	$ 366,779
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	$ 278
Nonmajor Governmental Funds	1,948
Total Transfers to Federal Fund From Other Funds	$ 2,226
Transfers and Capital Contributions to the State Colleges and Universities Fund From:	
General Fund	$ 588,009
Nonmajor Governmental Funds	57,962
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	$ 645,971
Transfers to Fiduciary Funds From:	
General Fund	$ 53,837
Fiduciary Funds	20,832
Total Transfers to Fiduciary Funds From Other Funds	$ 74,669
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 1,008,062
Federal Fund	1,704
Unemployment Insurance Fund	7,967
Nonmajor Governmental Funds	184,988
Nonmajor Enterprise Funds	25,023
Internal Service Funds	1,304
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 1,229,048
Transfers to the Nonmajor Enterprise Funds From:	
General Fund	$ 7,414
Nonmajor Governmental Funds	4,000
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$ 11,414
Transfers to Internal Service Funds From:	
General Fund	$ 233
Total Transfers to Internal Service Funds From Other Funds	$ 233

Component Units

Primary Government and Component Units
Receivables and Payables
As of June 30, 2014
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Metropolitan Council	$ 92,968	$ -
University of Minnesota	5,801	21,511
Total Major Component Units	$ 98,769	$ 21,511
Nonmajor Component Units	$ 19,036	$ 79,653
Total Component Units	$ 117,805	$ 101,164

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ -	$ 22,417
Federal Fund	-	1,647
Total Major Governmental Funds	$ -	$ 24,064
Nonmajor Governmental Funds	$ 79,004	$ 3,921
Nonmajor Enterprise Funds	-	12
Total Primary Government	$ 79,004	$ 27,997 (1)

(1) Due to Component Units on the Government-wide Statement of Net Position totals $40,788 and includes $12,791 of loans payable to the Public Facilities Authority (component unit) that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $22,160,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, National Sports Center Foundation, and Minnesota Sports Facilities Authority use a different fiscal year end than the primary government. The $89,808,000 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 $12,791,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2014
(In Thousands)

	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 2,168,036	$ 63,978	$ (9,942)	$ 2,222,072
Buildings, Structures, Improvements	38,870	1,181	-	40,051
Construction in Progress	255,595	186,440	(94,522)	347,513
Development in Progress	69,146	36,897	(8,032)	98,011
Infrastructure	8,480,170	534,259	(28,524)	8,985,905
Easements	334,733	15,838	(5,483)	345,088
Art and Historical Treasures	4,599	2,157	-	6,756
Total Capital Assets not Depreciated	$ 11,351,149	$ 840,750	$ (146,503)	$ 12,045,396
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 2,627,335	$ 80,197	$ (12,029)	$ 2,695,503
Infrastructure	199,099	39,579	(9,153)	229,525
Internally Generated Computer	74,108	2,542	(3)	76,647
Easements	4,211	1,186	(34)	5,363
Equipment, Furniture, Fixtures[(1)]	641,212	62,662	(35,389)	668,485
Total Capital Assets Depreciated	$ 3,545,965	$ 186,166	$ (56,608)	$ 3,675,523
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,028,524)	$ (69,354)	$ 6,173	$ (1,091,705)
Infrastructure	(53,492)	(9,209)	1,488	(61,213)
Easements	(780)	(336)	-	(1,116)
Internally Generated Computer	(17,265)	(12,449)	50	(29,664)
Equipment, Furniture, Fixtures	(417,518)	(45,085)	28,069	(434,534)
Total Accumulated Depreciation	$ (1,517,579)	$ (136,433)	$ 35,780	$ (1,618,232)
Total Capital Assets Depreciated, Net	$ 2,028,386	$ 49,733	$ (20,828)	$ 2,057,291
Governmental Act. Capital Assets, Net	$ 13,379,535	$ 890,483	$ (167,331)	$ 14,102,687

[(1)]Change in fund structure resulted in Equipment, Furniture, and Fixtures transfers of $177 to the State Auditor (Enterprise Fund).

Capital outlay expenditures in the governmental funds totaled $911,129,000 for fiscal year 2014. Donations of general capital assets received during fiscal year 2014 were valued at $10,000. Transfers of $99,026,000 were primarily from construction in progress for completed projects. Transfers of accumulated depreciation totaling $1,476,000 occurred between Infrastructure and Buildings, Structures, and Improvements. Additions in internal service funds were $16,751,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2014, consisted of equipment with a cost of $3,706,000 and buildings with a cost of $180,050,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2014
(In Thousands)

	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 89,618	$ 1,230	$ -	$ 90,848
Construction in Progress	181,115	145,179	(152,607)	173,687
Total Capital Assets not Depreciated	$ 270,733	$ 146,409	$ (152,607)	$ 264,535
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 3,044,383	$ 155,540	$ (9,576)	$ 3,190,347
Library Collections	45,038	5,864	(7,022)	43,880
Internally Generated Computer	14,819	1,558	(3,449)	12,928
Equipment, Furniture, Fixtures[(1)]	348,246	25,680	(20,586)	353,340
Total Capital Assets Depreciated	$ 3,452,486	$ 188,642	$ (40,633)	$ 3,600,495
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,334,170)	$ (95,741)	$ 4,010	$ (1,425,901)
Library Collections	(26,620)	(6,269)	7,022	(25,867)
Internally Generated Computer	(8,351)	(2,014)	3,449	(6,916)
Equipment, Furniture, Fixtures	(232,510)	(24,421)	18,835	(238,096)
Total Accumulated Depreciation	$ (1,601,651)	$ (128,445)	$ 33,316	$ (1,696,780)
Total Capital Assets Depreciated, Net	$ 1,850,835	$ 60,197	$ (7,317)	$ 1,903,715
Business-type Act. Capital Assets, Net	$ 2,121,568	$ 206,606	$ (159,924)	$ 2,168,250
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,765	$ -	$ (2)	$ 29,763
Equipment, Furniture, Fixtures	13,809	10,590	(255)	24,144
Total Capital Assets Depreciated	$ 43,574	$ 10,590	$ (257)	$ 53,907
Accumulated Depreciation for:				
Buildings	$ (8,964)	$ (759)	$ 1	$ (9,722)
Equipment, Furniture, Fixtures	(3,699)	(809)	106	(4,402)
Total Accumulated Depreciation	$ (12,663)	$ (1,568)	$ 107	$ (14,124)
Total Capital Assets Depreciated, Net	$ 30,911	$ 9,022	$ (150)	$ 39,783
Fiduciary Funds, Capital Assets, Net	$ 31,340	$ 9,022	$ (150)	$ 40,212

[(1)]Change in fund structure resulted in Equipment, Furniture, and Fixtures transfers of $177 to the State Auditor (Enterprise Fund).

Primary Government
Depreciation Expense
Government-wide
Year Ended June 30, 2014
(In Thousands)

Governmental Activities:	
Agricultural, Environmental & Energy Resources	$ 8,823
Economic and Workforce Development	1,385
General Education	5,821
General Government	25,418
Health and Human Services	22,438
Public Safety and Corrections	26,440
Transportation	32,761
Internal Service Funds	11,871
Total Governmental Activities	$ 134,957
Business-type Activities:	
State Colleges and Universities	$ 113,497
Lottery	686
Other	14,262
Total Business-type Activities	$ 128,445

Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2014
(In Thousands)

	Administration	Transportation
Authorization	$ 402,113	$ 1,095,387
Less: Expended through June 30, 2014	(96,573)	(635,679)
Less: Unexpended Commitment	(154,245)	(302,635)
Remaining Available Authorization	$ 151,295	$ 157,073

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. Total acres on June 30, 2014, were 2,520,570.

Component Units

Component Units
Capital Assets
As of December 31, 2013, or June 30, 2014, as applicable
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 226,711	$ 94,015	$ 9,875	$ 330,601
Construction in Progress	-	1,012,363	120,380	43,556	1,176,299
Museums and Collections	-	-	60,932	-	60,932
Permanent Easement	-	-	3	75	78
Buildings and Improvements	-	3,322,148	3,788,576	119,656	7,230,380
Equipment	2,399	1,094,316	893,022	14,917	2,004,654
Capitalized Software	8,246	-	134,532	-	142,778
Other Intangible Assets	-	-	5,724	-	5,724
Infrastructure	-	-	468,278	-	468,278
Total	$ 10,645	$ 5,655,538	$ 5,565,462	$ 188,079	$11,419,724
Less: Accumulated Depreciation	$ 7,260	$ 1,825,146	$ 2,664,968	$ 127,562	$ 4,624,936
Net Total[1]	$ 3,385	$ 3,830,392	$ 2,900,494	$ 60,517	$ 6,794,788

[1] In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of $72,649 as of June 30, 2014.

Note 7 – Disaggregation of Payables

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2014
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
School Aid Programs	$ 857,491	$ 144,508	$ 2,188	$ 1,004,187
Tax Refunds	606,288	-	-	606,288
Medical Care Programs	612,915	977,070	60,820	1,650,805
Grants	227,186	163,072	150,879	541,137
Salaries and Benefits	54,639	11,729	35,232	101,600
Vendors/Service Providers	121,995	118,633	312,943	553,571
Net Payables	$ 2,480,514	$ 1,415,012	$ 562,062	$ 4,457,588

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 122,547	$ -	$ 915	$ 123,462
Vendors/Service Providers	57,528	19,236	59,458	136,222
Net Payables	$ 180,075	$ 19,236	$ 60,373	$ 259,684
Total Government-wide Net Payables				$ 4,717,272

[1]Includes $52,924 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 or a nonemployer contributing entity, 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. The plans implemented GASB Statement No. 67 "Financial Reporting for Pension Plans" for the year ended June 30, 2014. Further information is included in their stand-alone comprehensive annual financial reports. As the employer share information is not available as of the publication of this report, the state has not implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions." For further information, see Note 1 – Summary of Significant Accounting and Reporting Policies.

Plan Administrator	Plans Covered
Minnesota State Retirement System (MSRS)	State Employees Retirement Fund Correctional Employees Retirement Fund Judicial Retirement Fund Legislative Retirement Fund State Patrol Retirement Fund Hennepin County Supplemental Retirement Fund Postretirement Health Care Benefits Fund Unclassified Employees Retirement Fund State Deferred Compensation Fund
Public Employees Retirement Association (PERA)	Public Employees Retirement Fund Minneapolis Employees Retirement Fund Police and Fire Fund Public Employees Correctional Fund Volunteer Firefighter Retirement Fund Defined Contribution Fund
Teachers Retirement Association (TRA)	Teachers Retirement Fund
Minnesota State Colleges and Universities	State Colleges and Universities Retirement Fund

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.

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 due. Expenses are recognized when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the statutory terms of each plan.

Investments are reported at fair value, except as described below. 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 sales 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 Minnesota 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 Position of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2014, 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 most state employees, University of Minnesota non-faculty employees, and selected metropolitan agency employees. Twenty-three employers participate in this plan. 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 if the employee was first hired before July 1, 1989, are 1.2 percent of the member’s average salary for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the average of the five highest paid consecutive years of service. Annual benefits increase by 2.0 percent or 2.5 percent if the plan’s accrued liability funding ratio is at least 90 percent determined on a market value of assets basis. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  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. The annuity formula for each type of membership is the greater of the 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 by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

  The Minneapolis Employees Retirement Fund (MERF) participating employers primarily include the City of Minneapolis, Minneapolis Special School District No. 1, and Minneapolis-St. Paul Metropolitan Airports Commission. Six employers participate in this plan. MERF was closed to new members as of July 1, 1978. The Actuarial Accrued Liability is 74 percent funded according to the latest actuarial evaluation. The annuity formula for participants is 2.0 percent of the member’s average salary for each of the first 10 years of service and 2.5 percent each year thereafter. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. The state is not an employer of participants in the plan, but contributes as a nonemployer contributing entity and performs in a fiduciary capacity.

  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. The annuity formula for each member is 3.0 percent of the member’s average salary for each year of service in that plan. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. 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. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. Annual benefits increase by at least 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. The state is not an employer of 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. Approximately 590 employers participate in this 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 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 2.5 percent, and for coordinated members, 1.2 for the first 10 years and 1.7 percent for each year after 10 years that occur before, July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increase by 2.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state contributes as a nonemployer contributing entity and, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

- Multiple employer, agent plan

  The Volunteer Firefighter Retirement Fund (VFRF) was established on January 1, 2010, as a lump-sum defined benefit plan largely funded by fire state aid. Members do not contribute to the plan. Employer contributions are determined annually. There are 63 employers participating in this plan. If fire state aid plus investment income are not expected to cover the normal cost of benefits during the next calendar year, an employer contribution is calculated and payable by the end of the next calendar year. Benefits are determined by employee years of service multiplied by a benefit level chosen by the entity sponsoring the fire department from 20 possible levels ranging from $500 to $7,500 per year of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353G. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

- Single-employer (state of Minnesota) plans:

  The Correctional Employees Retirement Fund (CERF) covers state employees who have direct contact with inmates at Minnesota correctional facilities generally 75 percent of the time or higher. The annuity is 2.4 percent of average salary for each year of service and 2.2 percent for hires after June 30, 2010. Annual benefits increase by 2.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding.

  The Judicial Retirement Fund (JRF) covers judges of the Supreme Court, Court of Appeals, and district courts. 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 76.8 percent. During the 2013 legislative session, several financial solvency measures for this fund were enacted on July 1, 2013, including a tiered contribution and benefit structure, and reduction of the annual post-retirement increase to 1.75 percent until the funding ratio is 70 percent determined on a market value of asset basis, benefits then increase to 2.0 percent or 2.5 percent if the plan is at least 90 percent of full funding.

The Legislative Retirement Fund (LRF) covers certain members of the state's House of Representatives and Senate. Legislators newly elected since July 1, 1997, are covered by the Unclassified Employee Retirement Fund (defined contribution fund). The annuity benefit formula ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on a member's length of service. Annual benefits increase by 2.0 percent or 2.5 percent if SERF plan is funded at least 90 percent of full funding. Effective July 1, 2013, the Elective State Officers Fund merged with this fund for administrative cost savings purposes.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. The annuity is 3.0 percent of average salary for each year of allowable service up to 33 years; members with at least 28 years of service as of July 1, 2013, are not subject to this limit. Annual benefits increase by 1.0 percent or 1.5 percent if the plan is funded at least 85 percent, or 2.5 percent if the plan is funded at least 90 percent.

Statutory Contribution Rates
Year Ended June 30, 2014

	Single Employer				Multiple Employer	
	CERF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352.92	490.123	3A.03	352B.02	352.04	354.42
Required Contribution Rate						
Active Members	8.6%	9.0%	9.0%	12.4%	5.0%	7.0%
Employer(s)	12.1%	22.5%	N/A	18.6%	5.0%	7.0%

Multiple Employer Plan
Required Contributions
(In Thousands)

			SERF		TRF
Required Contributions[1]					
Employee	2014	$	131,033	$	294,632
	2013	$	124,150	$	265,809
	2012	$	118,358	$	239,834
Employers[2]	2014	$	128,037	$	299,300
	2013	$	121,673	$	270,708
	2012	$	115,159	$	244,935
Primary Government[3]	2014	$	94,277	$	30,349
	2013	$	89,077	$	27,959
	2012	$	86,273	$	27,994

[1] Contribution rates are statutorily determined.

[2] Contributions were at least 100 percent of required contributions.

[3] Primary Government's portion of Employer Contributions.

Single Employer Plan Disclosures
As of June 30, 2014
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 54,854	$ 16,491	$ 16,935	$ 25,766
Interest on Net Pension Obligation (NPO)[1]	7,165	(205)	-	(333)
Amortization Adjustment to ARC[1]	(5,977)	180	(1,407)	337
Annual Pension Cost (APC)	$ 56,042	$ 16,466	$ 15,528	$ 25,770
Contributions	(45,323)	(13,004)	(3,537)	(20,824)
Increase (Decrease) in NPO	$ 10,719	$ 3,462	$ 11,991	$ 4,946
NPO, Beginning Balance	$ 89,557	$ (2,569)	$ 24,687	$ (4,166)
NPO, Ending (Asset)	$ 100,276	$ 893	$ 36,678	$ 780

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2014	$ 56,042	$ 16,466	$ 15,528	$ 25,770
	2013	$ 51,418	$ 15,157	$ 10,786	$ 25,513
	2012	$ 53,851	$ 12,038	$ 17,043	$ 22,669
Percentage of APC Contributed	2014	81%	79%	23%	81%
	2013	82%	74%	33%	75%
	2012	77%	90%	24%	85%
Net Pension Obligation (NPO) (End of Year)	2014	$ 100,276	$ 893	$ 36,678	$ 780
	2013	$ 89,557	$ (2,569)	$ 24,687	$ (4,166)
	2012	$ 80,332	$ (6,512)	$ 17,411	$ (10,494)

Schedule of Funding Status
(In Thousands)

	CERF	JRF	LRF	SPRF
Actual Valuation Date	7/1/2013	7/1/2013	7/1/2013	7/1/2013
Actuarial Value of Plan Assets	$ 701,091	$ 144,918	$ 11,493	$ 552,319
Actuarial Accrued Liability	$ 1,026,098	$ 284,513	$ 235,877	$ 741,850
Total Unfunded Actuarial Liability	$ 325,007	$ 139,595	$ 224,384	$ 189,531
Funded Ratio	68%	51%	5%	74%
Annual Covered Payroll	$ 204,198	$ 39,888	$ 1,233	$ 62,121
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	159%	350%	18,198%	305%

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

Actuarial Assumptions for MSRS Defined Benefit Retirement 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, 2013.
- The calculation of the actuarial valuation of assets is the sum of the market asset value at July 1, 2013, plus the scheduled recognition of investment gains or losses during the current and the preceding four fiscal years.
- Expected net investment returns for pre-retirement and post-retirement are 8.0 percent and 6.0 percent, respectively, except for the SPRF and JRF, whose post-retirement return is 7.0 percent and 6.3 percent, respectively, and LRF, whose pre-retirement and post-retirement are 0.0 percent through June 30, 2017. Beginning July 1, 2017, the net investment returns for pre-retirement and post-retirement will be 8.5 percent and 6.5 percent except SPRF and JRF, whose post-retirement return is 7.5 percent and 6.8 percent, respectively, and LRF, whose pre-retirement and post-retirement continues to be 0.0 percent return.
- Inflation rate is 3.0 percent.
- The amortization method uses level percentage of projected payroll growth, except for LRF, which use the level dollar amortization method.
- Projected payroll growth is a level 3.75 percent except for JRF and LRF, which are a level 3.0 percent and 5.0 percent, respectively.
- The statutory amortization periods for SERF, CERF, JRF, LRF, and SPRF are through June 30, of 2040, 2038, 2039, 2026, and 2037, respectively.
- The amortization periods are closed.
- Additional actuarial assumptions are detailed in the July 1, 2013, actuarial valuation reports for the MSRS defined benefit retirement funds. These reports are located online at http://www.msrs.state.mn.us/info/fincl.htmls.

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. Benefits are the participant's account balance, which includes investment earnings/losses.

Postretirement Health Care Benefits Fund (PHCBF), authorized by Minnesota Statutes, Section 352.98, creates a post-retirement health care savings plan by which public employers and employees may save to cover post-retirement health care costs. Contributions to the plan are defined in a personnel policy or in a collective bargaining agreement. 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 termination of 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. Benefits are the participant's account balance, which includes investment gains/losses and must be used for qualifying health-related expenses. Effective January 1, 2013, the annual maximum Health Care Savings Plan reimbursement limit increased from $25,000 to $27,000 for non-insurance premium, qualified health care expenses.

The Unclassified Employees 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, specified employees of various statutorily designated entities, or judges who exceed the maximum benefit cap under the Judicial Retirement Fund. Statutory contribution rates are 5.0 percent for employee and 6.0 percent for employer. However, contribution rates for participating judges are 8.0 percent with no employer contribution. Benefits are either participant's account balance withdrawals or an annuity based on age, value of the participant's account, and a 6.0 percent post-retirement interest assumption.

The Minnesota Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. Employees and elected officials of the state and its political subdivisions are eligible to participate 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. The statutory contribution rate is 5.0 percent. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses.

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. 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 administrators, 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 with contribution maximums between $1,700 and $2,500 depending on the member group. Statutes allow additional employer and employee contributions under specific circumstances.

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
Year Ended June 30, 2014
(In Thousands)

	HCSRF	UERF	DCF	CURF
Employee Contributions	$ 270	$ 5,430	$ 1,628	$ 35,564
Employer Contributions	$ 270	$ 6,099	$ 1,755	$ 42,357

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.

Component Units

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

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota
- Agricultural and Economic Development Board
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Minnesota Sports Facilities 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 Service 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 or up to age 65, depending on the contract. Approximately 130 former faculty members and staff currently receive this benefit. The cost of the benefits was $1,516,000 during fiscal year ended June 30, 2014, with a remaining liability as of June 30, 2014, of $3,208,000.

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, Section 43A.27, Subdivision 3, and Minnesota Statutes, Section 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 percent 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, 2012, there were approximately 2,600 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 65. As of July 1, 2012, there were approximately 1,120 correctional and law enforcement retirees receiving an explicit rate subsidy.

The state does not issue a separate financial report for its OPEB as the state does not fund an OPEB plan and operates on a pay-as-you-go basis.

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, 2014, the state contributed $35,398,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed $23,585,000 through their average required contribution of $475 per month for retiree-only coverage and $1,397 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 No. 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 percent discount rate. For year ending June 30, 2014, the state's ARC is $69,136,000.

The following table shows the components of the state's annual OPEB cost, the amount contributed to the plan, and the changes to the state's net OPEB obligation:

OPEB Disclosures
As of June 30, 2014
(In Thousands)

Annual Required Contributions (ARC)[(1)]	$	69,136
Interest on Net OPEB Obligation (NOO)[(1)]		10,524
Amortization Adjustment to ARC[(1)]		(8,857)
Annual OPEB Cost (Expense)	$	70,803
Contributions		(35,398)
Increase in NOO	$	35,405
NOO, Beginning Balance	$	221,574
NOO, Ending[(2)]	$	256,979

[(1)]Components of annual OPEB cost.

[(2)]Governmental Activities, Business-type Activities, and Fiduciary Funds include $224,584; $32,325; and $70, respectively.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2013, and 2012 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 70,803	50%	$ 256,979
June 30, 2013	$ 67,300	57%	$ 221,574
June 30, 2012	$ 81,528	65%	$ 192,622

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $651,890,000. 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 $2,819,463,000 and the ratio of the UAAL to the covered payroll was 23.1 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, 2012.
- Expected investment return is 4.75 percent based on the estimated long-term investment yield on the general assets of the state.
- Inflation rate is 3.0 percent.
- Projected salary increases are a level 3.75 percent.

- The annual health care cost trend rate is 7.90 percent initially, reduced by increments to an ultimate rate of 5.0 percent after approximately 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 $178.855,000 as of December 31, 2013, for this purpose. The annual required contribution for 2013 was $22,998,000 or 7.4 percent of annual covered payroll. As of December 31, 2013, 2012, and 2011, the net OPEB obligation was $78,825,000, $74,516,000, and $70,628,000, respectively. The actuarial accrued liability (AAL) for benefits was $264,294,000 as of December 31, 2013, all of which was unfunded. The covered payroll was $310,844,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 85.0 percent.

University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible employees, retirees, 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, 2014, was $27,048,000 or 2.2 percent of annual covered payroll. As of June 30, 2014, 2013, and 2012, the net OPEB obligation was $101,288,000, $82,433,000 and $62,987,000. The actuarial accrued liability (AAL) for benefits was $113,145,000 as of June 30, 2014. The covered payroll was $1,252,154,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 9.0 percent.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, gas taxes, motor vehicle registration revenues, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2014, were as follows:

Primary Government
Encumbrances
As of June 30, 2014
(In Thousands)

Major Fund: General Fund	$	231,466
Non-Major Governmental Funds		1,798,337
Total Encumbrances	$	2,029,803

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 July 2014, the Petrofund has reimbursed eligible applicants approximately $430,000,000 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, 2017, are between $435,000,000 and $450,000,000 for investigative and cleanup costs.

Environmental and Remediation Fund

The Remediation Account was established in the state treasury as part of the Environmental and Remediation Fund (special revenue fund) to provide a reliable source of public money for response and corrective actions to address releases of hazardous substances, pollutants, contaminants, agricultural chemicals, and petroleum, and for environmental response actions at qualified closed landfills for which the state has assumed responsibility. Money in the general portion of the fund may be spent for remediation actions related to releases of hazardous substances, pollutants, or containments and to provide technical and other assistance. Additionally, funds may be spent for corrective actions to address incidents involving agricultural chemicals, including related administrative costs, enforcement and cost recovery actions.

In addition to the general portion of the fund, two dedicated accounts are held within the fund. Money in the dry cleaner environmental response and reimbursement account may be used for environmental response actions at dry cleaning facilities and sites as well as related administrative costs. The metropolitan landfill contingency action trust account receives 25 percent of the metropolitan solid waste landfill fee. Money in this dedicated 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 determined that the operator/owner cannot take the necessary actions as directed by the commissioner of the Minnesota Pollution Control Agency.

The Closed Landfill Investment Account consists of money credited to the fund plus interest and other earnings. Money in the fund may be spent only after fiscal year 2020 as determined by the commissioner of the Minnesota Pollution Control Agency on environmental response actions at qualified closed mixed municipal solid waste disposal facilities.

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of $94,059,000 for construction and renovation of college and university facilities as of June 30, 2014.

Component Units

As of June 30, 2014, the Housing Finance Agency (HFA) had committed approximately $331,350,000 for the purchase or origination of future loans or other housing assistance.

Metropolitan Council entered into contracts for various purposes such as transit services and construction projects. As of December 31, 2013, unpaid commitments for Metro Transit Bus services were approximately $224,758,000. Future commitments for Metro Transit Light Rail were approximately $153,390,000, while future commitments for Metro Transit Commuter Rail were approximately $10,848,000. Finally, future commitments for Regional Transit and Environmental Services were approximately $122,070,000 and $309,899,000, respectively.

University of Minnesota (U of M) had construction projects in progress with an estimated completion cost of $421,430,000 as of June 30, 2014. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2014, Public Facilities Authority (PFA) had committed approximately $81,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $14,000,000 for grants.

As of December 31, 2013, Minnesota Sports Facilities Authority had committed approximately $771,050,000 for stadium and stadium infrastructure construction projects.

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, 2014, totaled approximately $83,858,000 and $20,219,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2013, totaled approximately $1,433,000 for component units.

Primary Government and Component Units
Future Minimum Lease Payments
(In Thousands)

Primary Government		Component Units			
Year Ended June 30	Amount	Year Ended June 30	Amount	Year Ended December 31	Amount
2015	$ 76,367	2015	$ 10,474	2014	$ 1,082
2016	64,198	2016	9,200	2015	719
2017	55,413	2017	8,483	2016	578
2018	45,958	2018	5,290	2017	430
2019	35,030	2019	3,958	2018	402
2020-2024	67,727	2020-2024	13,524	2019-2023	148
2025-2029	6,583	2025-2029	11,583	2024-2028	102
2030-2034	420	2030-2034	11,646	2029-2033	100
2035-2039	-	2035-2039	1,810	2034-2038	67
Total	$ 351,696	Total	$ 75,968	Total	$ 3,628

Note 12 – Long-Term Liabilities – Primary Government

Primary Government
Long-Term Liabilities
Year Ended June 30, 2014
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 6,157,536	$ 1,366,332	$ 873,961	$ 6,649,907	$ 538,238
Revenue Bonds	10,260	38,071	1,076	47,255	2,425
State General Fund Appropriation Bonds	774,770	498,579	42,941	1,230,408	45,720
Loans	35,982	9,004	16,376	28,610	11,487
Due to Component Unit	15,180	-	2,389	12,791	2,453
Capital Leases	115,300	-	8,479	106,821	8,309
Certificates of Participation	49,440	-	7,459	41,981	7,130
Claims	708,704	81,745	106,453	683,996	100,195
Compensated Absences	283,570	266,469	256,868	293,171	38,697
Net Other Postemployment Obligation	192,601	61,966	29,983	224,584	-
Net Pension Obligation	114,244	107,071	82,688	138,627	-
Total	$ 8,457,587	$ 2,429,237	$ 1,428,673	$ 9,458,151	$ 754,654
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 250,321	$ 28,266	$ 21,701	$ 256,886	$ 20,207
Revenue Bonds	470,498	-	26,267	444,231	26,490
Loans	4,414	-	779	3,635	429
Capital Leases	35,281	-	4,762	30,519	4,545
Claims	4,978	3,163	2,565	5,576	2,676
Compensated Absences	144,272	29,013	27,411	145,874	18,134
Net Other Postemployment Obligation	28,913	8,784	5,372	32,325	-
Total	$ 938,677	$ 69,226	$ 88,857	$ 919,046	$ 72,481

Primary Government
Resources for Repayment of Long-Term Liabilities
(In Thousands)

	Governmental Activities				
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	Total
Liabilities For:					
General Obligation Bonds	$ 5,141,977	$ 1,507,930	$ -	$ 256,886	$ 6,906,793
Revenue Bonds	29,998	17,257	-	444,231	491,486
State General Fund Appropriation Bonds	1,230,408	-	-	-	1,230,408
Loans	-	-	28,610	3,635	32,245
Due to Component Unit	-	12,791	-	-	12,791
Capital Leases	106,565	256	-	30,519	137,340
Certificates of Participation	41,981	-	-	-	41,981
Claims	81,589	592,876	9,531	5,576	689,572
Compensated Absences	148,422	134,302	10,447	145,874	439,045
Net Other Postemployment Benefit Obligation	223,953	-	631	32,325	256,909
Net Pension Obligation	138,627	-	-	-	138,627
Total	$ 7,143,520	$ 2,265,412	$ 49,219	$ 919,046	$10,377,197

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, state General Fund appropriation bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, net other postemployment benefit obligation, and net pension obligation.

Primary Government
General Obligation Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2015	$ 538,238	$ 268,943	$ 20,207	$ 10,884	$ 558,445	$ 279,827
2016	509,420	243,928	19,760	9,898	529,180	253,826
2017	489,128	219,561	18,927	8,925	508,055	228,486
2018	469,431	196,471	18,809	7,997	488,240	204,468
2019	427,987	174,800	17,983	7,094	445,970	181,894
2020-2024	1,821,486	588,265	79,274	22,973	1,900,760	611,238
2025-2029	1,231,605	226,625	49,235	7,592	1,280,840	234,217
2030-2034	521,057	38,054	14,928	1,106	535,985	39,160
Total	$ 6,008,352	$ 1,956,647	$ 239,123	$ 76,469	$ 6,247,475	$ 2,033,116
Bond Premium	641,555	-	17,763	-	659,318	-
Total	$ 6,649,907	$ 1,956,647	$ 256,886	$ 76,469	$ 6,906,793	$ 2,033,116

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

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2015	$ 2,425	$ 1,786	$ 26,490	$ 17,819	$ 28,915	$ 19,605
2016	2,410	1,685	27,375	16,818	29,785	18,503
2017	2,510	1,581	29,005	15,720	31,515	17,301
2018	2,615	1,480	30,000	14,560	32,615	16,040
2019	2,710	1,375	27,160	13,318	29,870	14,693
2020-2024	12,395	5,269	140,395	48,364	152,790	53,633
2025-2029	9,990	3,495	93,665	20,482	103,655	23,977
2030-2034	12,080	1,328	49,485	3,923	61,565	5,251
Total	$ 47,135	$ 17,999	$ 423,575	$ 151,004	$ 470,710	$ 169,003
Bond Premium	120	-	20,656	-	20,776	-
Total	$ 47,255	$ 17,999	$ 444,231	$ 151,004	$ 491,486	$ 169,003

Primary Government
State General Fund Appropriation Bonds
Principal and Interest Payments
(In Thousands)

	Governmental Activities	
Year Ended June 30	Principal	Interest
2015	$ 45,720	$ 50,214
2016	37,960	49,272
2017	39,420	47,836
2018	40,385	46,041
2019	41,175	44,162
2020-2024	233,930	188,956
2025-2029	301,745	126,771
2030-2034	129,745	67,609
2035-2039	107,380	43,387
2040-2044	106,895	13,720
Total	$ 1,084,355	$ 677,968
Bond Premium	146,053	-
Total	$ 1,230,408	$ 677,968

Primary Government
Loans Payable and Due to Component Unit
Principal and Interest Payments
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 13,940	$ 862	$ 429	$ 157	$ 14,369	$ 1,019
2016	12,253	286	410	139	12,663	425
2017	8,127	214	366	122	8,493	336
2018	2,217	140	390	106	2,607	246
2019	640	121	376	89	1,016	210
2020-2024	2,591	401	1,257	243	3,848	644
2025-2029	1,633	1,775	407	27	2,040	1,802
Total	$ 41,401	$ 3,799	$ 3,635	$ 883	$ 45,036	$ 4,682

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

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 8,309	$ 5,139	$ 4,545	$ 1,114	$ 12,854	$ 6,253
2016	8,658	4,764	4,341	1,205	12,999	5,969
2017	8,973	4,374	4,275	1,295	13,248	5,669
2018	9,305	3,968	4,264	1,389	13,569	5,357
2019	9,712	3,545	4,226	1,480	13,938	5,025
2020-2024	55,996	10,052	7,246	2,362	63,242	12,414
2025-2029	5,868	284	1,022	301	6,890	585
2030-2034	-	-	600	40	600	40
Total	$ 106,821	$ 32,126	$ 30,519	$ 9,186	$ 137,340	$ 41,312

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

	Governmental Activities	
Year Ended June 30	Principal	Interest
2015	$ 7,130	$ 1,840
2016	7,410	1,554
2017	7,745	1,222
2018	8,135	834
2019	8,540	426
Total	$ 38,960	$ 5,876
Premium on Certificates of Participation	3,021	-
Total	$ 41,981	$ 5,876

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 2014, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2014
(In Thousands)

General Fund	$ 683,437
Federal Fund	$ 1,411
Special Revenue Funds:	
Trunk Highway Fund	$ 136,488
Natural Resources Funds	8
Miscellaneous Special Revenue Fund	159
Total Special Revenue Funds	$ 136,655
Capital Projects Fund:	
Building Fund	$ 59
Total Transfers to Debt Service Fund	$ 821,562

General Obligation Bond Issues

In August 2013, the state issued $478,350,000 general obligation bonds, Series 2013A through Series 2013C:

- Series 2013A for $273,350,000 in state various purpose bonds were issued at a true interest rate of 3.35 percent.
- Series 2013B for $200,000,000 in state trunk highway bonds were issued at a true interest rate of 3.34 percent.
- Series 2013C for $5,000,000 in state taxable bonds were issued at a true interest rate of 1.91 percent.

In November 2013, the state issued $769,760,000 general obligation bonds, Series 2013D through Series 2013F:

- Series 2013D for $283,820,000 in state various purpose bonds were issued at a true interest rate of 3.10 percent.

- Series 2013E for $112,000,000 in state trunk highway bonds were issued at a true interest rate of 3.12 percent.
- Series 2013F for $373,940,000 in state various purpose refunding bonds were issued at a true interest rate of 2.25 percent.

The state remains contingently liable to pay its advance refunded general obligation, revenue, and certificate of participation bonds as shown in the following table.

Primary Government
Outstanding Defeased Debt
(In Thousands)

General Obligation Bonds

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2014 Outstanding Amount	Refunded Bond Call/Maturity Date
November 6, 2013	$ 124,758	$ 131,450	$ 131,450	October 1, 2015
November 6, 2013	115,598	121,800	121,800	June 1, 2016
November 6, 2013	133,584	140,750	140,750	November 1, 2016
	$ 373,940	$ 394,000	$ 394,000	

Revenue Bonds (Refunded by State General Fund Appropriation Bonds)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2014 Outstanding Amount	Refunded Bond Call/Maturity Date
November 21, 2012	$ 20,735	$ 37,785	$ 37,785	March 1, 2015
	$ 20,735	$ 37,785	$ 37,785	

Certificate of Participation

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2014 Outstanding Amount	Refunded Bond Call/Maturity Date
December 18, 2012	NA	$ 1,790	$ 1,790	June 1, 2015
December 18, 2012	NA	7,985	7,985	June 1, 2016
	NA	$ 9,775	$ 9,775	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2014. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

Primary Government
General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2014
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 685	$ 230	5.00
State Operated Community Services	-	1,111	5.00
State Transportation	2,065	209,735	4.00 - 5.00
Maximum Effort School Loan	-	14,215	5.00
Rural Finance Authority	26,500	44,615	1.35 - 5.50
Refunding Bonds	-	1,451,965	1.75 - 5.00
Trunk Highway	1,024,943	1,507,930	2.00 - 5.00
Various Purpose	1,396,685	3,017,674	2.25 - 5.00
Total	$ 2,450,878	$ 6,247,475	

State General Fund Appropriation Bonds

On October 31, 2012, the Minnesota Supreme Court concluded that the Appropriation Refunding Bonds do not constitute public debt for which the state has pledged its full faith, credit and taxing powers. The Minnesota Supreme Court held that, accordingly, the bonds are not subject to the Minnesota Constitution's Article XI, Section 5, restrictions on the use of the proceeds of "public debt." Resulting from the decision of this court case, on November 21, 2012, the state sold state General Fund appropriation refunding bonds. The bonds were issued for the purpose of refunding tobacco settlement revenue bonds Series 2011A and Series 2011B of the Tobacco Securitization Authority. These appropriation bonds are payable only from amounts appropriated by the legislature of the state.

Minnesota Statutes, Section 16A.965, authorizes the state to issue state General Fund appropriation bonds for the purpose of financing up to $498 million for the state and City of Minneapolis' share of the costs of a professional football stadium project of the Minnesota Sports Facilities Authority (component unit) that was created for that purpose by Minnesota Statutes, Chapter 473J. The state has commenced the financing process. In addition, the Minnesota Pay-for-Performance Act of 2011 authorized issuance of up to $10 million bond proceeds as incentive payments to service providers for certain financial outcomes that will result in decreased costs or increased revenues to the state.

State General Fund Appropriation Bond Issues

In January 2014, the state issued $462,065,000 state General Fund appropriation bonds, Series 2014A and Series 2014B:

- Series 2014A for $391,785,000 in state tax-exempt bonds were issued at a true interest rate of 4.16 percent.

- Series 2014B for $70,280,000 in state taxable bonds were issued at a true interest rate of 4.72 percent.

The following table is a schedule of state General Fund appropriation bonds authorized, but unissued, and bonds outstanding as of June 30, 2014.

Primary Government
State General Fund Appropriation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2014
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
Professional Football Stadium	$ -	$ 462,065	0.48 - 5.00
Pay-for-Performance	10,000	-	NA
Refund Tobacco Securitization Authority	-	622,290	0.63 - 5.00
Total	$ 10,000	$ 1,084,355	

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). $12,791,000 in loans from the Public Facilities Authority (component unit – Due to Component Unit) was 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.

Capital Leases

In 2006, the state entered into capital lease agreements, amended in 2013, 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 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. In May 2013, the SPPA issued refunding bonds of $115,760,000. The proceeds of the bonds will be applied to refund SPPA's outstanding revenue bonds. The lease agreement was amended to approximate the debt service payments of SPPA refunding bonds. The state has other capital lease agreements to purchase equipment that meets the above criteria.

Certificates of Participation

In August 2009, the state issued $74,980,000 of certificates of participation (COPs) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds are funding two projects for developing a) the state's statewide financial and procurement system and b) the state's integrated tax accounting system. The COPs were issued under a trust agreement with U.S. Bank, NA., trustee, who will collect rental payments according to the principal and interest schedule pursuant to the Technology Systems Lease Purchase Agreement for remittance to the investors. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of either or both projects and take whatever action at law which may appear necessary to collect rental payment(s).

Minnesota Laws 2013, Chapter 143, Article 12, Section 21, authorizes the state to issue certificates of participation for the purpose of financing the predesign, design, construction and equipping of offices, hearing rooms and parking facilities for a legislative office facility. For further detail, see Note 20 – Subsequent Events.

Revenue Bonds Payable

In July 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. In October 2013, Iron Range Resources and Rehabilitation issued $37,830,000 million of education facilities revenue bonds at a true interest rate of 3.76 percent. The bonds will be used to make grants to certain school districts located in the taconite relief areas, as defined in Minnesota Statutes, Section 273.134. To repay the bonds, Iron Range Resources and Rehabilitation has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling $4,148,000 for fiscal year 2014, have averaged approximately less than six percent 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 July 2006 bonds are 4.00 percent (7 years) and 4.50 percent (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014, are subject to optional redemption. The interest rate for the October 2013 bonds ranges from 3.00 percent to 4.30 percent. For fiscal year 2014, principal and interest paid by Iron Range Resources and Rehabilitation on the bonds was $1,987,000. The total principal and interest remaining to be paid as of June 30, 2014, is $65,134,000 payable through October 2033.

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 was issued at a true interest rate of 3.76 percent. On November 13, 2008, $42,205,000 in revenue bonds was issued at a true interest rate of 4.60 percent. On October 22, 2009, $60,510,000 in revenue bonds was issued at a true interest rate of 3.17 percent. On August 16, 2011, $60,380,000 in revenue bonds was issued at a true interest rate of 2.96 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 30 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2014, is $160,984,000, payable through June 2026. Principal and interest paid during fiscal year 2014 and total 911 fee revenues were $18,263,000 and $63,684,000, 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 $405,000,000 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 0.45 percent to 5.75 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 2034. Annual principal and interest payments on the bonds are expected to require less than 24 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $411,366,000. Principal and interest paid for the current year and total customer net revenues were $24,877,000 and $109,857,000, 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 40 percent of net

revenues. The total principal and interest remaining to be paid on the bonds is $2,229,000. Principal and interest paid and total customer net revenues during fiscal year 2014 were $179,000 and $473,000, respectively. These revenue bonds have a variable interest rate of .75 percent to 3.65 percent.

Claims

Municipal solid waste landfill liabilities of $172,903,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue fund) and the General Fund. The state has assumed responsibility 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 postclosure maintenance and monitoring, at qualifying sites. There are currently 109 landfills in the program. Funding for the state's ongoing claims at these landfills comes from the Environmental and Remediation Fund (special revenue fund). The Environmental and Remediation Fund includes revenues from insurance recovery proceeds and financial assurance from previous owners and operators. Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, have been used for design and construction work at the publicly-owned landfills in the program. Estimated landfill closure and postclosure liabilities include 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.

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, 2014, were $39,853,000. Of this total, $32,899,000 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 Environmental and Remediation Fund (special revenue fund), which was established under Minnesota Statutes, Section 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes, Section 115C.08.

The governmental activities' and business-type activities' liability for workers' compensation of $96,609,000 and $5,576,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2014, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of $32,900,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of $332,200,000 are 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 percent) 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 2052 for supplementary benefits and 2042 for second injuries.

The remaining $9,531,000 is for claims in the Risk Management Fund (internal service fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $293,171,000 and $145,874,000 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.

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 2014, 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. On August 9, 2012, the state of Minnesota issued revenue refunding bonds totaling $21,880,000 on behalf of the state's three retirement systems at a true rate of 1.63 percent. Minnesota Statutes, Section 356B.10, authorized the issuance of the revenue bonds for a current refunding of the $29,000,000 Retirement System Building Revenue Bonds, Series 2000, which were issued for the construction of an administrative office building. The revenue refunding bonds have an interest rate of 1.63 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 2014, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was $2,070,000. The total principal and interest remaining to be paid as of June 30, 2014, is $21,805,000, payable through 2025.

Long-Term Debt Repayment Schedule
Fiduciary Funds
Revenue Bonds – SERF, TRF, and PERF
(In Thousands)

Year Ended June 30	Principal	Interest
2015	$ 1,610	$ 468
2016	1,645	436
2017	1,675	403
2018	1,710	370
2019	1,760	336
2020 – 2024	9,255	1,097
2025 – 2029	1,000	40
Total	$ 18,655	$ 3,150
Bond Premium	1,324	-
Total	$ 19,979	$ 3,150

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

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, 2014, net of unamortized discounts/premiums, was $2,018,912,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste disposal systems, sewers, and transportation projects, backed by the full faith and credit and taxing powers of MC. MC had $1,691,637,000 in general obligation bonds and general obligation grant anticipation notes outstanding on December 31, 2013, net of unamortized discounts/premiums.

University of Minnesota (U of M) issues general obligation bonds and revenue bonds for capital projects. On June 30, 2014, the principal amount of general obligation bonds and revenue bonds outstanding, net of unamortized discounts/premiums, was $676,812,000 and $326,743,000, respectively.

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 defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2014, the outstanding principal of revenue bonds was $536,469,000, net of unamortized discounts/premiums.

Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.04, 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, 2014, net of unamortized discounts/premiums, was $1,025,046,000.

Loans and Notes Payable

Metropolitan Council received loans from the Minnesota Housing Finance Authority in 2002 and 2004 for $400,000, and $730,000, respectively. In 2004, MC received a $275,000 loan from Hennepin County Housing and Redevelopment Authority for a total of $1,405,000 of loans outstanding on December 31, 2013. The terms of the loan agreements are 30 years, although they may be extended indefinitely if all the terms of the loan agreement are met.

University of Minnesota issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity and supported by a line of credit with a major commercial bank. On June 30, 2014, the outstanding commercial paper notes were $214,800,000. U of M intends to hold the commercial paper notes as a long-term financing vehicle.

National Sports Center Foundation refinanced a majority of its existing debt with a new bank in 2012. On December 31, 2013, the total outstanding loans and notes payable was $5,607,000.

Capital Leases

On December 1, 2004, Metropolitan Council entered into an annual appropriation lease purchase agreement for land and facilities. The lease is subject to non-appropriation by MC in which event the lease is terminated and there is no obligation of MC for future lease payments. MC intends to continue the lease through its entire term.

University of Minnesota has six distinct capital leases. Three of the six are financed through third-party financing for the purchase of fleet vehicles and other equipment. The remaining three capital leases have payments being paid directly to the lessor and represent leases for buildings.

Component Units
General Obligation Bonds
Major Component Units
(In Thousands)

Year Ended December 31	MC[1] Principal	MC[1] Interest[2]	Year Ended June 30	U of M Principal	U of M Interest
2014	$ 184,498	$ 46,809	2015	$ 34,745	$ 29,963
2015	284,284	40,534	2016	36,640	28,264
2016	211,521	31,086	2017	38,035	26,619
2017	93,938	26,814	2018	39,855	24,834
2018	93,356	24,308	2019	41,445	22,933
2019-2023	448,777	82,425	2020-2024	142,980	91,865
2024-2028	251,873	27,209	2025-2029	143,930	56,976
2029-2033	70,002	3,572	2030-2034	105,995	22,642
2034-2038	-	-	2035-2039	46,270	4,078
Total	$ 1,638,249	$ 282,757	Total	$ 629,895	$ 308,174
Unamortized Discounts/ Premiums and Issuance Costs	53,388	-		46,917	-
Total	$ 1,691,637	$ 282,757	Total	$ 676,812	$ 308,174

[1] MC general obligation bonds include general obligation grant anticipation notes issued in calendar year 2012.

[2] MC interest is net of Build America Bonds federal subsidy.

Component Units
Revenue Bonds
Major Component Units
(In Thousands)

Year Ended June 30	HFA Principal	HFA Interest	U of M Principal	U of M Interest
2015	$ 85,885	$ 61,946	$ 9,330	$ 14,838
2016	44,390	60,940	10,165	14,004
2017	52,875	59,765	10,675	13,440
2018	46,420	58,499	11,215	12,958
2019	45,425	57,090	11,790	12,383
2020-2024	252,250	262,003	68,455	52,406
2025-2029	315,545	213,316	87,390	33,464
2030-2034	368,765	152,212	56,190	15,860
2035-2039	356,785	90,342	35,925	2,944
2040-2044	395,395	35,208	-	-
2045-2049	53,482	1,043	-	-
2050-2054	1,695	59	-	-
Total	$ 2,018,912	$ 1,052,423	$ 301,135	$ 172,297
Unamortized Discounts/ Premiums and Issuance Costs	-	-	25,608	-
Total	$ 2,018,912	$ 1,052,423	$ 326,743	$ 172,297

Component Units
Capital Leases
Major Component Units
(In Thousands)

Year Ended December 31	MC Principal and Interest	Year Ended June 30	U of M Principal
2014	$ 1,031	2015	$ 5,414
2015	1,026	2016	5,447
2016	1,029	2017	5,172
2017	1,026	2018	5,073
2018	1,027	2019	5,007
2019-2023	5,119	2020-2024	15,949
2024-2028	2,040	2025-2029	579
Total	$ 12,298	Total Principal	$ 42,641
Interest	(2,688)	Interest	12,025
Total Principal	$ 9,610	Total Principal and Interest	$ 54,666

Component Units
Revenue Bonds
Nonmajor Component Units
(In Thousands)

Year Ended June 30	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2015	$ 1,135	$ 1,573	$ 77,620	$ 47,292
2016	1,090	1,540	83,835	43,426
2017	3,045	1,507	78,475	39,282
2018	4,255	1,483	83,735	35,390
2019	4,905	1,219	89,535	31,262
2020-2024	59,210	3,001	359,730	93,903
2025-2029	-	1,782	171,060	29,952
2030-2034	-	1,782	27,070	1,731
2035-2039	37,400	1,737	-	-
2040-2044	224,000	1,399	-	-
2045-2049	200,614	527	-	-
	$ 535,654	$ 17,550	$ 971,060	$ 322,238
Unamortized Discounts/Premiums and Issuance Costs	815	-	53,986	-
Total	$ 536,469	$ 17,550	$ 1,025,046	$ 322,238

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 entered into an interest rate swap. This was a freestanding pay-fixed, receive-variable interest rate swap which changed the variable interest rate bonds to synthetic fixed-rate bonds. At June 30, 2014, this swap was considered an ineffective hedge, where the change in fair value was included in investment income reported in the Statements of Activities. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

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 15.0 percent and 12.0 percent, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity.

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A and 2011B bonds cannot exceed 12.0 percent. The interest on the Series 2011A and 2011B bonds is payable monthly. Beginning April 1, 2015 interest payments will be payable semi-annually and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2.0 percent to 5.0 percent. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.29 percent for the year ended June 30, 2014.

The rates on the taxable Series 2012A bonds and tax-exempt Series 2012B bonds are determined by a remarketing agent. The rates on Series 2012A bonds and Series 2012B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2012A and Series 2012B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity on the Series 2012A bonds. The Series 2012B bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

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

Housing Finance Agency

As of June 30, 2014, all of the HFA interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed in the deferred inflows of resources as an interest rate swap agreement, whereas the inception-to-date change in fair value as of June 30, 2014, is included in the deferred outflows of resources as deferred loss on interest rate swap agreements on the Statement of Net Position. See Note 2 – Cash, Investment, and Derivative Instruments for more information.

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-service payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $139,600,000 outstanding as of June 30, 2014. 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, 2014.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2014
(In Thousands)

	Minnesota State Colleges and Universities: Revenue Fund	Minnesota State Colleges and Universities: Itasca Residence Halls	911 Services
Condensed Statement of Net Position			
Assets:			
Current Assets	$ 84,111	$ 156	$ 57,608
Restricted Assets	104,490	297	-
Capital Assets	357,921	3,071	126,164
Total Assets	$ 546,522	$ 3,524	$ 183,772
Liabilities:			
Current Liabilities	$ 30,874	$ 138	$ 18,352
Noncurrent Liabilities	298,092	1,720	125,694
Total Liabilities	$ 328,966	$ 1,858	$ 144,046
Net Position:			
Net Investment in Capital Assets	$ 125,495	$ 1,231	$ -
Restricted	92,061	298	39,726
Unrestricted	-	137	-
Total Net Position	$ 217,556	$ 1,666	$ 39,726
Condensed Statement of Revenues, Expenses and Changes in Fund Net Position			
Operating Revenues - Customer Charges	$ 109,857	$ 473	$ 63,684
Depreciation Expense	(17,750)	(119)	(11,200)
Other Operating Expenses	(81,624)	(230)	(26,191)
Operating Income (Loss)	$ 10,483	$ 124	$ 26,293
Nonoperating Revenues (Expenses):			
Interest Income	$ 582	$ 5	$ 3
Capital Contributions	-	-	-
Interest Expense	(11,274)	(49)	(5,160)
Other	182	-	(17,193)
Transfers-In (Out)	-	-	(683)
Change in Net Position	$ (27)	$ 80	$ 3,260
Beginning Net Position	217,583	1,586	36,466
Prior Period Adjustment	-	-	-
Ending Net Position	$ 217,556	$ 1,666	$ 39,726
Condensed Statement of Cash Flows			
Net Cash Provided (Used) By:			
Operating Activities	$ 31,529	$ 236	$ 37,155
Noncapital Financing Activities	181	-	(34,796)
Capital and Related Financing Activities	(59,517)	(179)	(14,333)
Investing Activities	(67)	-	3
Net Increase (Decrease)	$ (27,874)	$ 57	$ (11,971)
Beginning Cash and Cash Equivalents	$ 191,847	$ 79	$ 63,961
Ending Cash and Cash Equivalents	$ 163,973	$ 136	$ 51,990

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, parking and wellness purposes.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- 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 15 – Contingent Liabilities

Public Employee Pension Funds

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

Primary Government
Contingent Liabilities
(In Thousands)

Fund	Liability as of	Unfunded Liability
St. Paul Teachers Retirement Fund	July 01, 2013	$ 581,054
Duluth Teachers Retirement Fund[1]	June 30, 2013	$ 162,027

[1] The 2014 legislature acted to merge the Duluth Teachers Retirement Fund with the Teachers Retirement Fund (pension trust fund) effective in fiscal year 2015.

University of Minnesota

The University of Minnesota (U of M), a legally separate discrete component unit of the State of Minnesota, issued state-secured revenue bonds to finance a football stadium on campus. In 2006, the Minnesota Legislature appropriated from the General Fund $10.25 million per year not to exceed 25 years starting in 2008 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M. As of August 2014, there was $104,385,000 of these U of M bonds outstanding.

U of M issued state-secured revenue bonds to finance Biomedical Science Research facilities. In 2008, the Minnesota Legislature appropriated from the General Fund amounts ranging from $850,000 to $15.55 million per year not to exceed 25 years starting in 2010 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M. As of August 2014, $191,835,000 of these bonds are still outstanding. All required payments of the bonds are guaranteed by State of Minnesota.

Housing Finance Agency

The Housing Finance Agency (HFA), a legally separate discrete component unit of the State of Minnesota, issued state-secured appropriation bonds 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. In 2008, the Minnesota Legislature appropriated from the General Fund up to $2.4 million per year for 22 years starting in 2010 to pay a portion of the bonds. As of August 2014, there was $28,490,000 of the HFA nonprofit housing bonds outstanding.

HFA issued state-secured appropriation bonds to finance housing infrastructure. In 2012, the Minnesota Legislature appropriated from the General Fund up to $2.2 million per year starting in fiscal year 2014 through 2036 to pay a portion of the bonds. All required payments of the bonds are guaranteed by State of Minnesota. As of August 2014, there was $28,360,000 of the HFA housing infrastructure bonds outstanding. In 2014, the legislature authorized HFA to issue an additional $80,000,000 of housing

infrastructure bonds and appropriated from the General Fund up to $6.4 million per year beginning in fiscal year 2016 through 2038 to pay a portion of the bonds. HFA will issue $40 million of the new bonds in the spring of 2015 and the remaining $40 million in the spring of 2016.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55, established a school district credit enhancement program. If a school district is unable to pay its debt service due on school district and intermediate school district certificates of indebtedness, capital notes, certificate of participation, and general obligation bonds enrolled in the program, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through 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. The total amount of debt enrolled in the program at June 30, 2014, was $15.1 billion. The state has not had to make any debt service payments on behalf of school districts or intermediate school districts under this program.

City and County Credit Enhancement Program

Minnesota Statutes, Section 446A.086, established a city and county credit enhancement program. If a city or county is unable to pay its debt service due on general obligation bonds enrolled in the program issued for the construction, improvement, or rehabilitation of certain projects or certain redevelopment, contaminated site cleanup, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the city or county, or the levy of an ad valorem tax which may be made with the approval of Public Facility Authority. As of August, 2014, the total general obligation bonds guaranteed by the State of Minnesota through 2040, was $632 million.

Note 16 – Equity

Restricted Net Position – Government-wide Statement of Net Position

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

Primary Government
Restricted Net Position Balances
As of June 30, 2014
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Agricultural, Environmental and Energy Resources	$ 360,091	$ 1,107,316	$ 18,717	$ 1,486,124
Arts and Cultural Heritage	19,604	-	7	19,611
Capital Projects	-	-	821	821
Debt Service	937,939	-	122,465	1,060,404
Economic and Workforce Development	-	142,235	816	143,051
General Education	-	42,297	2,921	45,218
General Government	-	40,466	1,024	41,490
Health and Human Services	-	12,622	1,196	13,818
Higher Education	-	-	511,064	511,064
Public Safety and Corrections	-	48,320	65,507	113,827
School Aid - Expendable	6,415	-	-	6,415
School Aid - Nonexpendable	1,127,491	-	-	1,127,491
Transportation	1,585,828	53,230	127	1,639,185
Unemployment Benefits	-	-	1,537,760	1,537,760
Other Purposes	-	-	41,555	41,555
Total Restricted Net Position	$ 4,037,368	$ 1,446,486	$ 2,303,980	$ 7,787,834

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:

Governmental Funds
Fund Balances
As of June 30, 2014
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ -	$ -	$ 27,445	$ 27,445
Trust or Permanent Fund Principal	912,814	-	1,127,491	2,040,305
Restricted for:				
Agricultural, Environmental and Energy Resources	-	124	610,970	611,094
Arts and Cultural Heritage	-	-	19,604	19,604
Capital Projects	-	-	621,602	621,602
Debt Service	-	-	902,306	902,306
Economic and Workforce Development	90,145	-	104,578	194,723
General Education	37,880	-	13,373	51,253
General Government	-	-	40,332	40,332
Health and Human Services	-	-	13,457	13,457
Public Safety	-	-	47,536	47,536
Transportation	-	-	1,637,370	1,637,370
Committed to:				
Agricultural, Environmental and Energy Resources	-	-	55,567	55,567
Economic and Workforce Development	-	-	219,703	219,703
General Government	-	-	30,362	30,362
Health and Human Services	-	-	147,448	147,448
Public Safety	-	-	139,269	139,269
Transportation	-	-	46,699	46,699
Assigned to:				
Agricultural, Environmental and Energy Resources	37,141	-	-	37,141
Capital Projects	-	-	199,900	199,900
Economic and Workforce Development	84,960	-	-	84,960
General Education	20,485	-	-	20,485
General Government	11,234	-	-	11,234
Health and Human Services	35,718	-	-	35,718
Higher Education	655	-	-	655
Public Safety	25,177	-	-	25,177
Transportation	16,189	-	-	16,189
Unassigned:	504,772	-	-	504,772
Total Fund Balances	$ 1,777,170	$ 124	$ 6,005,012	$ 7,782,306

Deficit Equity Balances

A $6,486,000 deficit total net position balance was reported in the Behavioral Services Fund (enterprise fund) as of June 30, 2014. This fund's operations are being evaluated and a plan will be established to address this deficit.

Note 17 – 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-funding 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 an agency 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 $2,500,000 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 $500,000 bodily injury and property damage per person, and $1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides $10,000,000 excess of a $1,000,000 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.

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

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 insurance program, including workplace 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 $1,920,000.

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 $213,319 greater than coverage during the fiscal year ended June 30, 2014.

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, 2014, was 8,808 members and their dependents. The members of the pool include 65 school districts, 23 cities/townships, 5 counties, and 7 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.

Primary Government
Self-Insured Claim Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/13	$ 9,059	$ 2,841	$ 2,231	$ 9,669
Fiscal Year Ended 6/30/14	$ 9,669	$ 4,242	$ 4,380	$ 9,531
Tort Claims				
Fiscal Year Ended 6/30/13	$ -	$ 1,188	$ 1,188	$ -
Fiscal Year Ended 6/30/14	$ -	$ 270	$ 270	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/13	$ 121,812	$ 6,780	$ 20,959	$ 107,633
Fiscal Year Ended 6/30/14	$ 107,633	$ 12,303	$ 17,751	$ 102,185
State Employee Insurance Plans				
Fiscal Year Ended 6/30/13	$ 57,136	$ 666,061	$ 661,388	$ 61,809
Fiscal Year Ended 6/30/14	$ 61,809	$ 681,154	$ 678,994	$ 63,969

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

	Year Ended June 30 2014	2013
Unpaid Claims and Claim Adjustment Expenses, Beginning	$ 3,606	$ 3,338
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	$ 68,028	$ 37,050
Increases (Decreases) in Provision for Insured Events of Prior Years	561	37
Total Incurred Claims and Claim Adjustment Expenses	$ 68,589	$ 37,087
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 60,813	$ 33,836
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	3,847	2,983
Total Payments	$ 64,660	$ 36,819
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$ 7,535	$ 3,606

Component Units

Housing Finance Agency

Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort; to theft of, damage to, or destruction of assets; to errors or omissions; and to 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; to theft of, damage to, and destruction of assets; to errors and omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss as discussed above. 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 $500,000 per claim and $1,500,000 per occurrence for a claim arising on or after July 1, 2009. For claims arising earlier, the limits are $400,000 per claim and $1,200,000 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 3.97 percent. The self-insurance retention limit for workers' compensation is $1,880,000 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 estimates claim liabilities. 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 0.46 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 is a self-insured program. Under the plan, 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 for medical claims, including incurred but not reported claims, is recorded.

Component Units
Claims Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council - Workers' Compensation				
Fiscal Year Ended 12/31/12	$ 17,848	$ 4,612	$ 6,008	$ 16,452
Fiscal Year Ended 12/31/13	$ 16,452	$ 5,579	$ 5,389	$ 16,642
University of Minnesota - RUMINCO, Ltd.				
Fiscal Year Ended 6/30/13	$ 8,142	$ 801	$ 1,762	$ 7,181
Fiscal Year Ended 6/30/14	$ 7,181	$ 2,395	$ 2,034	$ 7,542
University of Minnesota - Workers' Compensation				
Fiscal Year Ended 6/30/13	$ 11,574	$ 2,999	$ 2,813	$ 11,760
Fiscal Year Ended 6/30/14	$ 11,760	$ 3,578	$ 2,292	$ 13,046
University of Minnesota - Medical/Dental				
Fiscal Year Ended 6/30/13	$ 28,393	$ 252,482	$ 256,838	$ 24,037
Fiscal Year Ended 6/30/14	$ 24,037	$ 259,083	$ 261,075	$ 22,045

Note 18 – 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. In addition, the GAAP General Fund includes several funds that are not included in the budgetary General Fund. A reconciliation of the fund balances under the two basis of accounting for the General Fund is provided in the following table.

General Fund
Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2014
(In Thousands)

GAAP Basis Fund Balance:	$	1,777,170
Less: Encumbrances[(1)]		112,593
Unassigned Fund Balance	$	1,664,577
Basis of Accounting Differences:		
Revenue Accruals/Adjustments:		
Taxes Receivable	$	(473,082)
Tax Refunds Payable		515,139
Human Services Receivable		(77,057)
Unearned Revenue		90,606
Escheat Asset		(13,031)
Other Receivables		(18,824)
Permanent School Fund Reimbursement		(1,500)
Investments at Market		8,511
Expenditure Accruals/Adjustments:		
Medical Care Programs		612,915
Human Services Grants Payable		46,801
Education Aids		765,230
Police and Fire Aid		89,964
Other Payables		754
Other Financial Sources (Uses):		
Transfer-In		(13,257)
Perspective Differences:		
Account with no Legally Adopted Budget		(1,278,063)
Long-Term Receivables		(6,145)
Appropriation Carryover		(192,411)
Budgetary Reserve		(1,048,436)
Budgetary Basis:		
Unassigned Fund Balance	$	672,691

(1) Encumbrances related to funds included in the budgetary General Fund.

Note 19 – 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 the fiscal year ending June 30, 2013, and June 30, 2014, 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, for any one claim and the maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, is $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) 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 Minnesota Department of Transportation (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 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 Metropolitan Council.

   b. *Alliance Pipeline, L.P. v. Commissioner of Revenue, et al.* (Minnesota Tax Court). Alliance operates a natural gas pipeline company and owns and operates property throughout 13 Minnesota counties. In 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. Subsequently, Alliance appealed the Commissioner's assessment for tax years 2010 through 2013. The legal issues in this appeal are very similar to the legal challenges raised in the *Minnesota Energy Resources Corp. v. Commissioner* appeals listed below. Alliance argues: (1) that the Commissioner has failed to correctly determine the market value of the property as defined by Minnesota Statutes, Section 272.03, Subdivision 8; (2) that Minnesota Rule Chapter 8100 exceeds the Commissioner's statutory authority to the extent it creates a valuation process which does not value utility property at its fair market value; and (3) that the assessment is 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 and Commerce Clauses of the U.S. Constitution. In late 2014, the State and Alliance settled the appeals for years 2009-2012. The 2013 case has not been settled. The potential cost to the State is less than $500,000. The 2014 assessment has been appealed to Tax Court by Alliance.

   c. *Electric Cooperative Assessment Cases* (Minnesota Tax Court). Electric cooperatives filed a series of 16 separate appeals in Tax Court of the Commissioner of Revenue's assessment of sales tax for varying periods generally ranging from 2003 through 2006. Each electric cooperative estimates costs for its members as it bills those members throughout the year and collects sales tax based on those estimates. At year's end, if the cooperative has charged members in excess of the actual costs, it issues patronage adjustments in the form of "capital credits" to the members for the difference in cost. After doing so, the appellants filed for a refund in the sales tax paid on the difference between the actual and estimated costs. The Department initially paid the refunds to each appellant, but later issued assessments for the amounts that had been refunded. Citing Minnesota Rule 8130.1100, Subpart 5 (stating that when part of contribution is credited back to member's capital account after sale, credited amount is included in taxable sales price), the Department denied each appellant's administrative appeal. There are an estimated 44 electric cooperatives in the state that are similarly situated. The Department estimates the potential total financial impact to the state if the Commissioner loses the legal issue in these cases to be approximately $20.9 million in one-time refunds with an on-going annual impact of $4.2 million. In June 2014, the Tax Court issued a decision denying the taxpayers' claims. The Department anticipates that there will be an appeal in the Supreme Court.

d. *Harne v. State of Minnesota et al.* (Ramsey County District Court). Plaintiffs sued the state, the current Attorney General, and the Commissioner of the Minnesota Department of Management and Budget alleging that in the 1998 Settlement between the state and major tobacco companies, the state released Plaintiffs' statutory consumer fraud claims without compensation and claiming that they are entitled to a share of the proceeds from the Settlement. The 1998 Settlement provided for up-front and annual payments to the state and injunctive relief, in exchange for which the state released its statutory consumer protection claims against the settling tobacco companies. In 2012, the Minnesota Supreme Court held that this release included related statutory consumer protection claims that might be prosecuted by private Minnesota consumers under the authority provided in Minnesota Statutes, Section 8.31, Subdivision 3a. The district court dismissed the case on the state's motion, holding that the Plaintiffs had failed to plead a valid cause of action and that the action was barred by the statute of limitations. Plaintiffs have filed a notice of appeal.

e. *Kimberly-Clark Corporation & Subsidiaries v. Commissioner of Revenue* (Minnesota Tax Court). The taxpayer filed an appeal in the Minnesota Tax Court challenging the Commissioner's denial of the taxpayer's refund claims. The taxpayer alleges it is entitled to elect a corporate tax apportionment formula set forth in the Multistate Tax Compact, even though the Minnesota legislature repealed that provision of the Compact from the Minnesota Statutes in 1987. Resolution of this case may impact the Commissioner's assessments against other multistate tax filers and may impact refund claims corporate taxpayers have and may file with the Commissioner. As of October 2014, multiple corporate taxpayers had filed about $155 million in refund claims, with estimated potential total refunds of $700 million.

f. *Kiminski v. Hunt et al (formerly Beach/Ness v. Hunt et al.) and similar matters*: In January of 2013, the Department of Natural Resources (DNR) notified approximately 5,000 residents that their drivers' license data may have been improperly viewed by former DNR employee John Hunt. Since the notification, five putative class actions have been filed in federal court against the DNR, the Department of Public Safety, and various state employees in their individual and official capacities alleging violations of federal and state law resulting from Hunt's conduct. The suits have all been consolidated and a consolidated amended complaint has been filed. The suits include claims for relief under the federal Drivers Privacy Protection Act and 42 U.S.C. § 1983. The plaintiffs seek statutory damages, actual damages, punitive damages, injunctive relief, and attorneys' fees. Other similar cases have been filed against other state employees in their individual and official capacities alleging plaintiffs' drivers' license data may have been improperly viewed by state employees. Motions to dismiss have been or will be filed in each case. To date, all such motions that have been resolved by the trial court have resulted in dismissals for the State employees. Several cases are now on appeal.

g. *Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation, appeals the market valuations made of the pipeline corporation's real, personal, and operating property subject to assessment in 53 counties in Minnesota. The separate appeals for tax years 2008-2012 are consolidated. MERC has also filed separate appeals for the 2013 and 2014 years. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in

Minnesota Statutes, Section 272.03, Subdivision 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 Minnesota Statutes, Section 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 under the Minnesota rule in effect for 2008. A new Minnesota rule governs calculation for the 2009-2011 tax years. Minnesota Energy Resources Corp. objects to both the old and new rules. Specifically, Minnesota Energy Resources Corp. disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not included in depreciation and the weighting of cost factors and, thus, claim that the property tax assessments are not applied evenly throughout Minnesota. In September 2014, the Tax Court issued a decision in the 2008-2012 consolidated cases. The decision upheld certain of MERC's claims and denied other claims. For all five years combined, the net result of the Tax Court's decision is that MERC would receive a total refund of $1.35 million, only 30% of which would be the state's share. It is likely that one or both sides will appeal to the Supreme Court. The 2013 and 2014 appeals have been stayed pending final resolution of the 2008-2012 cases.

Note 20 – Subsequent Events

Primary Government

On August 19, 2014, the state issued $80.1 million of Certificates of Participation at a true interest rate of 3.70 percent as authorized by Minnesota Laws 2013, Chapter 143, Article 12, Section 21, for the purpose of financing the predesign, design, construction and equipping of offices, hearing rooms and parking facilities for a legislative office facility. The Certificates are not public debt of the state subject to constitutional limitations on indebtedness, and the full faith, credit and taxing powers of the state are not pledged to the payment of the Certificates.

On August 21, 2014, the state sold $429.7 million of general obligation state various purpose bonds Series 2014A at a true interest rate of 2.83 percent, $288.0 million of general obligation state trunk highway bonds Series 2014B at a true interest rate of 2.71 percent, $26.0 million general obligation taxable state various purpose bonds Series 2014C at a true interest rate of 3.01 percent, $28.2 million of general obligation taxable state various purpose refunding bonds Series 2014D at a true interest rate of 2.77 percent, and $123.3 million of general obligation state truck highway refunding bonds Series 2014E at a true interest rate of 2.01 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On September 10, 2014, the Iron Range Resources and Rehabilitation issued $7.9 million of education facilities refunding revenue bonds at a true interest rate of 1.32 percent. The proceeds of the bonds will be used to effect a current refunding of the Commissioner of Iron Range Resources and Rehabilitation's Educational Facilities Revenue Bonds Series 2006. As stated in Minnesota Statutes, Section 298.28, the bonds will be paid from taconite production tax revenues in the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund).

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 (MnDOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below.

Description	PQI Range	PSR Range	SR Range
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI will be used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

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

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
2013	3.40	3.26
2012	3.36	3.24
2011	3.32	3.18

Bridges and Tunnels

Measurement Scale

MnDOT 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 bridges under MnDOT'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

Principal Arterial	2013	2012	2011
Fair to Good	94.9%	94.5%	94.5%

All Other Systems	2013	2012	2011
Fair to Good	93.6%	93.0%	91.4%

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):

		Costs to be Capitalized			Maintenance of System			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2014	$ 251,019	$ 248,841	$ 499,860	$ 78,143	$ 627,255	$ 705,398	$ 1,205,258
	2013	179,581	289,898	469,479	36,480	691,872	728,352	1,197,831
	2012	257,442	288,138	545,580	23,111	504,601	527,712	1,073,292
	2011	241,801	270,378	512,179	25,390	356,957	382,347	894,526
	2010	128,668	391,274	519,942	14,172	328,573	342,745	862,687
Actual	2014	$ 233,201	$ 301,058	$ 534,259	$ 64,837	$ 593,933	$ 658,770	$ 1,193,029
	2013	137,387	190,739	328,126	58,127	615,638	673,765	1,001.891
	2012	105,736	158,438	264,174	64,810	571,693	636,503	900,677
	2011	153,245	156,672	309,917	60,898	566,820	627,718	937,635
	2010	142,295	188,096	330,391	71,361	531,980	603,341	933,732

Actuarial Measures of Pension Funding Progress

The state of Minnesota is the employer for four 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).

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)

		CERF	JRF	LRF	SPRF
Actuarial Valuation Date	2013[1]	7/1/2013	7/1/2013	7/1/2013	7/1/2013
	2012	7/1/2012	7/1/2012	7/1/2012	7/1/2012
	2011	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial Value of Plan Assets	2013	$ 701,091	$ 144,918	$ 11,493	$ 552,319
	2012	$ 663,713	$ 144,898	$ 15,523	$ 554,244
	2011	$ 637,027	$ 145,996	$ 19,140	$ 563,046
Actuarial Accrued Liability	2013	$ 1,026,098	$ 284,513	$ 235,877	$ 741,850
	2012	$ 968,166	$ 281,576	$ 247,657	$ 760,955
	2011	$ 907,012	$ 248,630	$ 216,559	$ 700,898
Total Unfunded Actuarial Liability	2013	$ 325,007	$ 139,595	$ 224,384	$ 189,531
	2012	$ 304,453	$ 136,678	$ 232,134	$ 206,711
	2011	$ 269,985	$ 102,634	$ 197,419	$ 137,852
Funded Ratio[2]	2013	68%	51%	5%	74%
	2012	69%	51%	6%	73%
	2011	70%	59%	9%	80%
Annual Covered Payroll	2013	$ 204,198	$ 39,888	$ 1,233	$ 62,121
	2012	$ 200,035	$ 38,644	$ 1,378	$ 62,524
	2011	$ 197,702	$ 40,473	$ 1,774	$ 63,250
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2013	159%	350%	18,198%	305%
	2012	152%	354%	16,846%	331%
	2011	137%	254%	11,128%	218%

[1]The July 1, 2013 Annual Valuation Report is the most recently issued report available.

[2]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 heath care plan.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date		7/1/2012 [1]
		7/1/2010
		7/1/2008
Actuarial Value of Plan Assets	7/1/2012	$ -
	7/1/2010	$ -
	7/1/2008	$ -
Actuarial Accrued Liability	7/1/2012	$ 651,890
	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
Total Unfunded Actuarial Liability	7/1/2012	$ 651,890
	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
Funded Ratio[2]	7/1/2012	0%
	7/1/2010	0%
	7/1/2008	0%
Annual Covered Payroll	7/1/2012	$2,819,463
	7/1/2010	$3,027,241
	7/1/2008	$2,785,335
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2012	23%
	7/1/2010	26%
	7/1/2008	27%

[1] The July 1, 2012, Actuarial Valuation Report is the most recently issued report available. The Actuarial Valuation Report is prepared every two years.

[2] Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

During fiscal year 1998, the Public Employees Insurance Program's medical claims became a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past ten years.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Required Contribution and Investment Revenue:										
Earned	$19,177	$14,942	$13,219	$13,439	$12,286	$25,031	$34,161	$45,413	$49,244	$90,110
Ceded	(1,736)	(1,491)	(1,347)	(1,298)	(1,218)	(2,684)	(2,660)	(3,502)	(4,582)	(8,372)
Net Earned	$17,441	$13,451	$11,872	$12,141	$11,068	$22,347	$31,501	$41,911	$44,662	$81,738
2. Unallocated Expenses:	$ 1,904	$ 1,638	$ 1,547	$ 1,505	$ 1,534	$ 2,037	$ 2,411	$ 3,018	$ 3,612	$ 6,390
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	$16,499	$12,551	$11,206	$10,748	$ 9,473	$19,350	$24,134	$38,173	$41,959	$73,795
Ceded	(1,913)	(1,382)	(1,782)	(380)	(667)	(562)	(1,491)	(2,149)	(4,909)	(5,767)
Net Incurred	$14,586	$11,169	$ 9,424	$10,368	$ 8,806	$18,788	$22,643	$36,024	$37,050	$68,028
4. Net paid (Cumulative) as of:										
End of Policy Year	$12,909	$10,055	$ 8,226	$ 9,403	$ 7,921	$16,848	$20,720	$32,716	$33,836	$60,813
One Year Later	14,141	11,282	9,352	10,415	8,482	18,828	23,219	35,718	37,353	
Two Years Later	14,139	11,301	9,358	10,413	8,454	18,826	23,200	35,946		
Three Years Later	14,139	11,301	9,358	10,413	8,454	18,826	23,303			
Four Years Later	14,139	11,301	9,358	10,413	8,454	18,826				
Five Years Later	14,139	11,301	9,358	10,413	8,454					
Six Years Later	14,139	11,301	9,358	10,413						
Seven Years Later	14,139	11,301	9,358							
Eight Years Later	14,139	11,301								
Nine Years Later	14,139									
5. Reestimated Ceded Claims and Expenses:	$ 1,913	$ 1,382	$ 1,782	$ 380	$ 667	$ 562	$ 1,491	$ 2,149	$ 4,909	$ 5,767
6. Reestimated Net incurred Claims and Expenses:										
End of Policy Year	$14,586	$11,169	$ 9,424	$10,368	$ 8,806	$18,788	$22,643	$36,024	$37,050	$68,028
One Year Later	14,152	11,294	9,362	10,425	8,502	18,848	23,249	36,006	37,673	
Two Years Later	14,139	11,301	9,358	10,413	8,454	18,826	23,304	35,946		
Three Years Later	14,139	11,301	9,358	10,413	8,454	18,826	23,303			
Four Years Later	14,139	11,301	9,358	10,413	8,454	18,826				
Five Years Later	14,139	11,301	9,358	10,413	8,454					
Six Years Later	14,139	11,301	9,358	10,413						
Seven Years Later	14,139	11,301	9,358							
Eight Years Later	14,139	11,301								
Nine Years Later	14,139									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year:	$ (447)	$ 132	$ (66)	$ 45	$ (352)	$ 38	$ 660	$ (78)	$ 623	$ -

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 August 5, 2015 (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 2015 (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 Electronic Municipal Market Access ("EMMA") facility for municipal securities disclosure. 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, not in excess of 10 business days after the occurrence of an event, notice of the occurrence of any of the following events:

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults, if material;

(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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(G) Modifications to rights to security holders, if material;

(H) Bond calls, if material, and tender offers;

(I) Defeasances;

(J) Release, substitution, or sale of property securing repayment of the securities if material;

(K) Rating changes;

(L) Bankruptcy, insolvency, receivership or similar event of the State;

(M) The consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(N) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

As used herein, an event is "material" if it 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 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.

(4) The State shall determine in the manner it deeps appropriate whether there has occurred a change in the MSRB's email address or filing procedures and requirement under the MSRB's EMMA facility each time the State is required to file information with the MSRB.

(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 successor 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.

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APPENDIX H

FORMS OF LEGAL OPINIONS

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August __, 2015

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $368,225,000 General Obligation State Various Purpose Bonds, Series 2015A
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 $368,225,000 General Obligation State Various Purpose Bonds, Series 2015A, dated August 19, 2015 (the "Series 2015A Bonds"). The Series 2015A 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, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2015A 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 2015A Bonds (a) is excludable from gross income for federal income tax purposes and from 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 and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but 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 2015A Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2015A Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2015A Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2015A 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 2015A Bonds. No provision has been made for an increase in the interest payable on the Series 2015A 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 2015A Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August __, 2015

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B
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 $310,000,000 General Obligation State Trunk Highway Bonds, Series 2015B, dated August 19, 2015 (the "Series 2015B Bonds"). The Series 2015B 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, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2015B 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 2015B 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 2015B Bonds (a) is excludable from gross income for federal income tax purposes and from 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 and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but 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 2015B Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2015B Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2015B

Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2015B 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 2015B Bonds. No provision has been made for an increase in the interest payable on the Series 2015B 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 2015B Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August __, 2015

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C
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 $7,200,000 General Obligation Taxable State Various Purpose Bonds, Series 2015C, dated August 19, 2015 (the “Series 2015C Bonds”). The Series 2015C 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, regulations, rulings and judicial decisions now in effect, it is our opinion that the Series 2015C 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.

The interest on the Series 2015C Bonds is includable in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. We express no other opinion regarding federal, state or other tax consequences to holders of the Series 2015C Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August __, 2015

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $376,655,000 General Obligation State Various Purpose Refunding Bonds, Series 2015D
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 $376,655,000 General Obligation Various Purpose Refunding Bonds, Series 2015D, dated August 19, 2015 (the "Series 2015D Bonds"). The Series 2015D 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, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2015D 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 2015D Bonds (a) is excludable from gross income for federal income tax purposes and from 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 and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but 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 2015D Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2015D Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2015D Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2015D 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 2015D Bonds. No provision has been made for an increase in the interest payable on the Series 2015D 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 2015D Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August __, 2015

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E
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 $14,900,000 General Obligation State Trunk Highway Refunding Bonds, Series 2015E, dated August 19, 2015 (the "Series 2015E Bonds"). The Series 2015E 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, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2015E 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 2015E 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 2015E Bonds (a) is excludable from gross income for federal income tax purposes and from 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 and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but 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 2015E Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2015E Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2015E Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2015E 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 2015E Bonds. No provision has been made for an increase in the interest payable on the

Series 2015E 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 2015E Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

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STATE OF MINNESOTA • General Obligation State Bonds, Series 2015A, Series 2015B, Series 2015C, Series 2015D and Series 2015E

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