NEW ISSUE – BOOK ENTRY ONLY

RATINGS: Fitch: AA
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 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, 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 Taxable Bonds is includable in gross income of owners thereof 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. For a discussion of tax matters see "TAX MATTERS" herein.

$656,220,000
STATE OF MINNESOTA
State General Fund Appropriation Refunding Bonds
consisting of
$54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A *(the "Series 2012A Bonds" or "Taxable Bonds")*
$601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B *(the "Series 2012B Bonds" or "Tax-Exempt Bonds")*

(The Series 2012A Bonds and the Series 2012B Bonds are collectively referred to as the "Bonds.")

Dated: Date of delivery **Due: As shown on inside front cover**

THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE OF MINNESOTA (THE "STATE") PURSUANT TO MINNESOTA STATUTES, SECTION 16A.99 (THE "ACT"), AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER OF MANAGEMENT AND BUDGET (THE "ORDER") FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS 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 BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS. AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE MINNESOTA LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. SEE "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS" HEREIN.

The Series 2012A Bonds are not subject to redemption. The Series 2012B Bonds are subject to optional redemption by the State as provided herein.

The Bonds will be available 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. U. S. Bank National Association is the Registrar and Paying Agent for the Bonds.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriters, 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 Kutak Rock LLP as to the tax exemption of the interest on the Series 2012B Bonds. Certain legal matters will be passed upon by Dorsey & Whitney LLP, Minneapolis, Minnesota, as counsel to Barclays Capital Inc., representative on behalf of the Underwriters. Delivery will be made on or about November 21, 2012.

Barclays

BofA Merrill Lynch **RBC Capital Markets**

Citigroup **Jefferies** **Ramirez & Co., Inc.**

US Bancorp **Wells Fargo Securities**

The date of this Official Statement is November 14, 2012

$656,220,000

State of Minnesota
State General Fund Appropriation Refunding Bonds

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

$55,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A

Maturity (March 1)	Amount	Interest Rate	Price	CUSIP**
2014	$33,930,000	0.43%	100%	604146AA8
2015	20,735,000	0.63	100	604146AB6

$601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B

Serial Bonds

Maturity (March 1)	Amount	Interest Rate	Yield	CUSIP**
2015	$16,690,000	4.00%	0.450%	604146AC4
2016	29,520,000	4.00	0.590	604146AD2
2017	30,720,000	5.00	0.690	604146AE0
2018	31,430,000	5.00	0.830	604146AF7
2019	31,910,000	5.00	1.030	604146AG5
2020	4,570,000	4.00	1.220	604146AH3
2020	28,690,000	5.00	1.220	604146AU4
2021	34,650,000	5.00	1.440	604146AJ9
2022	36,320,000	5.00	1.660	604146AK6
2023	37,330,000	5.00	1.850*	604146AL4
2024	39,345,000	5.00	1.960*	604146AM2
2025	41,615,000	5.00	2.040*	604146AN0
2026	43,980,000	4.00	2.270*	604146AP5
2027	46,960,000	5.00	2.170*	604146AQ3
2028	49,795,000	5.00	2.230*	604146AR1
2029	52,810,000	5.00	2.270*	604146AS9
2030	45,220,000	3.00	2.880*	604146AT7

* Yield calculated to first optional call date.

THE UNDERWRITERS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE OR MAINTAIN THE PRICE OF THE SECURITIES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING OVER-ALLOTMENT AND STABILIZING TRANSACTIONS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON IS AUTHORIZED BY THE STATE OR THE UNDERWRITERS IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE STATE OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE A SALE OF ANY OF THE SECURITIES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER, SOLICITATION OR SALE.

This Official Statement contains information furnished by the State and other sources, all of which are believed to be reliable. The State has not independently verified the information contained in "TAX MATTERS" and cannot and does not warrant the accuracy or completeness of this information.

The information and expressions of opinion contained 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 has been no change in the affairs of the State since the date hereof or that the information contained herein is correct as of any date subsequent to the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party. See "CONTINUING DISCLOSURE."

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all materials in this Official Statement, including its appendices, must be considered in their entirety.

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.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

To ensure compliance with Treasury Circular 230, taxpayers holding the Taxable Bonds are hereby notified that: (a) any discussion of U.S. federal tax issues in this Official Statement is not intended or written to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

STATE OF MINNESOTA OFFICIALS

GOVERNOR	Mark Dayton
LIEUTENANT GOVERNOR	Yvonne Prettner Solon
SECRETARY OF STATE	Mark Ritchie
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF MANAGEMENT AND BUDGET

James D. Schowalter

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SUMMARY STATEMENT

(This Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.)

Issuer:	State of Minnesota
Offering:	$54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A (the "Series 2012A Bonds" or "Taxable Bonds") $601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B (the "Series 2012B Bonds" or "Tax-Exempt Bonds") *The Series 2012A Bonds and the Series 2012B Bonds are collectively referred to as the "Bonds."*
Principal Amounts:	The principal amounts of the Bonds are set forth on the inside front cover page.
Interest:	Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date (see below) of the Bonds, payable semiannually on each March 1 and September 1, commencing March 1, 2013.
Dated Date:	Date of delivery, expected to be November 21, 2012.
Authorization:	The Bonds are being issued pursuant to an Order of the Commissioner of Management and Budget and Minnesota Statutes, Section 16A.99 (the "Act"). See "THE BONDS – Authorization and Purpose" and "– Recent Supreme Court Opinion" herein.
Security:	The Act, at subdivision 8, provides for annual appropriations from the State General Fund in the amount needed to pay principal of and interest on the Bonds. Such appropriations constitute a continuing appropriation that does not require any further action by the Legislature; however, such appropriations are subject to legislative reduction or repeal and executive unallotment, in whole or in part, which may result in cancellation of the Bonds, as further described herein. THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER OF MANAGEMENT AND BUDGET FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS 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 BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER

THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE.

Cancellation:	If the State legislature reduces or repeals the Continuing Appropriations (as defined herein) for payment of principal of and interest on the Bonds pursuant to the Act or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The reduction, repeal or unallotment of the appropriations and the cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds.
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 2012A Bonds will not be subject to redemption prior to their stated maturity dates. The Series 2012B Bonds maturing on or after March 1, 2023 will be subject to optional redemption by the State at its option on March 1, 2022 and on 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.
Continuing Disclosure:	In the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.
Bond Ratings:	Ratings on the Bonds have been requested from Fitch Ratings and Standard & Poor’s Ratings Group.
Registrar/Paying Agent/ Escrow Agent:	U. S. Bank National Association
Verification Agent:	Grant Thornton LLP
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 2012B Bonds.

OFFICIAL STATEMENT

$656,220,000
STATE OF MINNESOTA
State General Fund Appropriation Refunding Bonds
consisting of

$54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A
$601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B

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 $54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A (the "Series 2012A Bonds" or "Taxable Bonds"), and the $601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B (the "Series 2012B Bonds" or "Tax-Exempt Bonds" and, together with the Series 2012A Bonds, the "Bonds") of the State of Minnesota (the "State") to be dated the date of issuance, to prospective purchasers and actual purchasers of the Bonds. Prospective and actual purchasers should read this entire Official Statement.

Authorization and Purpose

The Bonds are being issued by the State, acting by and through its Commissioner of Management and Budget (the "Commissioner"), pursuant to an Order of the Commissioner, as supplemented (the "Order"), and Minnesota Statutes, Section 16A.99 (the "Act"), which authorizes the State to issue bonds payable from amounts appropriated by the Legislature of the State to provide moneys to refund outstanding obligations of the Tobacco Securitization Authority (the "Authority"), a body corporate and politic and a public instrumentality of, but having a legal existence independent and separate from, the State.

On October 31, 2012, the Minnesota Supreme Court issued its opinion in *James D. Schowalter, in his capacity as Commissioner of the Minnesota Department of Management and Budget v. The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota* (Minnesota Supreme Court, filed October 31, 2012, Docket No. A12-0622) (*"Schowalter")*. In its opinion, the Minnesota Supreme Court concluded that, under the "plain language of Article XI, Section 4 [of the Minnesota Constitution], 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." See "THE BONDS – Recent Supreme Court Opinion."

The Series 2012A Bonds in the aggregate principal amount of $54,665,000 are being issued by the State for the purpose of refunding the Authority's outstanding Minnesota Tobacco Settlement Revenue Bonds, Taxable Series 2011A (the "Series 2011A Authority Bonds"), and the Series 2012B Bonds in the aggregate principal amount of $601,555,000 are being issued for the purpose of refunding the Authority's outstanding Minnesota Tobacco Settlement Revenue Bonds, Tax-Exempt Series 2011B (the "Series 2011B Authority Bonds" and, together with the Series 2011A Authority Bonds, the "Authority Bonds"), all under authority of and in strict conformity with the Minnesota Constitution and laws of the State of Minnesota, including, in particular, the Act.

The Authority Bonds were issued by the Authority pursuant to Minnesota Statutes, Section 16A.98, to provide monies for the refunding and payment of debt service on certain outstanding issues of General Obligation State Various Purpose Bonds, for the funding of other payment obligations of the State, and for the funding of a debt service reserve account, the payment of capitalized interest and the payment of issuance costs of and operating expenses relating to such bonds. See "PLAN OF FINANCE – The Authority Bonds" herein.

The proceeds of the Series 2012A Bonds will be placed in escrow with U.S. Bank National Association, St. Paul, Minnesota (the "Escrow Agent") and applied to the payment of the principal of and interest on the Series 2011A Authority Bonds through their stated maturity dates, and the proceeds of the Series 2012B Bonds will be placed in escrow with the Escrow Agent and applied to the redemption of the outstanding Series 2011B Authority Bonds on December 1, 2012. See "PLAN OF FINANCE – SOURCES AND USES OF FUNDS" herein.

Recent Supreme Court Decision

The Act provides that appropriation bonds such as the Bonds may be validated by order of the Minnesota Supreme Court. The complaint giving rise to *Schowalter* requested the Minnesota Supreme Court to validate the Bonds and decide the constitutional question of whether the Bonds would constitute public debt. In *Schowalter*, the Minnesota Supreme Court decided the constitutional "public debt" question raised by the complaint. However, the Minnesota Supreme Court declined to address the question of whether the Commissioner has taken all action necessary and sufficient for the valid issuance of the Bonds in accordance with law on the grounds that there was not a justiciable controversy on that question before the Court because the parties to the legal proceeding had agreed that the Commissioner has taken all procedural steps necessary to issue the Bonds. In light of the permissive language of the Act and the *Schowalter* opinion, it is not necessary for the Bonds to be issued with a Minnesota Supreme Court validation order. SEE APPENDIX H for the forms of legal opinions to be delivered upon issuance of the Bonds.

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity or prior redemption, if any, commencing March 1, 2013, to the registered owner thereof as of the close of business on the fifteenth day of the immediately preceding month, whether or not such day is a business day. If principal or interest is due on a date on which commercial banks are not open for commercial business, 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 2012A Bonds will not be subject to redemption prior to their stated maturity dates. The Series 2012B Bonds maturing on or after March 1, 2023, will be subject to optional redemption at the option of the State on March 1, 2022, 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.

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 Registrar and 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, (vi) that after the redemption date interest will cease to accrue or be payable thereon, and (vii) whether the call for redemption on the date specified by such notice is made conditional on the deposit with the Registrar and Paying Agent of moneys in an amount equal to the stated redemption price on or before such date. 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.

NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS[1]

General

Pursuant to the Act, the Bonds are payable in whole or in part from tobacco settlement revenues and from money appropriated by law in any biennium for payment of principal of and interest on the Bonds. Subdivision 8 of the Act provides for continuing annual appropriations (the "Continuing Appropriations") from the State General Fund (as defined on page B-2) to the Commissioner in the amount needed to pay principal of and interest on the Bonds.

The General Fund is comprised of numerous revenue sources, including tax revenues, unrestricted grants, certain fees and charges of State agencies and departments, investment income and tobacco settlement revenues. See "APPENDIX B – STATE FINANCES – GENERAL FUND REVENUE SOURCES – Tobacco Settlement" and, on page B-6, "STATE OF MINNESOTA GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES." The State has not pledged any particular source of revenue as security for the Bonds. Notwithstanding the availability of any tobacco settlement revenues, or any other revenue source, the Continuing Appropriations are subject to legislative reduction or repeal or executive unallotment, in whole or in part.

The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, a current Legislature is prohibited by law from acting to bind any future Legislature, and so a continuing appropriation may be reduced or repealed entirely by the Legislature at any time. In addition, appropriations are subject to executive

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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).

unallotment, in whole or in part. The Minnesota Supreme Court has held that such unallotment power may be used when a balanced budget for the biennium has been enacted and the Commissioner subsequently determines during such biennium that probable receipts for the General Fund will be less than anticipated. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks" below.

Other continuing appropriations from the General Fund include those authorized for the Minnesota Department of Management and Budget, the University of Minnesota and the Minnesota Housing Finance Agency, and for State lease payments for equipment and real estate. See "APPENDIX C – STATE DEBT – Contingent Liabilities." These continuing appropriations are distinguishable from State appropriations that require action by the Legislature on an annual or biennial basis. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks – Reduction or Repeal of Appropriation – Appropriations Other Than Continuing Appropriations" below. Continuing appropriations from the General Fund for payment of principal of and interest have not previously been reduced or repealed by the Legislature.

THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF THE ORDER FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE (INCLUDING, BUT NOT LIMITED TO, TOBACCO SETTLEMENT REVENUES) ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS 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 BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. *THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT FOR PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS.* AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks."

Bond Fund

The Order establishes (i) a "Series 2012A (Tobacco Settlement Refunding) Bond Account" and (ii) a "Series 2012B (Tobacco Settlement Refunding) Bond Account" in the State Special Appropriation Bond Proceeds Fund created by the Act, to which are appropriated each year moneys received in the General Fund, as provided by the Act, and from which shall be paid the principal of and interest on the Bonds and all bonds thereafter issued which are made payable therefrom in accordance with law.

Pursuant to the Continuing Appropriations made by the Act, there shall be credited to the State Special Appropriation Bond Proceeds Fund and the Series 2012A (Tobacco Settlement Refunding) Bond Account and Series 2012B (Tobacco Settlement Refunding) Bond Account established therein on December 1 in each year, from the General Fund in the State Treasury, an amount sufficient with the balance then on hand in the State Special Appropriation Bond Proceeds Fund and such accounts to pay all principal and interest then due and to become due on the next succeeding March 1 and September 1 on all Bonds, provided that such Appropriations shall be subject to (a) reduction or repeal by the Legislature or (b) executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. The Bonds shall be cancelled and shall no longer be outstanding upon such reduction, repeal or unallotment.

On or before each March 1 and September 1, commencing March 1, 2013, and provided that the Continuing Appropriations for the year of payment have not been reduced, repealed or unallotted under Minnesota Statutes, Section 16A.152, and the Bonds have not been cancelled pursuant to the Act and the Order, the Commissioner shall transmit to the Registrar from the State Special Appropriation Bond Proceeds Fund in the General Fund, moneys sufficient to pay all principal and interest due on the Bonds issued pursuant to the Act and the Order on such date.

Certain Risks

Either (i) a legislative reduction or repeal of the Continuing Appropriations for payment of principal of and interest on the Bonds established by the Act or (ii) an executive unallotment, in whole or in part, of the Continuing Appropriations could result in the cancellation of the Bonds without recourse by the Bondholder for any additional payments of principal of or interest on the Bonds and without any obligation by the State to make any such additional payments. See "Cancellation of Bonds Prior to Maturity" below.

Reduction or Repeal of Appropriation.

Continuing Appropriations. The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, as provided by the Act and otherwise pursuant to Minnesota law, a continuing appropriation may be reduced or repealed entirely by the Legislature. There can be no assurance by the State that the Legislature will not reduce or repeal the Continuing Appropriations, resulting in cancellation of the Bonds as described below.

Appropriations Other Than Continuing Appropriations. Certain State appropriations (other than the Continuing Appropriations) for limited payment obligations of the State are not continuing appropriations and, thus, require action by the Legislature on an annual or biennial basis. The State's obligation to make payments on these State or other obligations is not a general or moral obligation indebtedness of the State; rather the State is obligated to make payments only to the extent moneys are appropriated from time to time for such purpose. In the past, the Legislature has failed to make appropriations as necessary to pay in full debt service on State or other obligations, including in 1980 and 1981, when an appropriation to the Minnesota State Zoological Board (the "Zoo Board") of net revenues of a zoo ride facility were insufficient to allow the Zoo Board to make payments pursuant to an installment purchase agreement, which payments had been assigned to holders of certificates of participation in such agreement. In 1989, the Legislature declined to appropriate funds to St. Cloud State University as necessary to make certain payments under an energy services agreement, which payments had been assigned to an indenture trustee as security for the payment of principal of and interest on industrial development revenue bonds issued by the City of St. Cloud, Minnesota. As previously stated, the limited payments obligations of the State described in this paragraph were not continuing appropriations and, unlike the Bonds, required affirmative action by the Legislature on an annual or biennial basis for State payments to be made in respect of said obligations.

Unallotment. The Continuing Appropriations are subject to executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. Article XI, Section 6 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to such requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (such years together, the "biennium"). On July 1 of each odd-numbered year, the Commissioner transfers to the Budget Reserve Account within the General Fund (the "Budget Reserve") any amounts specifically appropriated by law to such Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner, with the approval of the Governor, to "unallot" funds as follows:

(a) An additional deficit shall, with the approval of the Governor, and after consulting the Legislative Advisory Commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the Commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.

(b) If the Commissioner determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the Commissioner shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.

(c) In reducing allotments, the Commissioner may consider other sources of revenue available to recipients of State appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are updated to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but such requests do not relieve the Commissioner of his obligation to reduce allotments to State agencies.

The executive branch has imposed unallotments in prior fiscal years, but not with respect to the payment of debt service. Over the past thirty years, the unallotment procedure has been used as follows: \$195 million of unallotments in 1980; in 1981 local government aid payments were unallotted in November and December but were reallotted and paid by February 26, 1982; \$109 million of unallotments in 1986; \$281 million of unallotments in 2003; \$271 million of unallotments in 2008; and \$2.68 billion of unallotments in 2009. The 2009 unallotment was unique in that it resulted from the passage of appropriation bills for the fiscal biennium, but the then-Governor vetoed a tax bill that would have balanced the biennial budget by raising revenues and shifting payments. In litigation challenging the 2009 unallotments, the Minnesota Supreme Court concluded that unallotment could not be used to balance the budget for an entire biennium when balanced spending and revenue has not been agreed upon by the legislature and the Governor. The legislature and Governor subsequently agreed to a balanced budget for the biennium. While appropriations from the General Fund for payment of debt service have not previously been unallotted, there can be no assurance by the State that unallotment of the Continuing Appropriations will not be imposed in any future year, resulting in cancellation of the Bonds as described below.

Cancellation of Bonds Prior to Maturity. If the Legislature reduces or repeals the Continuing Appropriations, or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding, and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds. Although there can be no assurance by the State that the Legislature or the executive branch will not take action resulting in cancellation of the Bonds as described herein, no bonds issued by the State have ever previously been cancelled by reason of any such action.

Other Risks. There can be no assurance that other events outside the control of the Commissioner, such as a temporary State government shutdown, will not affect the ability of the Commissioner to make timely payments of principal of and interest on the Bonds. However, such events (other than reduction, repeal or unallotment of the Continuing Appropriations as described above) would not result in cancellation of the Bonds as described above.

PLAN OF FINANCE

The Series 2012A Bonds in the aggregate principal amount of $54,665,000 are being issued by the State for the purpose of refunding, in advance of their maturities, the outstanding Series 2011A Authority Bonds, and the Series 2012B Bonds in the aggregate principal amount of $601,555,000 are being issued for the purpose of refunding, in advance of their maturities, the outstanding Series 2011B Authority Bonds, all under authority of and in strict conformity with the Minnesota Constitution and laws of the State of Minnesota, including, in particular, the Act.

Sources and Uses of Funds

Sources:	**Series 2012A Bonds**	**Series 2012B Bonds**	**Total**
Par Amount of Bonds	$54,665,000	$601,555,000	$656,220,000
Plus Net Premium on Bonds	0	124,827,502	124,827,502
Amounts on Deposit in Authority Bond Funds	46,334,557	64,881,838	111,216,395
Total Sources	$100,999,557	$791,264,340	$892,263,897
Uses:			
Escrow Deposit for Series 2011A Authority Bonds	$78,720,041		$78,720,041
Escrow Deposit for Series 2011B Authority Bonds		$788,216,756	788,216,756
Cost of Issuance[1]	106,200	3,045,559	3,151,759
Deposit to State Special Appropriation Bond Proceeds Fund	22,173,316	2,025	22,175,341
Total Uses	$100,999,557	$791,264,340	$892,263,897

[1] Includes Underwriters' discount on the Bonds.

The Authority Bonds

The Authority has heretofore issued the Authority Bonds, comprised of two series – the Series 2011A Authority Bonds in the original principal amount of $74,685,000, and the Series 2011B Authority Bonds in the original principal amount of $682,270,000. The Authority Bonds are special obligations of the Authority secured by a pledge of certain revenues of the Authority, which include tobacco settlement revenues paid or payable to the State on and after July 1, 2013, and required to be made, pursuant to the terms of the Minnesota Agreement (as defined on p. B-18), by the Settling Defendants (as defined on p. B-18) to the State. See "APPENDIX B – STATE FINANCES – GENERAL FUND REVENUE SOURCES – Tobacco Settlement" herein.

Pursuant to a Purchase and Sale Agreement, dated as of November 1, 2011 (the "Sale Agreement"), between the State, as seller, and the Authority, as purchaser, the State sold to the Authority certain tobacco settlement revenues, which the Authority pledged and assigned under an Indenture as security and as the primary source of payment for the Authority Bonds, which lien will stay in effect only so long as the Authority Bonds remain outstanding.

The Series 2011A Authority Bonds are not subject to redemption in advance of their respective stated maturities.

The Series 2011B Authority Bonds are subject to extraordinary optional redemption by the Authority at any time on or prior to December 1, 2012, in whole, at a price equal to the Extraordinary Redemption Price (as shown in Appendix D hereto) plus accrued and unpaid interest to the redemption date, from the net proceeds of the Bonds and amounts and assets on deposit in the pledged accounts. The Extraordinary Redemption Price has been determined by an independent accounting firm retained by the State at the State's expense, and such redemption price is conclusive and binding on the owners of the Series 2011B Authority Bonds.

Proceeds of the Bonds will be deposited in escrow with the Escrow Agent and the funds so deposited shall be invested in securities authorized for such purpose by law, maturing on such dates and bearing interest at such rates as are required to provide funds sufficient, with cash retained in the escrow account, to pay the interest to become due on the outstanding Authority Bonds, to and including their respective maturity dates or redemption date, as the case may be, and to pay the principal of the outstanding Authority Bonds, on their respective maturity dates or redemption date, as the case may be, except that the respective bond issuance expenses shall be paid from such bond proceeds in accordance with the Act and the Order. The Series 2011A Bonds will be paid at their respective maturities. The Series 2011B Bonds will be called for redemption and prepayment on or before December 1, 2012. The Commissioner will enter into escrow agreements with the Escrow Agent with respect to the outstanding Authority Bonds establishing the terms and conditions for irrevocable escrow accounts in accordance with State law.

By refunding the outstanding Authority Bonds in advance of their maturity and defeasing such Authority Bonds with the proceeds of the Bonds, together with amounts on deposit in the funds and accounts held by the Authority Bonds trustee and available for such purpose, by providing an irrevocable escrow for the payment of the principal of and interest on the Series 2011A Bonds to their respective maturity dates and the Series 2011B Bonds to their redemption date and by calling the Series 2011B Bonds for redemption on said redemption date, in accordance with their terms, the lien of the Authority Bonds' indenture will be discharged and released and the State will receive back from the Authority the right to receive the tobacco settlement revenues now pledged as security for the outstanding Authority Bonds for deposit into the General Fund of the State, and achieve, in comparison with the outstanding Authority Bonds, a net present value debt service savings.

The Authority, by resolution dated November 5, 2012, has authorized and directed the trustee for the Authority Bonds to give notice of the extraordinary optional redemption of the Series 2011B Authority Bonds and notice of defeasance of both series of the Authority Bonds promptly upon the deposit into escrow with the Escrow Agent of the proceeds of the Bonds and the satisfaction of each other requirement for the discharge of the Authority Bonds. The Authority has also authorized and directed the trustee for the Authority Bonds to take all such actions as may be necessary and desirable to terminate the Sale Agreement and release the lien of the Authority Indenture on the tobacco settlement revenues.

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

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

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

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

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

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

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

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

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

The State cannot and does not give any assurances that DTC, or a successor securities depository, or Participants will distribute to the Beneficial Owners of the Bonds: (i) payments of principal of or interest and premium, if any, on the Bonds; (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in the Bonds; or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, or a successor securities depository, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC or the Participants will serve and act in the manner described in this Official Statement.

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

TAX MATTERS

The Taxable Bonds

General. The interest on the Series 2012A Bonds (the "Taxable 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 Taxable Bonds should consult their own tax advisors as to the federal, state or local tax consequences of purchasing or owning the Taxable 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 Taxable 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.

To ensure compliance with Treasury Circular 230, taxpayers holding the Taxable Bonds are hereby notified that: (a) any discussion of U.S. federal tax issues in this Official Statement is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

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 Series 2012B Bonds (the "Tax-Exempt 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 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.

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 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.

Premium Bonds. The Tax-Exempt Bonds having a stated maturity in the years 2015 through 2030, inclusive (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. Bondholders who acquire Premium Bonds should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling such Premium Bonds.

Collateral Tax Matters. The following tax provisions also may be applicable to the Tax-Exempt 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 Tax-Exempt Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

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. An example is the American Jobs Act of 2011 (S. 1549), proposed by the President and introduced in the Senate on September 13, 2011. If enacted as introduced, a provision of S. 1549 would have limited the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could have affected the market price or marketability of the Tax-Exempt Bonds. It cannot be predicted whether or in what form any such proposal might again be introduced and 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.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax qualified retirement plans described in Section 401(a) of the Code ("Qualified Retirement Plans") and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code ("IRAs," collectively, with Qualified Retirement Plans, "Tax Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Non ERISA Plans"), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non ERISA Plans may be invested in the Taxable Bonds without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law ("Similar Laws"). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that an ERISA Plan's investment of its assets be made in accordance with the documents governing such ERISA Plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax Favored Plans ("Plan" or collectively "Plans") and entities whose underlying assets include "plan assets" by reason of Plans investing in such entities with persons ("Parties in Interest" or "Disqualified Persons" as such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory, class or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the "DOL") to assess a civil penalty against a fiduciary who violates any fiduciary responsibility under ERISA or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 408(e) of the Code, the IRA may lose its tax exempt status.

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the State. Certain transactions involving the purchase, holding or transfer of Taxable Bonds may be deemed to constitute prohibited transactions if assets of the State are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

Plan Asset Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3 101 (the "Plan Asset Regulation") concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the State) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an "equity interest" in such entity. ERISA Section 3(42) defines the term "plan assets." Depending upon a number of factors set forth in the Plan Asset Regulation, "plan assets" may be deemed to include either a Plan's interest in the assets of an entity (such as the State) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest. For purposes of this section, the terms "plan assets" ("Plan Assets") and the "assets of a Plan" have the meaning specified in the Plan Asset Regulation and ERISA Section 3(42) and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan's investment therein (a "Plan Asset Entity").

Under the Plan Asset Regulation, the assets of the State would be treated as Plan Assets if a Plan acquires an equity interest in the State and none of the exceptions contained in the Plan Asset Regulation is applicable. The Plan Asset Regulation provides an exemption from "plan asset" treatment for securities issued by an entity if such securities are debt securities under applicable state law with no "substantial equity features." If the Taxable Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases Taxable Bonds could be treated as having acquired a direct interest in the State. In that event, the purchase, holding, transfer or resale of the Taxable Bonds could result in a transaction that is prohibited under ERISA or the Code. While not free from doubt, on the basis of the Taxable Bonds as described herein, it appears that the Taxable Bonds should be treated as debt without substantial equity features for purposes of the Plan Asset Regulation.

In the event that the Taxable Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Asset Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Asset Regulation and ERISA Section 3(42). Because the availability of this exception depends upon the identity of the Taxable Bondholders at any time, there can be no assurance that the Taxable Bonds will qualify for this exception and that the State's assets will not constitute a Plan Asset subject to ERISA's fiduciary obligations and responsibilities. Therefor, neither a Plan nor a Plan Asset Entity should acquire or hold Taxable Bonds in reliance upon the availability of this exception under the Plan Asset Regulation.

Prohibited Transactions

The acquisition or holding of Taxable Bonds by or on behalf of a Plan, whether or not the underlying assets are treated as Plan Assets, could give rise to a prohibited transaction if the State or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a Taxable Bond is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the State or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires Taxable Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the Taxable Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual exemptions or "class exemptions" issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption ("PTCE") 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company's general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in house asset manager).

The Underwriters, the Registrar and Paying Agent or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding Taxable Bonds, the purchase of Taxable Bonds using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision Title I of ERISA or Section 4975 of the Code. Accordingly, Taxable Bonds may not be purchased using the assets of any Plan if any of the Underwriters, the Registrar and Paying Agent or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available and such prohibited transaction exemption covers such purchase.

Purchaser's/Transferee's Representations and Warranties

Each purchaser and each transferee of a Taxable Bond (including a Plan's fiduciary, as applicable) shall be deemed to represent and warrant that (a) it is not a Plan and is not acquiring the Taxable Bond directly or indirectly for, or on behalf of (i) a Plan or with Plan Assets, (ii) a Plan Asset Entity or (iii) any entity whose underlying assets are deemed to be Plan Assets of such Plan; or (b) the acquisition and holding of the Taxable Bonds by or on behalf of, or with Plan Assets of, any (i) Plan, (ii) Plan Asset Entity or (iii) any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Law, and will not subject the State or Underwriters to any obligation not affirmatively undertaken in writing.

Consultation With Counsel

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold Taxable Bonds on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold Taxable Bonds, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan which is a Tax Favored Plan that proposes to acquire or hold Taxable Bonds should consult with counsel with respect to the applicable federal, state and local laws.

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. Only Kutak Rock LLP will offer an opinion as to tax status of interest on the Series 2012B Bonds. The forms of legal opinions to be issued by Kutak Rock LLP with respect to the Bonds are set forth in Appendix H.

Certain legal matters will be passed upon for the Underwriters by Dorsey & Whitney LLP, as Underwriters' Counsel.

FINANCIAL INFORMATION

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

The State most recently released certain revenue and expenditure forecasts prepared by MMB in February 2012. Information concerning this forecast is included in Appendix B hereto under the caption "February 2012 Forecast – Current Biennium." **The next forecast of revenue and expenditures is expected to be released on or about December 5, 2012. Such forecast will be available on the MMB web site (www.mmb.state.mn.us) and from the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system (http://emma.msrb.org).** Any amendment or supplement to the basic financial statements of the State or such additional information concerning the State such as that included in the forecast expected to be released in early December, and any subsequent financial statements published by the State and made publicly available, in another State official statement or otherwise, to and including a date 25 days following the "end of the underwriting period" (as defined in Rule 15c2-12 of the Securities and Exchange Commission) applicable to the Bonds offered hereby, shall be deemed to be incorporated by reference in this Official Statement from the date made publicly available. No other information on the MMB web site or the MSRB is incorporated into this Official Statement. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

LITIGATION

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

While at any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for the Fiscal Year Ended June 30, 2011, set forth in Appendix F and additional actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of $15 million on the State's expenditures or revenues during the Current Biennium.

The following is a discussion of developments regarding the actions described in the referenced Note 19 that occurred and are subsequent to the date of the financial statements contained in Appendix F, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix F and are material for purposes of this Official Statement.

1. *Tort Claims.* The Tort Claims appropriations for each of the fiscal years ending June 30, 2012 and June 30, 2011, are $761,000.

2. *35W Bridge Collapse.* Petition for writ of certiorari to the U.S. Supreme Court was denied. The State's claim against the company that designed the bridge has been settled for $8.9 million.

3. *Electric Cooperative Assessment Cases.* The electric cooperatives filed a motion for partial summary judgment claiming some of the assessment periods at issue are time barred.

4. *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry (Ramsey County District Court).* The Court of Appeals affirmed the district court's grant of partial summary judgment on September 10, 2012. The State filed a petition for review with the Minnesota Supreme Court.

5. *Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue.* MERC has now appealed the Commissioner's tax assessment for tax year 2011.

6. *Meriwether Minnesota Land & Timber LLC, et al. v. State of Minnesota, et al.* The Court of Appeals reversed and remanded holding the $100,000 limit on 2010 payments for fiscal year 2011 under the Sustainable Forest Incentive Act, does not breach contractual rights or quasi-contractual rights under promissory estoppel; and does not violate constitutional provisions against impairment of contracts, takings without just compensation, or equal protection. On remand, the district court entered judgment for the State and Commissioner of Revenue and dismissed the case in its entirety.

7. *R.J. Reynolds Tobacco v. Commissioner of Revenue*. R.J. Reynolds settled its appeal in tax court by dropping its refund claim and agreeing to pay about 70% of the Commissioner's original order.

8. *HealthStar Home Health, Inc., et al. v. Commissioner of Human Services.* The district court granted the motion for summary judgment brought by the Commissioner of Human Services, which the plaintiffs' appealed to the Court of Appeals. The case has been briefed and argued at the Court of Appeals.

9. *Skaja v. Minnesota Department of Health*; *Bearder v. State of Minnesota; Anderson v. State of Minnesota*. The *Anderson* plaintiffs (additional parents of minor children) commenced their action on January 13, 2012, alleging that the Department's collection, storage and use of blood samples pursuant to the Newborn Screening Program violated Minn. Stat. § 13.386, the genetic privacy law. The complaint is styled as a class action. Plaintiffs seek damages, injunctive relief and an award of attorneys fees and costs. On April 16, 2012, a Hennepin County District Court Judge ordered that the three cases are consolidated for all purposes. Motions for class certification have been filed.

CONTINUING DISCLOSURE

The Commissioner, in the order authorizing and ordering the issuance of the Bonds, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5) as currently in effect; and, for this purpose, to provide to the Municipal Securities Rulemaking Board annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain events which materially affect the terms, payment, security, rating or tax status of the Bonds. The State is the only "obligated person" in respect of the Bonds within the meaning of paragraph (b)(5). A description of the Commissioner's undertaking is set forth in Appendix G. In the previous five years, the Commissioner has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

FINANCIAL ADVISOR

Public Financial Management, Inc. (the "Financial Advisor") is serving as financial advisor to the State in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is not contingent upon the issuance and delivery of the Bonds. The Financial Advisor does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies on the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the State and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the State, on or before the delivery date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal and interest on the obligations placed in escrow, to pay the maturing principal and interest on the Series 2011A Authority Bonds and to pay on December 1, 2012 the principal, interest and extraordinary redemption prices of the Series 2011B Authority Bonds, and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Series 2012B Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the State and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the State and its representatives and has not evaluated or examined the assumptions or information used in the computations.

UNDERWRITING

The underwriters listed on the cover page hereof (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds from the State at an aggregate underwriters' discount of $2,684,103.95. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

Barclays Capital Inc. is acting as representative on behalf of the Underwriters.

Citigroup Inc., the parent company of Citigroup, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc. ("USBII"), which is serving an Underwriter of the Bonds, and U.S. Bank National Association ("USBNA"), which is serving as Registrar and Paying Agent for the Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

RATINGS

Ratings on the Bonds have been requested from Fitch Ratings and Standard and Poor's Ratings Group (individually, a "Rating Agency" and, collectively, the "Rating Agencies").

A credit rating is not a recommendation to buy, sell or hold securities, and such ratings may be subject to revision or withdrawal at any time. The rating by a Rating Agency of the Bonds reflects only the views of such Rating Agency, and any desired explanation of the significance of such rating and any outlooks or other statements given by such Rating Agency with respect thereto should be obtained from the Rating Agency.

Except as may be required by the Undertaking as defined above under the heading "CONTINUING DISCLOSURE," the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

There is no assurance that the initial ratings assigned to the Bonds will continue for any given period of time or that any of such ratings will not be revised downward, suspended or withdrawn entirely by the Rating Agency. Any such downward revision, suspension or withdrawal of such rating may have an adverse effect on the availability of a market for or 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/ James D. Schowalter
Commissioner of Management and Budget
State of Minnesota

APPENDIX A

State Government and Fiscal Administration

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STATE GOVERNMENT AND FISCAL ADMINISTRATION

State Government

The State was formally organized as a territory in 1849 and was admitted to the Union on May 11, 1858, as the 32nd state. Bordered by Canada on the north, Lake Superior and Wisconsin on the east, Iowa on the south, and North and South Dakota on the west, it is the 12th largest and 20th most populous state in the Union.

The State's Constitution organizes State government into three branches: Executive, Legislative and Judicial.

The Executive Branch is headed by the Governor. The Governor, Lt. Governor, Attorney General, State Auditor, and Secretary of State are popularly elected to four year terms. There are 18 departments and over one hundred agencies, boards, councils, and authorities which comprise the Executive Branch. Most departments and agency heads are appointed and serve at the pleasure of the Governor, subject to confirmation by the Senate.

The Department of Finance was created in 1973. On June 1, 2008, the Department of Finance completed a merger with the Department of Employee Relations and assumed many of the duties related to human resource management, employee insurance and collective bargaining on behalf of the State as an employer. After the merger, the Department was renamed the Department of Minnesota Management and Budget ("Management and Budget") or ("MMB").

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve 4 year terms and there are 134 house members that serve 2 year terms.

The Judicial Branch is headed by a Supreme Court. Three levels of courts function within the Judicial Branch: Supreme Court, Appellate Court, and District Courts.

Fiscal Administration

The Commissioner of Management and Budget is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Included in the financial duties of the Commissioner 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, certain revenue bonds and certain state appropriation bonds, general obligation certificates of indebtedness, and equipment lease purchase financings, including certificates of participation.
- Preparation of periodic and special reports on the financial affairs of the State.
- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- To receive and account for all moneys paid into the State treasury 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.

On July 1, 2009 the Commissioner of Management and Budget was authorized to acquire a new statewide accounting and procurement system. The system went live during the last fiscal year and the State is continuing its implementation process.

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 2011 basic financial statements are presented in Appendix F, and general long-term debt unaudited schedules are presented in Appendix C. The State intends to implement the two new GASB pension-related statements (Statement 67 - Financial Reporting for Pension Plans and Statement 68 - Accounting and Financial Reporting for Pensions) on or before their effective dates.

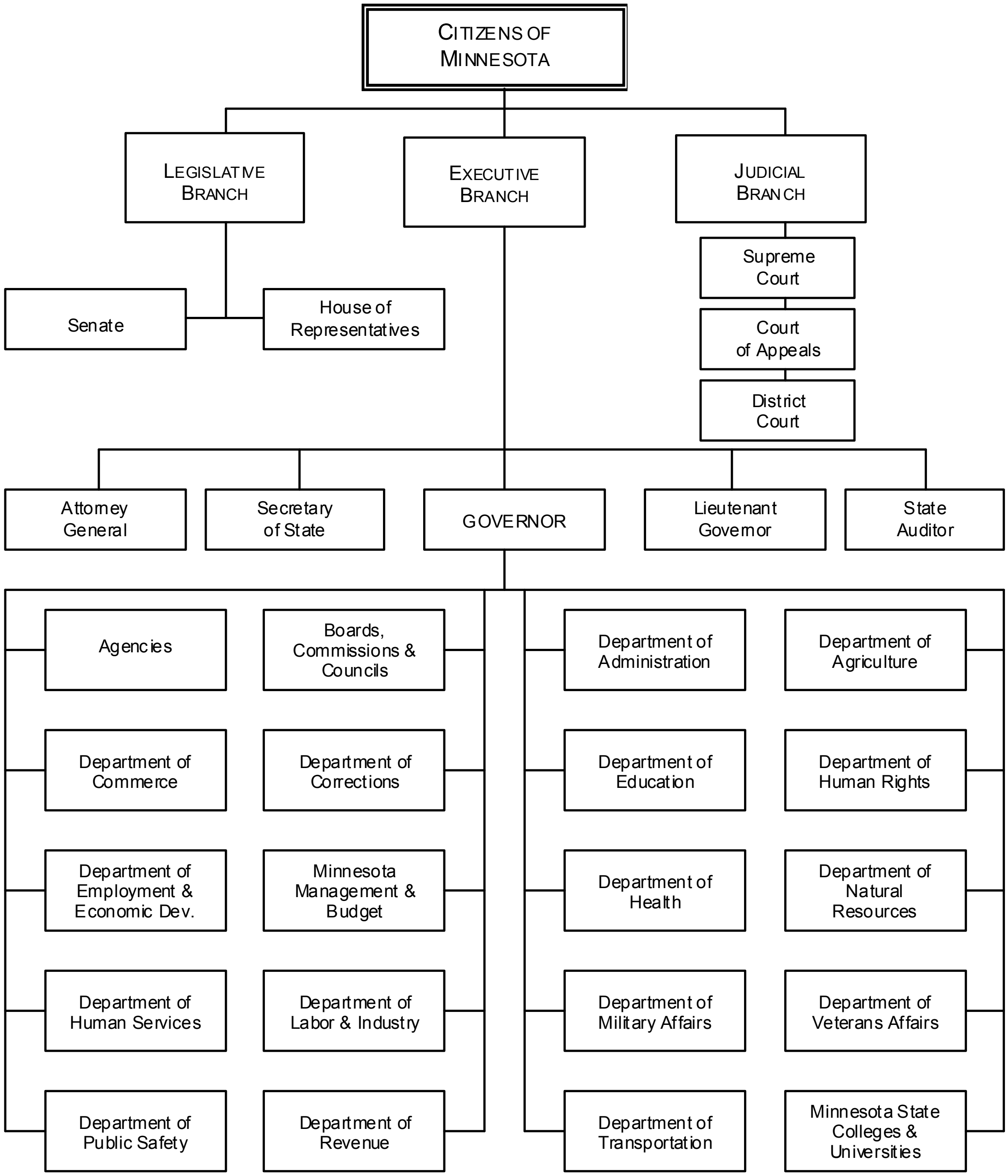
Investments

The State Board of Investment, comprised of four of the State's constitutional officers, is responsible for the formulation of State investment policies and for the purchase and sale of securities. Moneys from various funds are invested according to regulations on types and terms of investments imposed by law on each grouping. The investments are grouped as follows:

- Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the
- constitution, State law, or by federal law.
- Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.
- Various retirement funds — investment of assets and reserves.
- Trust Funds — investment of assets and reserves.
- Other departmental funds.

See Appendix B, "MINNESOTA DEFINED BENEFIT PENSION PLANS", for more 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 and Budgeting

The Department of Revenue exercises general supervision over the administration of the taxation and assessment laws of the State. In the exercise of such power, the Department of Revenue promulgates guidelines to ensure that property tax laws are administered uniformly by local governmental units and that the assessments of property are made on an equal basis throughout the State.

The Department of Revenue administers taxes due to the State by collecting, among others, individual income and corporation taxes, sales and use taxes, inheritance and gift taxes, motor fuel taxes and excise taxes on liquor and tobacco. Additionally, the Department of Revenue is responsible for informing localities when their expenditures exceed the limit set for them by the State Legislature.

Audit Control Procedures

The Office of the Legislative Auditor is the post audit agency of all State departments, agencies, boards and commissions. The Office of the Legislative Auditor conducts the audits of all accounts, records, inventories, vouchers, receipts, funds, securities, and other assets at least once a year, if funds and personnel permit, and more often if deemed necessary or as directed by the Legislature or the Legislative Audit Commission. As an agency of the legislative branch, the Office of the Legislative Auditor is independent of the executive branch and the departments, boards, commissions and other agencies thereof that it is responsible for auditing.

Status of Collective Bargaining

The State has a total of 16 bargaining units for State employees which includes three faculty bargaining units whose labor contracts are negotiated and maintained by the Minnesota State Colleges and Universities System. 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.

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2011; however, 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, tentative agreements have been reached with the unions representing employees in the General Professional Unit (MAPE) and with 6 units represented by AFSCME: Craft, Maintenance and Labor; Service; Health Care Non-professional, Clerical and Office; Technical; Correctional Guards. Collective bargaining agreements were submitted to the Legislative Subcommittee on Employee Relations; the Subcommittee did not approve the Agreements. The Subcommittee's recommendations are not binding on the full Legislature. The 2013 Legislature may approve or reject the collective bargaining agreements. The contract for the (AFSCME represented) Correctional Guard unit was not submitted to the Legislative Subcommittee because the tentative agreement had not been reached at the time that the Subcommittee met. The State continues to negotiate with all other bargaining units for successor agreements.

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 October 2012
AFSCME (7 bargaining units)	17,310
MN Association of Professional Employees (MAPE)	12,710
Middle Management Association (MMA)	2,860
MN Government Engineers Council (MGEC)	970
MN Nurses Association (MNA)	750
MN Law Enforcement Association (MLEA)	700
State Residential Schools Education Association (SRSEA)	190
State College Faculty Association (MSCF)	5,210
State University Interfaculty Organization (IFO)	3,410
State University Admin and Service Faculty (MSUAF)	760
Total Represented Employees	44,870
Total State Employment	51,480
Percent of All Executive Branch Employees Unionized	87%

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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, 2011 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 2009 through 2011 are summarized on page B-6.

Past Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2011 and prior years are available at www.mmb.state.mn.us.

FINANCIAL INFORMATION

Budgeting Process

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

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

Revenue and expenditure forecasts are performed in February and November of each calendar year. See "Revenue and Expenditure Forecasting" later in this appendix. Forecasts are performed for the 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 the new GAAP pronouncement, GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", several new funds are included in the GAAP fund balance in Fiscal Year 2011, 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.

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. 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 (the "Stadium") authorized under Minnesota Statutes Section 473J.03, subdivision 7. See "2012 Legislative Session" and "BUDGET PLANNING ESTIMATES- Next Biennium" in this Official Statement.

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 Division. Expenditure forecasts for the State are prepared by MMB based on current annual budgets and on current cash expenditure estimates provided by State agencies responsible for significant expenditure items.

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

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

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

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

Capital gains realizations have become an increasingly volatile and important share of Minnesota's income tax base. Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium rate of realizations instead of adjusting instantaneously to a shock in model variables.

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

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

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

The February 2012 baseline forecast from IHS GII, the scenario which IHS GII considered to be the most likely at the time it was made, was used for the February 2012 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown on the following page. IHS GII estimated potential GDP growth at 1.9 percent over the 2010 to 2014 period. Real GDP is projected to exceed potential over the 2010 –2014 period as the economy recovers. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS GII FEBRUARY 2012
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2010 Actual %	Calendar Year 2011 Forecast %	Calendar Year 2012 Forecast %	Calendar Year 2013 Forecast %	Calendar Year 2014 Forecast %
REAL GDP Growth Rate	3.0	1.7	2.1	2.3	3.3
GDP DEFLATOR (Inflation)	1.2	2.1	1.2	1.4	1.7
NOMINAL GDP Growth Rate	4.2	3.9	3.3	3.7	5.1

A report is published with each forecast and is available at www.mmb.state.mn.us. The November 2012 revenue and expenditure forecast is expected to be released December 5, 2012. See "FINANCIAL INFORMATION" in the forepart of this Official Statement. The November 2012 IHS GII 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, 2009 through 2011. For the Fiscal Years ended June 30, 2009 through 2011 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. Due to the implementation of the State's new financial system, cash based statements are not currently available.

STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(THOUSANDS OF DOLLARS)

	Fiscal Year Ended June 30[1]		
	2009	2010 [2]	2011
NET REVENUES:			
Individual Income Taxes	$ 7,162,974	$ 6,729,244	$ 7,828,818
Corporation Income Taxes	727,928	540,504	1,135,193
Sales Taxes	4,279,055	4,181,319	4,425,136
Property Taxes	729,373	766,830	766,926
Motor Vehicle Excise Taxes	244,917	235,756	230,016
Other Taxes	1,196,171	1,438,940	1,439,017
Tobacco Settlement	179,854	164,786	172,886
Federal Revenues	-	401	254
Licenses and Fees	246,755	256,278	258,739
Departmental Services	47,503	111,798	114,545
Investment/Interest Income	38,385	63,127	108,862
Securities Lending Income	940	183	58
All Other Revenues	299,463	334,724	356,067
NET REVENUES	$ 15,153,318	$ 14,823,890	$ 16,836,517
EXPENDITURES:			
Current:			
Public Safety and Corrections [3]	$ 601,299	$ 540,876	$ 579,977
Transportation	237,131	283,228	286,796
Agricultural, Environmental and Energy Resources	234,886	205,116	205,342
Economic and Workforce Development	111,869	156,781	130,497
General Education [3]	7,076,624	6,444,487	6,578,615
Higher Education [4]	830,789	841,752	747,617
Health and Human Services [3] [5]	4,551,788	4,384,540	4,815,804
General Government	692,936	633,298	683,314
Intergovernment Aid [6]	1,435,675	1,549,199	1,316,886
Securities Lending Rebates and Fees	568	56	37
Total Current Expenditures	$ 15,773,565	$ 15,039,333	$ 15,344,885
Capital Outlay	8,067	30,972	25,571
Debt Service	32,149	45,841	40,867
TOTAL EXPENDITURES	$ 15,813,781	$ 15,116,146	$ 15,411,323
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ (660,463)	$ (292,256)	$ 1,425,194
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	$ -	$ 5,729	$ 227
Transfer-In	555,696	378,042	470,101
Transfer-Out	(1,379,167)	(1,187,744)	(1,159,118)
NET OTHER FINANCING SOURCES (USES)	$ (823,471)	$ (803,973)	$ (688,790)
NET CHANGE IN FUND BALANCES	$ (1,483,934)	$ (1,096,229)	$ 736,404

(1) Based on audited financial statements for fiscal years 2009, 2010 and 2011, schedule of revenues and expenditures, and includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30.

(2) During fiscal year 2010, the state implemented a new GAAP pronouncement, which required several new funds to be included in the GAAP General Fund. These additional funds do not have appropriated budgets.

(3) During fiscal year 2010, Public Safety and Corrections, General Education, and Health and Human Services function spending decreased due to shifts of General Fund spending to the Federal Fund and reimbursed by American Recovery and Reinvestment Act grants.

(4) During fiscal year 2011, Higher Education function spending decreased due to a reduction in grants to the University of Minnesota and the Office of Higher Education.

(5) During fiscal year 2011, Health and Human Services function spending increased due to growth in enrollment and average costs per recipient.

(6) Decrease in Intergovernmental Aid in fiscal year 2011 resulted from decreases in grants to cities and counties.

BIENNIUM BUDGETS

The biennium that began on July 1, 2009 and ended on June 30, 2011, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2011 and will end on June 30, 2013 is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2013 and will end on June 30, 2015 is referred to herein as the "Next Biennium." An individual fiscal year is referred to herein as "FY."

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.

November 2011 Forecast – Previous Biennium Impacts

MMB prepared a revised forecast of General Fund revenues and expenditures for the Previous and Current Biennium on December 1, 2011 with a projected ending budgetary balance of $976 million in the Previous Biennium. A total of $526 million was added to the projected balance for the Previous Biennium due to additional state tax revenue and a significant reduction in projected spending, mostly in health and human services. The November 2011 forecast provided final FY 2011 spending and revenue collections.

Revenues: FY 2011 General Fund revenues totaled $16.184 billion in the Previous Biennium, $358 million (2.3 percent) more than previously forecast. Roughly 80 percent of the additional revenues were due to higher than anticipated final individual income tax liability for tax year 2010. Net sales tax receipts were $30 million below forecast, corporate tax receipts were $11 million above forecast and all other revenues were $100 million above forecast.

Expenditures: General Fund expenditures were $15.335 billion in FY 2011, $205 million (1.3 percent) below earlier estimates. $149 million of the decrease was in health and human services largely due to the Medical Assistance program. Principal contributors to the year-end savings were an increase in the federal matching rate for the last quarter of the fiscal year, increased pharmacy rebates and other recoveries, and lower than anticipated costs in several programs.

Reserves: FY 2011 concluded on June 30, 2011 with a Cash Flow Account of $266 million, and a Budget Reserve Account of $9 million – which did not change from end-of-session estimates.

November 2011 Forecast – Current Biennium

The November 2011 forecast revised General Fund revenues and expenditures projected for the Current Biennium. In total, forecast changes improved the Current Biennium by $861 million, increasing the projected ending balance from $15 million to $876 million. The majority of the increase was due to the significant increase in the ending balance for FY 2011.

Revenues: General Fund revenues for the Current Biennium were forecast to total $33.7 billion, $24 million (0.1 percent) less than forecast in February 2011 after adjusting for actions taken during the 2011 legislative special session. Receipts for the State's four major taxes (individual income, sales, corporate and statewide levy) were projected to be $90 million (0.3 percent) more than previous estimates, while other taxes and revenues fell by $114 million. Individual income taxes exceeded previous estimates by $36 million (0.2 percent) and expected corporate tax receipts increased by $150 million (9.0 percent), while sales tax receipts fell by $105 million (1.1 percent). About one-half of the reduction in other revenues was attributable to posting Wisconsin's final income tax reciprocity payment in FY 2011, instead of FY 2012.

Expenditures: General Fund expenditures for the Current Biennium were forecast to be $33.991 billion, $348 million below end-of-session estimates. Lower estimates for health and human services programs accounted for nearly all of the reduction in spending, down $308 million from end-of-session estimates. Revised estimates for the medical assistance program accounted for $294 million of the reduction from previous estimates. The largest savings occurred in pharmacy rebates collected on managed care business ($80 million) and downward revisions to enrollments and costs in the adults without children segment of the program ($74 million).

Forecast decreases in other spending areas included a $25 million (0.9 percent) reduction in property tax aids and credits and a $58 million (10.9 percent) reduction in debt service costs. These savings, however, were in part offset by a small net increase for all other spending areas including K-12 education aid, which increased $15 million (0.1 percent).

Reserves: The enacted Current Biennium budget reduced the Cash Flow Account from $266 million to $95 million and the $9 million Budget Reserve Account was reduced to zero. The November forecast added $27 million to the Budget Reserve Account. Under current law, any annual excess surplus in the workers' compensation assigned risk plan is deposited to the General Fund and allocated to the Budget Reserve Account.

Budgetary Balance Allocated to Reserves

The November forecast projected a forecast balance for the Current Biennium of $876 million, up $861 million from previous estimates. However, current law specifies a required priority-ordered allocation of any forecast balance. If on the basis of a forecast of General Fund revenues and expenditures the Commissioner determines that there will be a positive General Fund balance at the close of the biennium, Minnesota Statutes 16A.152 requires that the available balance be allocated to restoring the Cash Flow Account, the Budget Reserve Account and then repay and reverse school aid payment shifts, in that order.

As a result, based on the underlying forecast, $255 million of the General Fund balance for the biennium was first dedicated to restoring the Cash Flow Account to the $350 million ceiling in statute. The remaining $621 million was allocated to the Budget Reserve Account. This increase, combined with the $27 million deposit from the "excess surplus" in the assigned risk plan, resulted in a Budget Reserve Account total of $648 million, $5 million below the $653 million ceiling specified in statute. After these changes, combined General Fund Cash Flow Account and Budget Reserve Account totaled $998 million, 2.9 percent of forecast spending for the Current Biennium.

February 2012 Forecast – Current Biennium

A slight increase in forecast revenues and lower than expected spending resulted in a projected balance of $323 million for the Current Biennium. Forecast revenues for the Current Biennium were expected to be $33.793 billion, an increase of $93 million (0.3 percent) from November's estimates. General Fund spending was projected to be $33.761 billion, $230 million (0.7 percent) lower than previously forecast. As in November, the projected forecast balance was automatically allocated per current law. After fully restoring the Budget Reserve Account and buying back $313 million of school payment shifts, the available balance falls to zero.

Revenues: General Fund revenues for the Current Biennium were forecast to total $33.793 billion, $93 million (0.3 percent) more than projected in November. Changes in the State's three major revenues the individual income tax, sales tax and corporate income tax, were small and partially offsetting. Slightly stronger economic growth increased projections for individual income tax by $48 million (0.3 percent) and sales tax estimates increased by $23 million (0.2 percent).

Both wage and non-wage incomes were forecast to grow faster between tax year 2011 and tax year 2013 in the February baseline, although differences in wage growth were small. The total sales tax base was now forecast to grow more slowly in FY 2012 than was projected in November, but then grow more rapidly in FY 2013, ending the Current Biennium slightly ahead of November's estimate. Projected increases in these individual income and sales taxes were offset partially by a $26 million (1.4 percent) reduction in corporate income tax. Global Insight's forecast for corporate profits growth in 2012 and 2013 was reduced slightly from November's baseline.

All other General Fund tax revenues were forecast to be $34 million above November's estimates. Increases in the estimates for insurance gross premium taxes and mortgage registry taxes, $22 million and $14 million respectively, were offset by a nearly $10 million reduction in the estate tax. Non-tax General Fund revenue, including transfers and other miscellaneous revenues was up $14 million from modest increases in fees, investment income and lottery revenues.

Expenditures: General Fund spending for the Current Biennium was forecast to be $33.761 billion, $230 million (0.7 billion) below November's estimates. However, buying back a portion of the K-12 education payment shift added $313 million to K-12 education aids in the Current Biennium, increasing total spending to $34.074 billion, $83 million (0.2 percent) more than November's estimates.

The increase in K-12 spending was offset by reductions in health and human services, debt service and property tax aids and credits. Health and human services accounted for nearly all of the decrease in forecast spending. In total, health and human services spending decreased $180 million compared to November's estimates. The majority of the savings, $108 million, related to the Medical Assistance program early expansion group (Adults without Children) where lower projected enrollments and lower fee-for-service costs were expected.

Total spending for K-12 was up from November's estimates due to the education aid payment shift buyback; however, projected K-12 school year aid entitlements were down $31 million (0.2 percent) from November estimates. The reduction in forecasted entitlements reflected slightly slower than previously estimated growth in the enrollment forecast.

Debt service estimates were reduced $18 million, primarily reflecting repayment of some Maximum Effort School Loans, which reduce required General Fund debt service transfers. Slightly lower than forecast interest rates also provided $3 million in savings due to higher premiums paid to the state. Lower than expected costs in the homeowner and renter refund programs and lower property tax levy increases resulted in savings of $7 million in property tax aid and credit programs.

Budgetary Balance Allocated to Reserves, School Aid Payment Schedule Changes

The entire forecast balance was automatically allocated under current law. The first $5 million was added to the Budget Reserve Account bringing it to $653 million which fully restores the Budget Reserve Account to an amount previously set in statute. The remaining $318 million was available for reducing the school aid shifts enacted in prior legislative sessions. However, because of statutory language that restricted the increase for the current year K-12 education payment percentage to the nearest tenth of a percent, only $313 million was actually used for the school aid shift reversal. The additional $4.6 million was also allocated to the Budget Reserve Account based on statutory requirements. The $1.008 billion in the Cash Flow Account and Budget Reserve Account, $350 million and $658 million, respectively, represented approximately 3.0 percent of total General Fund spending. The last time reserves were fully restored was in February 2008.

$313 million of the forecast balance was allocated to reversing a portion of the school aid payment shifts. Repaying part of the shift increased overall Current Biennium K-12 education spending and increased the State's payment from 60 percent in the current year and 40 percent as a settle-up payment in the following year to a 64.3 percent and 35.7 percent schedule. Any future positive forecast balances will continue to be used to restore the school aid payments until the standard 90-10 payment schedule is reached. After the school aid payment shift is restored, additional forecast balances will be allocated to reverse the property tax recognition shift. In total, $2.4 billion is needed to reverse the remaining shifts.

2012 Legislative Session

The 2012 Legislative Session ended in May 2012 with relatively minor adjustments made to the Current Biennium's enacted budget. Without a surplus or deficit, the supplemental budget changes focused on buy-backs of reductions from the previous legislative session, small initiatives supporting veterans, and public safety, the Stadium Legislation and a bonding bill. After accounting for the legislative changes, the Current Biennium has a projected budgetary balance of $26.5 million.

Revenues: General Fund revenues for the Current Biennium are now forecast to total $33.867 billion, $74 million (0.2 percent) more than forecasted in February 2012. Nearly all of the increase in revenue is due to three changes that occurred during the legislative session. First, the State's share of the Stadium is funded through expanded gambling revenues that increase General Fund revenues by $35 million (as further described below) in FY 2013. Second, a 1 percent cap on excess profits from health care plans adds an additional $28 million in FY 2013 and third, transfers from other State funds increase General Fund revenues by $11 million.

Expenditures: Total General Fund spending for the current Biennium is now estimated to be $34.088 billion, $13 million (0.04 percent) higher than earlier forecast. Lower than forecast debt service projections from a smaller bonding bill are offset by minor spending changes in other areas of the budget. The majority of the new spending in health and human services is buy-backs from reductions by the 2011 Legislature. This includes $6 million to buy-back the reduction to the Personal Care Assistance program and $5 million for emergency Medical Assistance (MA) coverage for dialysis and cancer treatments. Property tax aids and credits spending in the Current Biennium increased by $4 million, mostly due to increases in the property tax refund for homeowners program.

Reserves: Cash Flow Account and Budget Reserve levels remained unchanged since the February Forecast. The Cash Flow Account has $350 million and the Budget Reserve Account has $658 million. The total $1.008 billion will remain in reserves for the Next Biennium unless there is executive or legislative action.

The Stadium Legislation created the Stadium Reserve Account. Available revenue generated by the gambling expansion (as defined by Minnesota Statutes Section 297E.021) is directed to the Stadium Reserve Account for application to any shortfalls in the amounts deposited in the General Fund under Minnesota Statutes Section 297A.994, as well as other Stadium related costs including but not limited to capital and operating costs of the Stadium. The Stadium Reserve Account amount is estimated to be $34 million at the end of the Current Biennium.

The 2012 Legislature authorized the construction of a professional football stadium (the "Stadium") to be located in downtown Minneapolis. Total project costs are estimated to be $975 million, which will be divided among the Minnesota Vikings, the State and the City of Minneapolis. The State's share of $348 million (36 percent) will be paid for from an expansion of charitable gambling, electronic pull tabs and linked bingo. The gambling expansion is expected to generate approximately $35 million in net General Fund revenue in FY 2013 and approximately $58 million each year thereafter. The revenue will be used to pay the principal and interest on general fund appropriation bonds to be issued to pay for the State's share of the construction costs (such bond payments to be approximately $30-35 million per year for twenty years), as well as compulsive gambling programs, regulatory oversight and an annual grant of $2.7 million to the City of Saint Paul for sports facilities. See "FUTURE FINANCINGS".

The 2012 Legislature authorized a $567 million general obligation bonding bill for State and local projects, including $37 million of bonding for which the debt service is paid by Minnesota State Colleges and Universities (MnSCU) and $33 million for a Rural Finance Authority loan program. The lower bonding authorization from forecast estimates reduces debt service costs by $1.6 million in the Current Biennium.

October Economic Update

Management and Budget released the October 2012 Economic Update on October 10, 2012. Preliminary net General Fund receipts for first quarter of FY 2013 are estimated to total $3.75 billion, $145 million (4.0 percent) more than projected in February. Receipts from the individual income tax ($42 million or 2.2 percent), the sales tax ($17 million or 1.7 percent) and the corporate tax ($41 million or 15.3 percent) were all above projections. Revenue from other tax and non-tax revenues were up $45 million (12.0 percent) from prior estimates. Net General Fund receipts for the first quarter of FY 2013 are now estimated to be 2.7 percent greater than in FY 2012. All FY 2013 results are preliminary and subject to change. A complete accounting of actual FY 2012 revenues and FY 2013 estimates will be part of November 2012 Economic Forecast to be released on December 5, 2012. See "FINANCIAL INFORMATION" in the forepart of this Official Statement.

2012 Legislative Special Session

During June 2012, torrential rain fall resulted in several counties having major infrastructure damage to roads and bridges including highways on the state, county, and municipal systems. The U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) announced that federal aid had been made available for the state of Minnesota to supplement state, tribal and local recovery efforts in the areas affected by severe storms and flooding during June, 2012. Minnesota received the federal disaster declaration from FEMA on July 6, 2012 for 13 counties and 3 Indian reservations. A legislative special session occurred August 24, 2012 to address the costs of repairing the damages caused by the flooding in Minnesota. The Legislature appropriated $74.461 million from the General Fund and enacted $2.6 million in General Fund transfers, reductions and cancellations. This appropriation used the Unrestricted General Fund balance of $26.468 million, and $45.382 million of Budget Reserve Account, leaving $612.236 million in the Budget Reserve Account and a budgetary balance of $0 for the Current Biennium. Amounts in the Cash Flow Account ($350 million) remain in reserves. The Legislature appropriated $26.7 million in general obligation bonds, increasing projected debt service costs in the Next Biennium by $5.9 million.

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CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
2012 LEGISLATIVE SPECIAL SESSION ENACTED BUDGET
($ in Thousands)

	Fiscal Year 2012	Fiscal Year 2013	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	1,288,673	1,098,275	1,288,673
Net Non-dedicated Revenues	16,116,793	16,679,426	32,796,219
Dedicated Revenues	600	600	1,200
Transfers From Other Funds	471,715	551,740	1,023,455
Prior Year Adjustments	22,031	25,000	47,031
Subtotal Current Resources	16,611,139	17,256,766	33,867,905
Total Revenues Plus Prior Year Ending Balance	17,899,812	18,355,041	35,156,578
Authorized Expenditures & Transfers			
K-12 Education	6,649,650	7,284,521	13,934,171
Higher Education	1,282,884	1,283,090	2,565,974
Property Tax Aids & Credits	1,468,433	1,368,007	2,836,440
Health & Human Services	5,486,902	5,408,753	10,895,655
Public Safety	908,837	935,422	1,844,259
Transportation	63,301	62,829	126,130
Environment, Energy & Natural Resource	131,470	141,423	272,893
Agriculture	48,681	31,510	80,191
Economic Development	93,997	108,997	202,994
State Government	458,914	461,697	920,611
Debt Service	192,070	261,908	453,978
Capital Projects	20,471	24,748	45,219
Other	0	0	0
Cancellation Adjustment	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	16,800,610	17,357,905	34,158,515
Dedicated Revenue Expenditures	927	600	1,527
Total Expenditures and Transfers	16,801,537	17,358,505	34,160,042
Balance Before Reserves	1,098,275	996,536	996,536
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	657,618	612,236	612,236
Stadium Reserve	0	34,300	34,300
Appropriations Carried Forward	0	0	0
Budgetary Balance	90,657	0	0

(1) On a budgetary basis, Fiscal Year 2011 ended with an Unrestricted General Fund balance of $1.289 billion and an Unreserved General Fund balance of $976 million.

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

CURRENT BIENNIUM
GENERAL FUND- ESTIMATES OF NONDEDICATED REVENUES
2012 LEGISLATIVE SPECIAL SESSION ENACTED BUDGET
($ in Thousands)

	Fiscal Year 2012	Fiscal Year 2013	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	7,876,600	8,384,995	16,261,595
Income Tax - Corporate	946,800	852,500	1,799,300
Sales Tax	4,623,930	4,737,715	9,361,645
Statewide Property Tax	779,955	801,156	1,581,111
Estate Tax	145,500	146,000	291,500
Liquor, Wine & Beer	80,286	82,028	162,314
Cigarette & Tobacco	196,000	197,400	393,400
Mining	13,562	13,900	27,462
Mortgage Registry Tax	85,200	71,200	156,400
Deed Transfer Tax	55,900	64,400	120,300
Gross Earnings Taxes	296,550	310,850	607,400
Lawful Gambling Taxes	36,900	72,100	109,000
Medical Assistance Surcharges	232,213	246,340	478,553
Tobacco Settlements	160,906	160,487	321,393
Investment Income	3,680	2,840	6,520
DHS SOS Collections	48,800	50,000	98,800
Lottery Revenue	54,996	62,227	117,223
Departmental Earnings	248,400	238,059	486,459
Fines & Surcharges	89,200	90,000	179,200
All Other Nondedicated Revenue	184,445	143,219	327,664
Tax and Non-Tax Refunds	(43,030)	(47,990)	(91,020)
Total Net Nondedicated Revenues	16,116,793	16,679,426	32,796,219

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 the enacted budget from the 2012 Legislative Session.

Historical and Projected Revenue Growth
2012 Legislative Special Session Enacted Budget
($ in millions)

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
Individual Income Tax	$7,759	$6,988	$6,531	$7,529	$7,877	$8,385	
$ change		(771)	(457)	998	348	508	
% change		**-9.9%**	**-6.5%**	**15.3%**	**4.6%**	**6.4%**	**1.6%**
Sales Tax	4,571	4,344	4,177	4,403	4,624	4,738	
$ change		(227)	(167)	226	221	114	
% change		**-5.0%**	**-3.8%**	**5.4%**	**5.0%**	**2.5%**	**0.7%**
Corporate Tax	1,020	708	664	925	947	853	
$ change		(312)	(44)	261	22	(94)	
% change		**-30.6%**	**-6.2%**	**39.3%**	**2.4%**	**-9.9%**	**-3.5%**
Statewide Property Tax	704	729	767	767	780	801	
$ change		25	38	0	13	21	
% change		**3.6%**	**5.2%**	**0.0%**	**1.7%**	**2.7%**	**2.6%**
Motor Vehicle Sales	186	117	74	31	0	0	
$ change		(69)	(43)	(43)	(31)	0	
% change		**-37.1%**	**-36.8%**	**-58.1%**	**n/a**	**n/a**	**-100.0%**
Other Tax Revenue	1,172	1,164	1,153	1,200	1,117	1,174	
$ change		(8)	(11)	47	(83)	57	
% change		**-0.7%**	**-0.9%**	**4.1%**	**-6.9%**	**5.1%**	**0.0%**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,855	$15,345	$15,951	
$ change		(1,362)	(684)	1,489	490	606	
% change		**-8.8%**	**-4.9%**	**11.1%**	**3.3%**	**3.9%**	**0.7%**
Non-Tax Revenues	824	762	805	808	772	728	
$ change		-62	43	3	(36)	(44)	
% change		**-7.5%**	**5.6%**	**0.4%**	**-4.5%**	**-5.7%**	**-2.4%**
Dedicated, Transfers, Other	444	576	448	521	494	578	
$ change		132	(128)	73	(27)	84	
% change		**29.7%**	**-22.2%**	**16.3%**	**-5.2%**	**17.0%**	**5.4%**
Total Current Resources	$16,680	$15,388	$14,619	$16,184	$16,611	$17,257	
$ change		(1,292)	(769)	1,565	427	646	
% change		**-7.7%**	**-5.0%**	**10.7%**	**2.6%**	**3.9%**	**0.7%**

Historical and Projected Spending Growth
2012 Legislative Special Session Enacted Budget
($ in millions)

	Actual FY2008	Actual FY2009	Actual FY 2010	Closing FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
K-12 Education	$6,819	$6,938	$5,338	$6,078	$6,650	$7,284	
$ change		119	(1,600)	740	572	634	
% change		**1.7%**	**-23.1%**	**13.9%**	**9.4%**	**9.5%**	**1.3%**
Higher Education	1,563	1,550	1,456	1,357	1,283	1,283	
$ change		(13)	(94)	(99)	(74)	0	
% change		**-0.8%**	**-6.1%**	**-6.8%**	**-5.5%**	**0.0%**	**-3.9%**
Prop. Tax Aids & Credits	1,581	1,489	1,614	1,401	1,468	1,368	
$ change		(92)	125	(213)	67	(100)	
% change		**-5.8%**	**8.4%**	**-13.2%**	**4.8%**	**-6.8%**	**-2.9%**
Health & Human Services	4,630	4,460	4,104	4,323	5,486	5,408	
$ change		(170)	(356)	219	1,163	(78)	
% change		**-3.7%**	**-8.0%**	**5.3%**	**26.9%**	**-1.4%**	**3.2%**
Public Safety	909	957	856	946	909	935	
$ change		48	(101)	90	(37)	26	
% change		**5.3%**	**-10.6%**	**10.5%**	**-3.9%**	**2.9%**	**0.6%**
Debt Service	409	453	429	401	192	262	
$ change		44	(24)	(28)	(209)	70	
% change		**10.8%**	**-5.3%**	**-6.5%**	**-52.1%**	**36.5%**	**-8.5%**
All Other	1,094	1,014	830	829	814	819	
$ change		(80)	(184)	(1)	(15)	5	
% change		**-7.3%**	**-18.1%**	**-0.1%**	**-1.8%**	**0.6%**	**-5.6%**
Total Spending	$17,005	$16,861	$14,627	$15,335	$16,802	$17,359	
$ change		(144)	(2,234)	708	1,467	557	
% change		**-0.8%**	**-13.2%**	**4.8%**	**9.6%**	**3.3%**	**0.4%**

BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the February 2012 forecast and have been adjusted for 2012 Legislative Session actions. The planning projections contain revised 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 projection methods are different for the Next Biennium and the longer-term estimates carry a higher degree of uncertainty and a larger range of potential error.

The longer term budget projections have improved slightly since February 2012. The changes in the 2012 Legislative Session marginally impacted the projections for the Next Biennium. General Fund revenue projections for the Next Biennium now total $35.861 billion, $100 million (0.3 percent) more than the February estimates. General Fund spending is forecast to be $36.903 billion, $39 million (0.14 percent) higher than earlier forecast.

Revenues: Total General Fund resources for the Next Biennium are estimated to be $35.861 billion, a $100 million (0.3 percent) increase over February's revenue planning estimates. February's revenue planning estimates assume that economic growth rates in both the U.S. and Minnesota begin to grow at more normal rates beginning in FY 2013. Real Gross Domestic Product ("GDP") is assumed to grow at a 3.3 percent rate in FY 2014 and a 3.2 percent rate in FY 2015. Since February, many macro-economic forecasters have reduced the annual growth rate for expected real GDP; however, the only changes incorporated in the Next Biennium projections are from legislation enacted in the 2012 Legislative Session.

The majority of the revenue increase estimated for the Next Biennium is the result of the Stadium Legislation. The Stadium Legislation authorized new and expanded gambling within the State, and the levy and collection by the State of excise taxes on the new gambling. Such taxes, as collected, will be deposited into the General Fund in the projected amount of $116 million during the Next Biennium. The State plans to issue general fund appropriation bonds to pay its share under the Stadium Legislation of the cost of constructing the Stadium (see "FUTURE FINANCINGS" herein). The new gambling revenues on deposit in the General Fund will be available together with the other funds on deposit in the General Fund to pay the principal of and interest on those bonds and other costs associated with the Stadium Legislation. The Stadium Legislation also included sales tax exemptions related to the construction of the Stadium. Those exemptions reduce sales tax revenues by an estimated $14 million in the Next Biennium. The baseline revenue planning estimates are not explicit forecasts; they are extrapolations of projected trends in the economy. Small deviations from the assumed trend over five years will compound and produce sizeable changes in the revenue estimates.

Expenditures: Projected General Fund expenditures for the Next Biennium are now $36.903 billion, $39 million (0.1 percent) more than previously estimated. Changes in spending for the Next Biennium are relatively minor and are mostly due to the Stadium Legislation and the smaller than expected bonding bill.

Projected debt service costs are estimated to increase by $23 million (1.7 percent) in the Next Biennium. Debt service estimates were reduced $40 million as a result of the smaller than forecast bonding bill; however, those lower estimates were offset by an increase in projected debt service costs related to the Stadium Legislation. Debt service payments in the Next Biennium are projected to be $64 million for the general fund appropriation bonds to be issued by the State for the Stadium. Capital Projects estimates increased by $10 million (17.9 percent) in the Next Biennium. The City of Saint Paul received a grant $2.7 million per year for sporting facilities and the Minnesota Housing Finance Agency received $2.2 million a year to pay the debt service on $30 million of housing infrastructure bonds.

Reserves: The amounts in the Cash Flow Account ($350 million) and the Budget Reserve Account ($658 million) $1.008 billion total, are projected to remain in reserves for the Next Biennium. The Stadium Reserve Account is projected to be $66 million at the end of the Next Biennium.

The November 2012 forecast will provide updates for the Next Biennium and will be the starting point for the Governor's Next Biennium's budget recommendations and the 2013 Legislative Session.

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 2012 consist of three income brackets having tax rates of 5.35 percent, 7.05 percent and 7.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the National CPI. The base of the tax is federal taxable income, with selected additions and subtractions. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is $361. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents.

SINGLE FILER

Taxable Income	**Tax**
on the first $23,670	5.35 percent
on all over $23,670, but not over $77,730	7.05 percent
on all over $77,730	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	**Tax**
on the first $34,590	5.35 percent
on all over $34,590 but not over $137,430	7.05 percent
on all over $137,430	7.85 percent

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

HEAD OF HOUSEHOLD

Taxable Income	Tax
on the first $29,130	5.35 percent
on all over $29,130 but not over $117,060	7.05 percent
on all over $117,060	7.85 percent

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

Statewide Property Tax: A State general property tax is levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. The tax is levied at a uniform rate across the State. The levy amount is adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the U.S. Bureau of Economic Analysis.

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income on the basis of a three factor formula that in Tax Year 2012 gives a 93% weight to sales, an 3.5% weight to payroll and a 3.5% weight to property. Laws enacted in 2005 called for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in began in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

Beginning in Tax Year 2002, Minnesota required 80% of federal "bonus depreciation" be added to taxable income and then deducted in five equal parts over the next five years. The effect of this provision is to negate the revenue loss that would otherwise result from federal "bonus depreciation".

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

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

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

1.5%	Life insurance
2.0%	Domestic and foreign company premiums.
1.0%	Mutual property and casualty companies with assets of 5 million or less on 12/31/89.
1.26%	Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89.
3.0%	Surplus line agents.
0.5%	Surcharge on homeowners insurance, commercial fire and commercial nonliability insurance premiums.
2.0%	Surcharge on fire premiums for property located in cities of the first class.
1.0%	Health Maintenance Organizations.

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5% motor vehicle sales tax. The tax is collected at the time of title registration or transfer. Beginning in fiscal year 2012, 100% 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% by volume or less, and $4.60 per 31-gallon barrel for strong beer.

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

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

A 75 cents per pack health impact fee is imposed on cigarettes and a health impact fee of 35% is imposed on tobacco products. In lieu of a sales tax on cigarettes, a wholesale tax is imposed at rates, adjusted annually, to yield revenues equivalent to a 6.5% retail sales tax. The initial rate in 2005 was set at 25.5 cents per pack. The current rate is 35.6 cents per pack.

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

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

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

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

The Stadium Legislation substantially changed the State's gambling tax structure. The Stadium Legislation also imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). The new provisions are expected to generate substantially more revenue. 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 Tipboards Except Sports Tipboards, 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 Tipboards	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%. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

Health Care Provider Tax: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $2,815 tax per licensed nursing home bed, a 1.56% tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6% tax on the total premium revenue of health maintenance organizations.

Other Sources

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

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

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement 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")[2], requires the Settling Defendants to make annual payments to the State of between $165 million and $204 million. The payments are to be made at the beginning of the calendar year and are scheduled into perpetuity. These amounts are adjusted based on volume of tobacco products sold and the Consumer Price Index as indicated in the settlement documents. 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.

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 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

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[2] 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.

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 2011 and certain other amounts pursuant to the Minnesota Agreement totaling approximately $3.4 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
1998 Annual Payment†	102,000,000	102,000,000
1999 Annual Payment	114,750,000	104,925,995
2000 Annual Payment	127,500,000	145,136,835**
2001 Annual Payment	165,750,000	161,022,719
2002 Annual Payment	165,750,000	157,711,642
2003 Annual Payment	204,000,000	168,466,764
2004 Annual Payment	204,000,000	175,388,332
2005 Annual Payment	204,000,000	180,689,740
2006 Annual Payment	204,000,000	183,618,396
2007 Annual Payment	204,000,000	184,310,711
2008 Annual Payment	204,000,000	179,754,485
2009 Annual Payment	204,000,000	168,197,370
2010 Annual Payment	204,000,000	169,275,081
2011 Annual Payment	204,000,000	160,806,231

† 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.

Payments received pursuant to the Settlement Agreement are not pledged to the payment of principal of and interest on the Bonds. THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO MINNESOTA STATUTES, SECTION 16A.99, AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER FOR THE PAYMENT OF THE BONDS. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENTS FOR THE BONDS" in the forepart of this Official Statement.

MINNESOTACARE® PROGRAM

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

The program is not part of the General Fund. A separate fund, called the Health Care Access Fund, was established as a special revenue fund to account for revenues and expenditures for the MinnesotaCare® program. Program revenues are derived primarily from a 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs.

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

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

Resources	
Unreserved Balance at June 30, 2011	$ 22
Revenues	1,177
Total Resources	$1,199
Expenditures	710
Projected Unreserved Balance Before Transfers	$ 489
Transfers to Other Funds	489
Projected Unrestricted Balance at June 30, 2013	$ 0

In July 2011, the Legislature enacted a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for the fund beginning in 2011. 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 125 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 125 percent. Any changes to the rate expire each calendar year and are to be re-determined by the Commissioner until January 1, 2020 when the tax is repealed. To date, the criteria for reducing the tax have not been met.

Minnesota provides health insurance through MinnesotaCare® for some individuals who will be eligible to purchase coverage through a Health Insurance Exchange, under the federal Affordable Care Act, starting in 2014. State policy decisions, Exchange infrastructure development, and interpretation of the June 28, 2012 Supreme Court decision, are underway such that enrollment changes for some groups will be reflected in future MinnesotaCare® forecasts.

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CASH FLOW INFORMATION

The Statutory General Fund is established in Minnesota Statutes, Section 16A.671, subdivision 3a, and is defined as follows:

> " *** all cash and investments from time to time received and held in the treasury, except proceeds of State bonds and amounts received and held in special or dedicated funds created by the constitution, or by or pursuant to federal laws or regulations, or by bond or trust instruments, pension contracts, or other agreements of the State or its agencies with private persons, entered into under State law."

The General Fund, special revenue funds, internal service funds, enterprise funds and capital projects funds make up the Statutory General Fund. Cash contained in the Statutory General Fund is available for State cash flow purposes.

Major special revenue funds included in the Statutory General Fund include the Petro Tank Release, the State Airports, the Game and Fish, the Workforce Development, the Tobacco Use Prevention, the Workers Compensation, the Environmental Waste and the Northeast Minnesota Economic Development funds.

Internal service funds, enterprise funds and capital project funds included in the Statutory General Fund include the MnSCU, the General Projects, the Risk Management, the Lottery Cash Flow and the State Operated Services Funds.

The 2012 Legislature enacted budget fund balance estimates anticipated revenues and expenditures resulting from the supplemental budget changes for the Current Biennium, on the February 2012 forecast. Based on current law, the February 2012 forecast represents the State's official forecast of its financial position until new revenue and expenditure forecasts are prepared in subsequent November and February of each year.

Based on the forecast for the remainder of the biennium, continual monitoring of estimated vs. actual revenues and expenditures is required to ensure adequate cash flow. There are 43 funds within the Statutory General Fund. MMB manages short-term intra-fund borrowing within the Statutory General Fund, balancing the cash needs of various programs with actual daily receipts and disbursements.

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

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

In the third quarter of calendar year 2010 the State secured a line of credit in the maximum amount of $600 million to increase liquidity and assist in managing the fluctuations of forecasted state receipts and disbursements. The State extended the line of credit on July 1, 2011 for FY 2012. The State did not draw on the line of credit and the line of credit terminated on June 30, 2012. The State currently has no short-term debt outstanding.

The tables on the following pages show the actual monthly Statutory General Fund cash flows for FY 2012 and projected monthly cash flows for FY 2013. These projections are based on the February 2012 Forecast and minor changes to projected receipts and disbursements based on 2012

Legislative Session actions. Monthly cash flow projections are subject to a high level of variability. The tables represent actual Statutory General Fund cash flow balances for FY 2012 through June 30, 2012. Current projected cash flow for FY 2013 indicated that the State will be able to maintain positive cash balances without special administrative actions or access to external borrowing. The State has access to a variety of administrative tools to manage Statutory General Fund cash flow on a daily basis. Those tools may consist of, and are not limited to, statutorily permitted delays in certain payments to higher education institutions and health care providers, as well as delays in remittance of certain corporate and sales tax refunds.

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STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
End of 2012 Legislative Session
Fiscal Year Ending June 30, 2012
($ in thousands)

	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	TOTAL
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	
BEGINNING CASH BALANCE	$ 3,219,844	$ 2,710,951	$ 1,145,974	$ 833,029	$ 727,650	$ 1,188,536	$ 1,396,695	$ 1,846,429	$ 1,358,907	$ 1,213,593	$ 1,923,061	$ 2,345,419	
REVENUE													
Individual Income Tax	513,060	592,034	816,652	516,378	513,172	775,807	847,614	276,080	527,743	1,215,766	566,970	822,196	7,983,471
Corporate & Bank Excise	46,403	(29,383)	209,645	39,548	15,126	166,574	24,307	28,172	218,959	50,719	54,737	219,564	1,044,372
Sales and Use Tax	287,914	406,361	431,189	429,120	368,252	367,785	450,109	336,242	346,431	353,088	396,749	507,104	4,680,343
Property Tax	18,739	1	0	136,841	191,489	22,444	5,592	313	0	0	205,121	216,963	797,504
Tobacco Tax and Settlement	2,376	48,425	12,288	(17,302)	22,822	949	29,757	(6,685)	25,306	7,990	25,367	18,171	169,463
Insurance Tax	1,067	48,880	67,084	9,862	2,114	88,922	815	9,968	96,511	1,690	2,648	82,207	411,768
Other Excise Taxes	163,582	34,530	58,288	128,030	64,028	63,358	128,338	72,968	70,287	139,286	88,670	96,777	1,108,143
Investment Earnings	949	1,530	829	15	2,280	855	583	1,610	322	1,287	1,032	1,130	12,422
Inter-Governmental Grants	7,103	60,680	4,866	3,586	7,537	10,641	9,298	12,576	12,537	9,004	34,138	8,478	180,443
Other Sources	596,113	554,480	431,704	491,403	393,751	655,318	605,110	375,997	395,718	476,969	209,427	1,048,188	6,234,177
TOTAL REVENUE	1,637,306	1,717,537	2,032,544	1,737,481	1,580,570	2,152,654	2,101,522	1,107,242	1,693,814	2,255,799	1,584,859	3,020,778	22,622,107
TOTAL SOURCES	$ 4,857,150	$ 4,428,488	$ 3,178,518	$ 2,570,511	$ 2,308,221	$ 3,341,190	$ 3,498,217	$ 2,953,671	$ 3,052,721	$ 3,469,392	$ 3,507,920	$ 5,366,198	
EXPENDITURES													
State Compensation	318,140	222,991	232,094	245,461	235,017	343,402	236,644	233,571	240,306	240,662	239,059	239,059	3,026,407
Agency Operations	110,575	149,208	116,468	126,187	118,087	143,468	124,269	126,344	129,797	127,316	132,784	175,021	1,579,523
Aid to School Districts	486,749	1,268,895	1,133,691	704,408	86,533	251,576	513,286	586,823	822,976	530,592	176,551	52,362	6,614,443
Aid to Cities	219,001	9,923	82,374	15,552	4,101	238,649	11,472	4,291	7,005	4,379	5,850	5,506	608,105
Aid to Counties	176,962	(28,391)	36,571	46,150	26,855	154,455	13,030	15,744	12,053	9,374	22,394	17,008	502,204
Aid to Higher Education Institutions	3,017	315,572	76,575	113,674	61,009	66,016	115,949	59,740	53,827	73,273	62,154	60,895	1,061,701
Aid to Non-Gov't Organizations	4,245	23,845	24,298	14,600	20,631	14,438	11,560	13,960	17,066	19,353	11,780	17,429	193,205
Aid to Other Governments	4,587	7,727	13,862	12,636	6,110	13,815	4,514	7,078	6,334	5,012	4,208	7,912	93,793
Payments to Individuals	587,222	821,752	533,288	379,581	440,121	378,282	536,187	460,159	325,945	369,887	346,270	267,031	5,445,725
Other	235,701	490,992	96,268	184,610	121,220	149,595	84,878	87,055	223,818	166,482	161,452	620,078	2,627,079
Debt Service	0	0	0	0	0	190,800	0	0	0	0	0	0	190,800
TOTAL USES	$ 2,146,199	$ 3,282,514	$ 2,345,489	$ 1,842,860	$ 1,119,684	$ 1,944,496	$ 1,651,787	$ 1,594,764	$ 1,839,128	$ 1,546,330	$ 1,162,501	1,566,834	22,042,587
ENDING CASH BALANCE	$ 2,710,951	$ 1,145,974	$ 833,029	$ 727,650	$ 1,188,536	$ 1,396,695	$ 1,846,429	$ 1,358,907	$ 1,213,593	$ 1,923,061	$ 2,345,419	$ 3,799,364	
MINIMUM STATUTORY CASH BALANCE FOR THE MONTH	$ 2,600,153	$ 1,123,904	$ 783,149	$ 458,997	$ 744,435	$ 714,026	$ 1,184,980	$ 1,345,687	$ 890,849	$ 842,375	$ 1,684,126	$ 2,364,252	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
END OF 2012 LEGISLATIVE SESSION
Estimates for Fiscal Year Ending June 30, 2013

($ in thousands)

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL
BEGINNING CASH BALANCE	$ 3,799,364	$ 2,376,901	$ 1,343,503	$ 459,165	$ 425,831	$ 903,888	$ 950,417	$ 1,511,198	$ 994,374	$ 992,830	$ 1,724,568	$ 2,336,458	
REVENUE													
Individual Income Tax	$ 586,200	$ 605,035	$ 751,764	$ 595,380	$ 602,202	$ 718,270	$ 1,054,718	$ 329,083	$ 369,206	$ 1,194,672	$ 727,094	$ 851,371	$ 8,384,995
Corporate & Bank Excise	44,606	32,318	189,706	39,915	5,661	134,602	34,681	8,578	221,702	49,856	21,188	69,688	852,500
Sales and Use Tax	204,769	420,176	401,699	439,894	387,169	396,592	472,864	363,739	312,615	390,733	365,526	644,748	4,800,523
Property Tax	7,919	0	0	158,370	190,044	7,919	8,091	0	0	0	218,452	210,361	801,155
Tobacco Tax and Settlement	3,393	25,491	15,339	23,031	17,054	13,260	19,688	15,511	48,872	14,898	15,999	15,664	228,199
Insurance Tax	1,858	5,621	76,594	5,365	2,088	85,297	1,912	13,834	92,513	1,924	1,792	85,553	374,351
Other Excise Taxes	123,096	106,843	64,490	142,249	78,282	77,380	152,468	89,572	79,473	138,886	108,458	113,882	1,275,079
Investment Earnings	1,644	1,325	1,207	1,580	1,918	335	1,748	711	271	586	702	706	12,732
Inter-Governmental Grants	5,680	11,935	13,510	12,211	12,493	11,487	10,977	10,156	7,906	10,878	11,620	10,812	129,667
Other Sources	418,475	447,009	412,794	302,200	310,179	468,753	576,398	295,208	395,138	307,038	364,501	592,093	4,889,787
TOTAL REVENUE	$ 1,397,638	$ 1,655,752	$ 1,927,103	$ 1,720,196	$ 1,607,090	$ 1,913,895	$ 2,333,544	$ 1,126,392	$ 1,527,696	$ 2,109,470	$ 1,835,331	$ 2,594,877	$ 21,748,986
TOTAL SOURCES	**$ 5,197,002**	**$ 4,032,653**	**$ 3,270,605**	**$ 2,179,361**	**$ 2,032,921**	**$ 2,817,782**	**$ 3,283,962**	**$ 2,637,590**	**$ 2,522,070**	**$ 3,102,301**	**$ 3,559,899**	**$ 4,931,335**	**$ 20,115,546**
EXPENDITURES													
State Compensation	$ 261,370	$ 227,620	$ 238,916	$ 250,679	$ 363,186	$ 248,065	$ 221,253	$ 245,715	$ 248,311	$ 250,655	$ 369,761	$ 235,946	$ 3,161,478
Agency Operations	163,858	130,510	89,912	101,246	92,226	94,161	94,891	81,192	79,510	91,434	98,118	97,427	1,214,485
Aid to School Districts	652,362	1,471,976	1,290,401	877,812	81,552	311,486	611,357	571,046	660,161	566,228	164,199	35,408	7,293,988
Aid to Cities	219,391	6,455	58,662	35,715	6,029	244,706	6,752	2,462	4,347	3,956	3,606	3,957	596,039
Aid to Counties	60,574	103,947	18,122	51,478	25,599	110,449	14,785	16,937	22,145	19,278	17,407	5,723	466,442
Aid to Higher Education Institutions	115,009	79,413	275,271	59,742	54,348	69,655	93,707	216,825	6,520	50,982	75,620	93,784	1,190,877
Aid to Non-Gov't Organizations	20,117	18,833	21,736	14,783	14,284	11,142	18,793	17,032	7,827	14,775	12,940	10,425	182,688
Aid to Other Governments	16,566	105	5,174	16,742	18,076	8,139	12,899	11,488	3,386	10,613	8,023	11,946	123,159
Payments to Individuals	1,076,446	578,352	647,981	285,784	408,061	402,089	619,132	413,392	387,103	270,897	299,655	227,137	5,616,030
Other	234,408	71,940	165,265	59,548	65,674	105,564	79,193	67,126	109,929	98,914	174,112	154,760	1,386,433
Debt Service	0	0	0	0	0	261,908	0	0	0	0	0	0	261,908
TOTAL USES	$ 2,820,101	$ 2,689,151	$ 2,811,440	$ 1,753,531	$ 1,129,034	$ 1,867,365	$ 1,772,763	$ 1,643,216	$ 1,529,240	$ 1,377,733	$ 1,223,441	$ 876,512	$ 21,493,527
ENDING CASH BALANCE	$2,376,901	$1,343,503	$459,165	$425,831	$903,888	$950,417	$1,511,198	$994,374	$992,830	$1,724,568	$2,336,458	$4,054,823	
MINIMUM STATUTORY CASH BALANCE FOR THE MONTH	$ 2,434,582	$ 1,292,904	$ 505,979	$ 323,535	$ 528,906	$ 498,278	$ 903,930	$ 1,068,007	$ 778,957	$ 889,388	$ 1,627,143	$ 2,362,138	

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 benefits to retired 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, (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 intends to implement the two new GASB pension-related statements (Statement 67 - Financial Reporting for Pension Plans and Statement 68 - Accounting and Financial Reporting for Pensions) on or before their effective dates. These comprehensive annual financial reports for the fiscal year ended June 30, 2011 are available from the following public web sites:

MSRS: http://www.msrs.state.mn.us/
PERA: http://www.mnpera.org/
TRA: http://www.minnesotatra.org/

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 ("DB"), 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 contribution percentage is specified in State statute. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to State statutes. See "Actuarial Valuation Requirements" below.

Overview - MSRS

Minnesota State Retirement System ("MSRS") provides retirement coverage for 53,485 active employees, 33,791 retirees and beneficiaries, and 16,592 members who no longer contribute, but are eligible for future monthly benefits. 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 96% of total assets for MSRS' defined benefits 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 Plan member, one elected Correctional Employees 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 single-employer plan. Membership is limited to those state employees in covered correctional service, including employees with 75% working time spent in direct contact with inmates or patients at Minnesota correctional facilities.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to a judge or justice of any Minnesota court.

The Legislators Retirement Fund and the Elective State Officers Retirement Fund are 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 elected to retain coverage under this plan. The Elective State Officers Plan includes only the constitutional officers first elected prior to July 1, 1997 who elected to retain coverage under this plan.

Membership statistics for each of the MSRS funds, as of June 30, 2011, follows:

	State Employees Retirement Fund	State Patrol Retirement Fund	Correctional Employees Retirement Fund	Judges Retirement Fund	Legislators and Elective State Officers Retirement Funds	Totals
Members:						
Retirees	26,623	748	1,851	201	298	**29,721**
Beneficiaries	3,541	184	165	96	84	**4,070**
Terminated members:						
Vested, no benefits	15,422	38	1,035	18	79	**16,592**
Non-Vested	6,117	15	501	0	1	**6,634**
Active members:						
Vested	38,611	751	3,497	230	38	**43,127**
Non-Vested	9,344	111	825	78	0	**10,358**
Totals	**99,658**	**1,847**	**7,874**	**623**	**500**	**110,502**
Annualized Payroll	$2,449,441,000	$66,035,000	$205,608,000	$41,211,000	$1,646,000	$2,763,941,000

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 235,000 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. At June 30, 2011, PERA's membership included 154,450 current, active employees and 84,390 retirees and beneficiaries.

The PERA Board of Trustees is responsible for administering these funds in accordance with statutes passed by the Minnesota 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 three separate defined benefit pension funds 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. The MERF was a separate entity until June 30, 2010, when it was consolidated under the GERF. Assets and liabilities will be kept separate until the MERF becomes 80% funded, at which time the MERF will be fully merged into the GERF.

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, 2011 with PERA Police and Fire.

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, 2011, follows:

	General Employees Retirement Fund	**Public Employees Police & Fire Fund**	**Public Employees Correctional Fund**	**Minneapolis Employees Retirement Fund**	**TOTAL**
Retirees	62,198	5,549	373	3,256	71,376
Beneficiaries	9,623	2,299	155	937	13,014
Terminated Members:					
Vested, no benefits	45,325	1,335	1,981	88	48,729
Non Vested	109,630	870	1,624		112,124
Active Members:					
Vested	110,819	10,180	2,871	107	123,977
Non Vested	29,133	700	639	0	30,472
Totals	366,728	20,933	7,643	4,388	399,692
Annualized Payroll	$5,183,629,000	$796,689,000	$173,157,000	$6,747,000	$6,160,222,000

PERA also administers 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 plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

***Overview* - TRA**

Teachers' Retirement Association ("TRA") had 579 reporting employer units, 76,755 active members and a total of 53,537 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2011.

Teachers 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 cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. 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 eight 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, 2011, follows:

Retirees	49,079
Disabilitants	602
Beneficiaries	3,856
Terminated Members:	
Vested, deferred	13,237
Non Vested	25,196
Active Members:	
Vested	62,121
Non Vested	14,634
Total	168,725
Annualized Payroll	$3,838,111,000

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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," "Investment Results" and "Investment Asset Allocation" is provided by SBI.

The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership, as specified in the Constitution, is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General. All investments undertaken by the 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, Investment Advisory Council, 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 are local investment professionals, advises the SBI on investment policy. The executive directors of the Retirement Systems also serve as 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 State Board of Investment, 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 ten statewide retirement plans which are administered by the three state-wide retirement systems, TRA, PERA, and MSRS. On March 31, 2012, the Combined Funds covered 525,000 active and retired employees and had a market value of $48.8 billion.

Actuarial 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, 2012 actuarial valuation report (For additional information on the select and ultimate method, see "Recent Pension Legislation and Litigation," herein). The annualized investment return assumed is 8.0 percent for fiscal year 2012 through fiscal year 2016 and 8.5 percent annualized for fiscal year 2017 and years thereafter. 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% to 10% from the target, rebalancing is at the discretion of the SBI. If the actual allocation deviates 10% or more from the target, assets must be redistributed to achieve long-term allocation targets. (The target allocation for domestic equity is 45% of the fund. A 5% deviation would equal 2.25%.) The uncommitted allocation in Alternatives is invested in fixed income.

The following table represents the actual asset allocation and the market value for the Combined Funds as of June 30, 2011 and March 31, 2012.

Combined Funds Assets
Periods Ending June 30, 2011 and March 31, 2012

	Policy Targets	**Actual Mix 6/30/2011**	**Market Value** (millions)**	**Actual Mix 3/31/2012**	**Market Value** (millions)**
Domestic Stocks	**45.0%**	45.0%	$21,481	46.8%	$22,821
International Stocks	**15.0**	15.8	7,547	14.5	7,085
Bonds	**18.0**	22.2	10,590	21.3	10,379
Alternative Assets*	**20.0**	14.6	7,012	14.8	7,234
Unallocated Cash	**2.0**	2.4	1,155	2.6	1,253
	100.0%	**100.0%**	**$47,785**	**100.0%**	**$48,772**

*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 ending, June 30, 2011 and March 31, 2012.

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 23.3% in the fiscal year ending June 30, 2011. The Fiscal Year 2012 performance return for the combined funds was 2.4%. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2012 actuarial valuation report, the annualized assumed investment return is 8.0% for fiscal year 2012 through fiscal year 2016 and 8.5% annualized for fiscal year 2017 and years thereafter. (For additional information on the select and ultimate method, see "Recent Pension Legislation and Litigation," herein). 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, 2011

	2007	2008	2009	2010	2011	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 ½ Yr
Combined Funds	**18.3%**	**-5.0%**	**-18.8**	**15.2%**	**23.3%**	**4.9%**	**5.3%**	**5.9%**	**8.8%**	**8.9%**	**10.1%**
Composite Index	18.0%	-3.9%	-18.4%	13.5%	22.4%	4.3%	5.1%	5.8%	8.5%	8.7%	N/A

Period Ending March 31, 2012

	2008	2009	2010	2011	2012	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 ½ Yr
Combined Funds	**.4%**	**-27.4%**	**-35.5**	**14.7%**	**5.7%**	**18.0%**	**3.6%**	**6.5%**	**8.3%**	**8.6%**	**10.4%**
Composite Index	1.6%	-26.9%	-33.0%	13.7%	5.9%	16.9%	3.5%	6.4%	8.1%	8.4%	N/A

Source SBI

The Combined Fund outperformed the composite index over the last three years and five years. Actual returns relative to the total fund composite index for much of the last five years are shown above. For the 10 year period ending March 31, 2012, the Combined Funds outperformed its composite index by 0.1%. For the 20 year period ending March 31, 2012, the Combined Funds outperformed its composite index by 0.2%. The annualized return for the Combined Funds over the past 25 years was 8.6%; over the past 30 ½ year period since September 30, 1981, the annualized rate is 10.4%.

FY 2011 Funding 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 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 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 2011 contributions to the various plans.

Minnesota State Retirement System – State Participation and Contribution Summary (Defined Benefit Plans in Bold) ($ in Thousands)

Plans Covered	Type	State Employer Participation?	State Provides Other Non-Employer Contributions?	FY 2011 State Pension Contributions[1]
Minnesota State Retirement System (MSRS)				
State Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes[2]	No	$118,563
Correctional Employees Retirement Fund	**Single employer, State plan**	Yes	No	$23,892
Elective State Officers Fund	**Single employer, State plan**	Yes	No	$460
Judges Retirement Fund	**Single employer, State plan**	Yes	No	$8,297
Legislators Retirement Fund	**Single employer, State plan**	Yes	No	$2,805
State Patrol Retirement Fund	**Single employer, State plan**	Yes	No	$9,873
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	$6,360
Postretirement Healthcare Benefits Fund	Defined Contribution	N/A	N/A	N/A
State Deferred Compensation Fund	Deferred Compensation	N/A	N/A	N/A
Hennepin County Supplemental 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 2011 State Pension Contributions[1]**
General Employees Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[3]	No[4]	$3,346
Minneapolis Employees Retirement Fund	**Multiple employer, cost-sharing plan**	No	Yes	$9,000
Public Employees Police and Fire Fund	**Multiple employer, cost-sharing plan**	No	No[4]	-[4]
Public Employees Correctional Fund	**Multiple employer, cost-sharing plan**	No	No	-
Volunteer Firefighter Retirement Fund	Multiple employer, agent plan	N/A	No[4]	-[4]
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 2011 State Pension Contributions[1]**
Teachers Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[5]	Yes[5]	$32,607 [5]

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[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 2011, the State's General Fund comprised approximately 49% of the MSRS employer contributions.

[2] The State is a primary employer for the State Employees Retirement Fund.

[3] The State does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from the Minnesota State Colleges and University system ("MnSCU"), the Public Defense Board, Department of Military Affairs and the court system that were grandfathered in.

[4] The State contributes to pension aid payment directly to local entities to assist the employers' pension obligation and does not contribute directly to PERA.

[5] The State does not make employer contributions to TRA, except for covered individuals employed by TRA, MnSCU faculty who have elected TRA, Perpich School for the Arts, certain Department of Education Employees formerly covered by TRA and the Faribault Academies. The total contribution from the State to TRA of $32.607 million is the sum of the direct General Fund appropriation of $17.017 million plus employer contributions for those employees in the plan listed above (assumed to be 7 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 below. No assurance can be provided that the formulas will not change in the future. A brief description is provided below of the existing formula for the State System Plans and the local defined contribution plans that are governed by State statutes:

1. *MSRS:* MSRS consists of the assets of ten pension funds, six 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 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.

a. *Legislators Retirement Plan.* General Fund appropriations are transferred to this account on a current disbursement basis as retirement benefits are paid to members who retired after July 1, 2003. Retirement benefits to members 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.

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

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

2. *PERA:* PERA consists of the assets of six pension funds, four of which are defined benefit plans. The State does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from the Minnesota State Colleges and University system ("MnSCU"), the Public Defense Board, Department of Military Affairs and the court system that 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.

a. *Minneapolis Employees' Retirement Fund ("MERF").* This fund was closed to new members. In July 2008 the MERF Board of Trustees voted to transfer the management of their assets to the Minnesota State Board of Investment. On June 30, 2010, the administration of MERF was transferred to the Public Employees Retirement Association. All assets, service credit, benefits liabilities transferred to a separate MERF division account administered by PERA on June 30, 2010. The annual General Fund obligation is specified in statute as: the actuarially determined financial requirements of the MERF account less the employer and employee contribution of 9.75% of covered payroll, less the additional employer contribution of 2.68% of covered payroll, and less $3,900,000. The total State contribution cannot exceed $9,000,000 per year plus $13,750,000 on September 15, 2011, $13,750,000 on September 15, 2012, and

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[*] 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.

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

b. *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 a centralized fund (PERA). In more recent years, part of the money has been redirected to the Minneapolis (now part of the Teacher's Retirement Association), St. Paul, and Duluth teacher retirement plans. The State's contribution remains at the Fiscal Year 1992 appropriation level, or less, until St. Paul Teachers' Plan becomes fully funded.

3. *TRA:* The State does not make employer contributions to TRA other than covered individuals employed by TRA, MnSCU faculty who have elected TRA, Perpich School for the Arts, certain Department of Education employees formerly covered by TRA and the Faribault Academies. The State provides certain general government contributions to TRA for the Minneapolis Teacher Retirement Plan. 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.

4. Local Defined Benefit Retirement Systems Governed by State Statutes – TRA on behalf of the Duluth Teachers Retirement Fund Association and the St. Paul Teachers' Retirement Fund Associations. For these associations, 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 including the Bloomington Police, Minneapolis Fire and Virginia Fire plans – the contribution for which is specified in statute.

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:

Retirement System	Fund	Funding Date
MSRS	State Employees Retirement Fund	2040
	State Patrol Retirement Fund	2036
	Correctional Employees Retirement Fund	2038
	Judges Retirement Fund	2038
	Legislators and Elected State Officers Retirement Funds	Not Applicable
PERA	General Employees Retirement Fund	2031
	Public Employees Police and Fire Fund	2038
	Public Employees Correctional Fund	2023
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 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. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2012 actuarial valuation report, the annualized assumed investment return is 8.0% for fiscal year 2012 through fiscal year 2016 and 8.5% annualized for fiscal year 2017 and years thereafter. (For additional information on the select and ultimate method, see "Recent 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. Due to investment returns during fiscal year 2012 lower than the assumed rate of 8.0%, funding levels are expected to decline for each of the Retirement Systems for the fiscal year ending June 30, 2012 versus funding levels shown for the fiscal year ending June 30, 2011.

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 statewide 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 8.5% to 8.00% and making adjustments to several other demographic assumptions to more closely match experience.

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 $148 million in the Public Employees Police and Fire Fund.

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% annually to 3.75% annually.

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, 2011, based on the respective annual actuarial valuation reports.

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Condition of Defined Benefit Pension Funds to Which Minnesota Provides General Fund Resources as of June 30, 2011[1] ($ 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 For Which the State Has Custodial Responsibility									
Minnesota State Retirement System (MSRS):									
— State Employees Retirement Fund	$10,576	$9,130	$1,446	86.32%	$9,198	$1,378	86.96%	47,955	51,703
— Correctional Employees Retirement Fund	907	637	$270	70.23%	647	$260	71.29%	4,322	3,552
— State Patrol Retirement Fund	701	563	$138	80.33%	568	$133	81.08%	862	985
— Judges Retirement Fund	249	146	$103	58.72%	149	$100	59.73%	308	315
— Legislators Retirement Fund[7]	216	19	$197	8.84%	19	$197	8.84%	38	447
— Elective State Officers Fund[7]	8	0	$8	0.00%	0	$8	0.00%	0	15
Subtotal	$12,657	$10,495	$2,162		$10,581	$2,076		53,485	57,017
Public Employees Retirement Association (PERA):									
— Public Employees Retirement Fund	$17,899	$13,456	$4,443	75.17%	$13,616	$4,283	76.07%	139,952	226,776
— PERA Police & Fire Fund	6,364	5,275	1,089	82.89%	5,317	1,047	83.55%	10,880	10,053
— Minneapolis Employees Retirement Fund	1,239	911	328	73.53%	911	328	73.53%	107	4,193
— Public Employees Correctional Fund	285	275	10	96.49%	280	5	98.25%	3,510	4,133
Subtotal	$25,787	$19,917	$5,870		$20,124	$5,663		154,449	245,155
Teachers' Retirement Association (TRA):	$22,171	$17,132	$5,039	77.27%	$17,297	$4,874	78.02%	76,755	91,970
Subtotal	$60,615	$47,544	$13,071		$48,002	$12,613		284,689	394,142
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[8]	$113	$117	($4)	103.54%	$118	($5)	104.42%	127	190
St. Paul Teachers' Retirement Fund	1,390	973	417	69.99%	952	438	68.49%	3,469	6,790
Duluth Teachers' Retirement Fund	321	235	86	73.20%	213	108	66.36%	1,006	2,366
Subtotal	$1,824	$1,325	$499		$1,283	$541		4,602	9,346
TOTAL	**$62,439**	**$48,869**	**$13,570**		**$49,285**	**$13,154**		**289,291**	**403,488**

(1) The information provided in this table reflects the condition of all funds as of June 30, 2011. For additional information on the State's pension systems, refer to the State Financial Statements in Appendix F. See Footnote 8 – Pension and Investment Trust Funds (see pages F-73 through F-81) and Required Supplementary Information (see pages F-123 through F-129).

(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. The indicated percentages reflect the funded ratio as calculated pursuant to the requirements of the Governmental Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State.

(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. The Elective State Officers Retirement Fund is a closed plan. It has no assets in trust (e.g., cash and investments); only the amount receivable from the State's General Fund is its current asset.

(7) 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 within the next five years. 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. Since the Elective State Officers Retirement Fund has no assets, all benefits paid 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 December 31, 2010 for Bloomington Police and Fairmont Police.

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 "Funded 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.

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 expectances 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 Fiscal Year 2009, the rate of return of the assets of the combined pension systems was negative 18.8%, causing the UAAL of the pension systems to increase between Fiscal Year 2008 and Fiscal Year 2009. For Fiscal Year 2010, the estimated year-end combined return is 15.2%.

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, 2011, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $49.3 billion. As of June 30, 2011, the aggregate actuarial value of all assets of the pension systems was $48.9 billion.

The pension funds have different amortization methods that are used to calculate the UAAL as summarized in the State's Comprehensive Annual Financial Report in Appendix F of this Official Statement (See page F-79).

Recent 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% at the end of any fiscal year, the Post Fund would be abolished. On June 30, 2008, the MPRIF funding ratio was calculated to be 79.7%. 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% 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% COLAs. Beginning January 1, 2011, each statewide retirement system has unique COLAs. For the TRA, post-retirement benefits are frozen for 2011 and 2012. Beginning January 1, 2013, TRA benefit recipients will receive a 2.0% adjustment annually. The benefit adjustment will increase from 2% to 2.5% once TRA's funding ratio exceeds 90%. 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% adjustment annually. For the State Patrol Retirement Fund, benefit recipients will receive a 1.5% adjustment annually. The annual benefit adjustment will increase to 2.5% for each MSRS defined benefit fund when each fund's accrued liability funding ratio reaches 90%, with the benefit recipients of the PERA Public Employees Police and Fire Fund receiving an annual adjustment equal to inflation up to 1.5% beginning January 1, 2013 until the funding reaches 90%. PERA's Public Employees Correctional Fund was 98.4% funded on a market value basis as of June 30, 2011, so future annual adjustments will be increased to 2.5% effective January 1, 2012. In addition, for all of the PERA plans, if after reaching 90% funding, the ratio subsequently drops below 90%, the prospective annual adjustments must again be 1% for PERA General Employees Retirement Fund and inflation up to 1.5% for the PERA Public Employees Police and Fire Fund until the 90% 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 provides numerous financial stability provisions intended to reduce future unfunded liabilities for MSRS, TRA, PERA, the St. Paul Teachers Retirement Fund Association (SPTRFA) and the Duluth Teachers Retirement Fund Association (DTRFA). Provisions include a change in future retirement benefit increases for all MSRS, 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 including a change in refund rates, change in deferred annuities augmentation rate, and increased vesting periods are included for some plans as a means to reduce future unfunded liabilities. At the end of Fiscal Year 2010, the MSRS, PERA, and TRA, combined, lowered unfunded liabilities by a total of over $5.9 billion.

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% of the actuarial accrued liability of the MERF account. The legislation also increases the annual State contribution to the MERF account from $9,000,000 annually to $22,750,000 in each FY 2012 and 2013 and $24,000,000 each year thereafter through FY 2031. Beginning in FY 2013 the annual additional employer supplemental contribution will be a minimum of $27,000,000 and a maximum of $34,000,000.

The 2010 legislature passed into law an early retirement incentive for eligible State employees. The incentive includes up to 24 months of health insurance payments in to a health care savings account for an employee who is granted the incentive. This provision is at the discretion of both the employee's agency and the Commissioner of MMB. In April 2011, MMB released a report detailing the results of the Legislature. In all, 1030 (1008 executive) employees used the incentive resulting in an estimated FY 2011 – 2013 executive branch all funds savings of $46.7 million.

The 2010 legislation extended the amortization date for MSRS State Employees Retirement Fund from 2020 to 2040.

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% is to be used for the first five years for fiscal year 2012 through fiscal year 2016, and the "ultimate" assumed annualized investment return rate of 8.5% is to be used for the sixth year forward, for fiscal year 2017 and years thereafter. 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 directs 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 period of July 1, 2008, through June 30, 2014.

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 a more detailed State's FY 2011 contributions to the various plans.

MSRS – Recent Results

While MSRS administers six 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% 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, 2011.

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 86.3% funded, with the actuarial value of assets totaling $9.13 billion, and the actuarial accrued liability totaling $10.576 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 Fiscal Year 2009 asset loss associated with the Minnesota Post Retirement Investment Fund (MPRIF), which was dissolved on June 30, 2009, is recognized incrementally over five years at 20% per year. Prior to June 30, 2009, MPRIF asset gains and losses were not smoothed. The July 1, 2011 improvement in funding status is attributed in strong investment returns of 23.7% for the year that increased the actuarial value of assets and changes in the payroll growth and salary scale actuarial assumptions that decreased the accrued liability by $121 million. Due to investment returns during fiscal year 2012 lower than the assumed rate of 8.0%, funding levels are expected to decline for MSRS for the fiscal year ending June 30, 2012 versus funding levels shown for the fiscal year ending June 30, 2011.

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, 2040, the State Patrol Retirement Fund must be fully funded by June 30, 2036, and the Correctional Employees Retirement Fund and the Judges Retirement Fund must be fully funded by June 30, 2038. The June 30, 2011 actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers are 1.03% below the amount required to fully fund the MSRS funds by such funding dates. The contribution deficiency rates increased from (0.99)% to (1.03)% of payroll. The primary reason for the slight change in contribution deficiency was the recognition of deferred investment losses in the determination of the actuarial value of assets. (See, "MSRS - Historical Funding," below.) Plan changes affecting members first hired after June 30, 2010 are expected to ultimately reduce the cost of the plan, but have not yet had a material impact on the valuation results. Using the alternative method of market value to calculate MSRS assets, the contribution deficiency would decline to 0.86% of the expected fiscal year 2012 active member covered payroll of about $2.46 billion. The Minnesota legislature has enacted a series of member and employer contribution rate hikes to increase fund revenues beginning in fiscal year 2012. The legislature also approved a two-year freeze on retired member annual benefit adjustments and a lower adjustment rate of 2.0% annually beginning on January 1, 2013. These recommendations are intended to contain the growth of MSRS actuarial liabilities in order to improve MSRS's funded status.

Actuarial valuations results as of July 1, 2011, show that the MSRS Correctional Employees Retirement Fund is 70.23% funded, with the actuarial value of assets totaling $637.03 million, and the actuarial accrued liability totaling $907.01 million. The contribution deficiency increased from (4.73)% to (5.30)% of payroll primarily due to the recognition of deferred investment losses in the determination of the actuarial value of assets. Again, plan changes affecting members first hired after June 30, 2010 are expected to ultimately reduce the cost of the plan significantly, but have not yet had a material impact on the valuation results.

The State Patrol Retirement Fund is 80.33% funded, with the actuarial value of assets totaling $563.05 million, and the actuarial accrued liability totaling $700.90 million based on July 1, 2011 actuarial valuation results. The contribution deficiency decreased from (7.84)% to (5.25)% of payroll. The primary reasons for the improvement are the increase in contributions and gains due to lower than expected salary increases. These gains were partially offset by the recognition of deferred investment losses in the determination of the actuarial value of assets. Plan changes affecting members first hired after July 1, 2010 are expected to ultimately reduce the cost of the plan,

The Judges Retirement Fund, is 58.72% funded, with the actuarial value of assets totaling $146.00 million and the actuarial accrued liability totaling $248.63 million based on July 1, 2011 actuarial valuation results. The contribution deficiency for the plan is (5.17)% of payroll. This rate increased from (3.62)% of payroll primarily due to the recognition of deferred investment losses in the determination of the actuarial value of assets.

The Legislators and Elective State Officers Retirement Funds are funded on a pay-as-you-go basis with annual appropriations from the State's General Fund.

MSRS - Actuarial Methods and Assumptions

The annual employer and employee contributions for Retirement Systems for the Current Biennium were established by State statute following the completion of the actuarial valuations as of July 1, 2010. 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
Actuarial Methods and Assumptions

Actuarial Cost Method	Individual entry age normal
Rate of Return on the Investment of Present and Future Assets	8.5 percent pre-retirement for all funds, and 6.5 percent post-retirement[(1)]
Projected Salary Increases	Reported salary for prior fiscal year, with new hires annualized, increased to current fiscal year and annually for each future year according to the service-related rates that generally reflect lower expected salary increases. The salary increase rates range from 3.75 percent for members with 17 or more years of service to 10.75 percent for members with one year of service.
Payroll Growth	3.75 percent per year.
Experience Studies	Period Covered: Fiscal Year 2004-2008
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, 8.5 percent. [(1)]
Total Unrecognized Investment Return (loss) at June 30, 2011	$67,653,000

[(1)]Effective commencing with the July 1, 2012 actuarial valuation report, the annualized assumed investment return is 8.0% for fiscal year 2012 through fiscal year 2016 and 8.5% annualized for fiscal year 2017 and years thereafter.

Sources: MSRS Comprehensive Annual Report, June 30, 2011 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2011.

The methods and assumptions used to calculate actuarially required contribution of the other defined contribution plans in the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2011. See "*General Information*" above. Also see "Recent Legislation and Litigation" below for information on changes that came into effect after June 30, 2011 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 Actuarially Recommended Rates
Ten-year Contribution History

	Statutory Actual Contribution Rates				
As of	*Employee*	*Employer*	*Total*	*Actuarial Recommended Rate*	*Sufficiency/ Deficiency*
July 1, 2002	4.00%	4.00%	8.00%	8.43%	(0.34%)
July 1, 2003	4.00%	4.00%	8.00%	9.43%	(1.43%)
July 1, 2004	4.00%	4.00%	8.00%	9.33%	(1.33%)
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%)

Sources: December 2011 State Employees Retirement Fund Actuarial Valuation Report as of June 30, 2010 for the July 1, 2010 numbers. *For all other years: MSRS Comprehensive Annual Financial Reports (2002 – 2010) – 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 high funding ratio gives 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.

Minnesota State Retirement System
State Employees Retirement Fund
Ten-year Funding History
($ 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
2002	$807,966	$3,015,568	$3,516,863	$7,673,028	100%	100%	109.5%	104.5%
2003	855,953	3,116,008	3,858,710	7,757,292	100	100	98.1	99.1
2004	888,028	3,287,223	3,703,112	7,884,984	100	100	100.2	100.0
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

Source: MSRS Comprehensive Annual Report, June 30, 2011.

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, 2011. 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, State Employees Retirement Plan.

MSRS State Employees Retirement Plan

A. Coverage	Most state employees, University of Minnesota non-faculty employees, and selected metropolitan agency employees
B. Contribution Rates	Employees: 5.0 percent effective July 1, 2010 Employers: 5.0 percent effective July 1, 2010 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 percent of a high-five year salary for the first 10 years of allowable service and 1.7 percent of high-five salary for each subsequent year with a reduction of 0.25 percent 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 percent of high-five year salary for each year of allowable service assuming augmentation to age 65 at three percent per year and actuarial reduction for each month the member is under age 65. If first hired after June 30, 1989, the benefit formula is 1.7 percent of high-five year salary for each year of allowable service with an actuarial equivalent, early retirement reduction. Salary includes wages, allowances and overtime. 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.
D. Retirement Age and Service Requirements	*Eligibility for unreduced retirement benefits:* Age 65 for employees hired before July 1, 1989 with three years of allowable service; or age 66 for employees hired on or after July 1, 1989 with one year of allowable service Age 62 for employees hired before July 1, 1989 with 30 years of service 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 (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 percent survivor annuity or a refund.
F. Refunds	Employee contributions plus six percent interest compounded annually through June 30, 2011, and 4 percent thereafter.

Source: Minnesota State Retirement System 2011 Comprehensive Annual Financial Report.

Eligibility and benefit formulas for the various plan covered under the State System are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. See "*General Information*" above.

Employer Contributions and General Fund Appropriations

The following table summarizes the State's 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 2011, the State's General Fund comprised approximately 49% of the employer contributions. Other major fund categories included approximately 17% for the Trunk Highway Fund, 8% for federal funds and 14% for the special revenue fund. All other State employer contributions, which make up approximately 12% of the total were from 87 other funds of the State.

State Employer Contribution History – Minnesota State Retirement System
($ 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[3]	Legislators Retirement Fund[2]	State Patrol Retirement Fund	
2002	$76,614	$9,925	$354	$8,369	$4,135	$6,209	$105,606
2003	80,399	10,480	371	6,923	5,396	6,826	104,628
2004	78,622	10,627	383	7,110	425	6,504	90,663
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

(1) Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions.

(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.

(3) The fiscal year 2002 amounts include a combination of employer contributions and General Fund appropriations. In FY 2002, the employer contribution was $6,371,000 and the appropriation was $1,998,000.

Sources: MSRS 2011 Comprehensive Annual Financial Report, fiscal year ended June 30, 2011 and MSRS.

State General Fund Appropriation History – Pension Related Local Government Aid
($ in Thousands)

Fiscal Year Ended June 30th	Basic Local Police and Fire Association[1]	Local Police and Fire Associations Amortization Aid	PERA Aid[2]	Volunteer Firefighter Relief	Redirected Aid-St. Paul/TRA	Total
2002	$64,786	$2,056	$14,656	$448	$ -	$81,946
2003	69,242	4,164	14,586	481	-	88,473
2004	77,462	4,823	14,585	534	-	97,404
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	82,329	1,255	14,328	628	3,128	101,668
2013	84,692	1,255	14,328	628	3,128	104,031
2014	87,120	1,255	14,328	628	3,128	106,459
2015	89,638	1,255	14,328	628	3,128	108,977

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

(2) Includes 2001 Regular Session, Ch. 169 FY 2002 $70,000 appropriation for PERA Claims.

* Projections for FY 2012 and thereafter as of February 2012 forecast.

Source: Minnesota Management and Budget.

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State General Fund Appropriation History – Direct Aid to Pension Funds
($ in Thousands)

Fiscal Year Ended June 30th	Minneapolis Employees Retirement Fund(1)	TRA/Mpls Teachers Retirement Fund(2)	St. Paul Teachers Retirement Fund(3)	Duluth Teachers Retirement Fund(3)	Total
2002	$3,232	$15,394	$2,827	$486	$21,939
2003	4,510	14,537	2,953	-	22,000
2004	6,632	15,790	2,962	-	25,384
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	2,827	346	42,627
**2015*	24,000	15,454	2,827	346	42,627

(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 will increase to $22.75 million and then to $24 million each year thereafter through FY 2031. Any requirements beyond the capped aid are the exclusive obligation of the employer units. 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 2001 - 2005 aid was appropriated directly to the Minneapolis Teachers Retirement Fund, in 2006 (when MTRFA was merged with TRA) and beyond aid was appropriated to the TRA.

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

Source: Minnesota Management and Budget: *Archived State of Minnesota Fund Balance Analysis Reports: http://www.mmb.state.mn.us/budget-fba-detail*

For additional information on the State's pension systems, refer to the State Financial Statements in Appendix F. See Footnote 8 – Pension and Investment Trust Funds (see pages F-73 through F-81) and Required Supplementary Information (see pages F-123 through F-129).

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. The employees involved are primarily conservation officers, correctional counselors at State correctional facilities, and highway patrol officers. If these employees elect retirement at age 55, the State pays the employer's share of health insurance benefits until the employees reach age 65. As of July 1, 2010, the most recent actuarial valuation, the unfunded actuarial accrued liability was $799 million, and is being amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2011 is $76 million.

Net OPEB Obligation
($ In Thousands)

Annual Required Contributions (ARC)[(1)]	$ 76,132
Interest on Net OPEB Obligation (NOO)[(1)]	6,013
Amortization Adjustment to ARC[(1)]	(4,895)
Annual OPEB Cost (Expense)	$ 77,250
Contributions	(39,518)
Increase in NOO	$ 37,732
NOO, Beginning Balance	$126,579
NOO, Ending	$164,311

(1) Components of annual OPEB cost.

Source: State of Minnesota Postretirement Medical Plan July 1, 2010 Actuarial Valuation.

For additional information on the State's post employment benefits, refer to the State Financial Statements in Appendix F. See Footnote 9 – Termination and Postemployment Benefits (see pages F-82 through F-85).

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APPENDIX C

State Debt

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STATE DEBT

General Obligation Bonds Outstanding as of the Date of Issue of the Bonds
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$ 1,080	
	Transportation	229,390	
	Refunding Bonds	1,257,445	
	Various Purpose	2,909,325	
	Total Category 1		$ 4,397,240
2	School Loan	$ 19,465	
	School Loan Refunding	1,015	
	Rural Farm Authority	40,000	
	Total Category 2		$ 60,480
3	Trunk Highway	$ 1,076,250	
	Trunk Highway Refunding	211,100	
	Total Category 3		$ 1,287,350
	Total Outstanding as of the Date of the Bonds		$ 5,745,070

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 these Bonds
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Remaining Authorization
Building	1990,Ch.610	$270,129.1	$270,126.0	$3.1
Building	1994,Ch.643	523,874.5	523,849.0	25.5
Building	X1997, Ch. 2	37,432.0	37,335.0	97.0
Building	1999, Ch. 240	439,437.1	438,865.0	572.1
Various Purpose	2000, Ch. 492	527,682.7	518,575.0	9,107.7
Various Purpose	X2001, Ch. 12	116,127.7	115,918.0	209.7
Various Purpose	2002, Ch. 393	600,797.1	598,705.0	2,092.1
Various Purpose	X2002, Ch. 1	15,273.0	15,055.0	218.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.5	399,990.0	201.5
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	326.5
Various Purpose	2005, Ch. 20	920,079.0	912,279.0	7,800.0
Various Purpose	2006, Ch. 258	996,373.3	988,803.0	7,570.3
Various Purpose	X2007, Ch. 2	48,291.7	38,045.0	10,246.7
Trunk Highway	X2007, Ch. 2	19,720.0	19,720.0	0.0
Trunk Highway	2008, Ch. 152	1,783,300.0	883,635.0	899,665.0
Transportation	2008, Ch. 152	60,060.0	60,000.0	60.0
Various Purpose	2008, Ch. 179	797,369.3	764,947.0	32,422.3
Various Purpose	2008, Ch. 365	105,500.0	104,570.0	930.0
Trunk Highway	2009, Ch. 36	40,000.0	22,500.0	17,500.0
Various Purpose	2009, Ch. 93	258,865.0	238,035.0	20,830.0
Trunk Highway	2009, Ch. 93	2,705.0	2,700.0	5.0
Various Purpose	2010, Ch. 189	715,205.0	580,900.0	134,305.0
Trunk Highway	2010, Ch. 189	26,445.0	26,400.0	45.0
Trunk Highway	2010, Ch. 388	100,100.0	29,640.0	70,460.0
Various Purpose	X2010, Ch. 1	34,657.0	18,500.0	16,157.0
Various Purpose	X2011, Ch. 12	555,140.0	278,000.0	277,140.0
Trunk Highway	2012, Ch. 287	16,120.0	2,165.0	13,955.0
Various Purpose	2012, Ch. 293	566,858.0	150,020.0	416,838.0
Various Purpose	X2012, Ch. 1	56,695.0	0.0	56,695.0
Trunk Highway	X2012, Ch.1	35,040.0	0.0	35,040.0
Totals		$10,175,494.7	$8,144,977.0	$2,030,517.7

X indicates Special Session Laws.
[1] Amount as shown reflects any amendments by subsequent session laws.

[2] Minnesota Statutes, Section 16A.642, requires the Commissioner of Management and Budget 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 of Management and Budget are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

Total State General Obligation Bonds Outstanding by Series as of the Date of Issue of these Bonds ($ in Thousands)

Bond Issue	Original Principal: Various Purpose	Original Principal: Trunk Highway	Final Maturity	Interest Rate Range Outstanding	Outstanding Principal 06/30/2012: Various Purpose	Outstanding Principal 06/30/2012: Trunk Highway	Outstanding Principal as of Date of Issue: Various Purpose	Outstanding Principal as of Date of Issue: Trunk Highway
Series Dated June 1, 2003 (Refunding)	391,680	-	2013	4.00% - 5.00%	20,580	-	10,215	-
Series Dated August 1, 2003 (Refunding)	20,855	-	2012	5.00%	2,475	-	-	-
Series Dated November 1, 2004 (Refunding)	171,880	-	2024	5.00%	64,800	-	64,800	-
Series Dated October 3, 2005	285,400	111,600	2025	5.00%	159,740	78,120	159,740	78,120
Series Dated October 3, 2005 (Refunding)	160,960	-	2025	5.00%	74,935	-	74,935	-
Series Dated February 1, 2006 (Taxable)	3,000	-	2013	3.50%	3,000	-	3,000	-
Series Dated August 1, 2006	289,450	55,550	2026	5.00%	150,240	35,170	150,240	35,170
Series Dated August 1, 2006 (Taxable)	3,500	-	2013	5.00%	3,500	-	3,500	-
Series Dated November 1, 2006	327,000	73,000	2026	5.00%	189,125	50,200	189,125	50,200
Series Dated April 25, 2007	264,050	-	2018	5.00%	171,340	-	144,145	-
Series Dated August 14, 2007	656,000	14,000	2027	5.00%	433,500	10,840	433,500	10,050
Series Dated August 14, 2007 (Taxable)	8,000	-	2012	5.00% - 5.25%	4,000		-	
Series 2008A August 5, 2008	275,000	-	2028	4.625% - 5.00%	167,100	-	167,100	-
Series 2008B August 5, 2008	-	33,500	2028	4.00% - 5.00%	-	24,640	-	24,640
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	128,155	-	112,005	-
Series 2009A January 29, 2009	325,000	-	2028	4.00% - 5.00%	236,875	-	236,875	-
Series 2009B January 29, 2009	-	70,000	2028	3.00% - 4.375%	-	58,300	-	58,300
Series 2009C January 29, 2009 (Taxable)	5,000	-	2013	3.25%	5,000	-	5,000	-
Series 2009D August 26, 2009	192,275	-	2029	4.00% - 5.00%	154,495	-	154,495	-
Series 2009E August 26, 2009	-	80,000	2029	4.00% - 5.00%	-	72,000	-	68,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	275,210	-	241,400	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	2.00% - 5.00%	-	27,590	-	24,390
Series 2009H November 5, 2009	443,000		2029	2.00% - 5.00%	305,110	-	305,110	-
Series 2009I November 5, 2009		25,000	2029	2.00% - 5.00%	0	22,000	0	22,000
Series 2009J November 5, 2009 (Taxable)	7,000		2014	3.125%	7,000	-	7,000	-
Series 2009K November 5, 2009 (Refunding)	100,395		2022	2.00% - 5.00%	99,165	-	99,165	-
Series 2010A August 19, 2010	635,000		2030	3.00% - 5.00%	540,425		540,425	
Series 2010B August 19, 2010		225,000	2030	4.00% - 5.00%		213,750		202,500
Series 2010C August 19, 2010 (Taxable)	5,000		2015	3.00%	5,000		5,000	
Series 2010D September 29, 2010 (Refunding)	687,115		2024	1.75% - 5.00%	620,055		547,110	
Series 2010E September 29, 2010 (Refunding)		220,670	2024	2.00% - 5.00%	-	203,560	-	186,710
Series 2011A October 12, 2011	445,000		2031	2.00% - 5.00%	445,000		445,000	
Series 2011B October 12, 2011		320,000	2031	3.00% - 5.00%		320,000		320,000
Series 2011C October 12, 2011 (Taxable)	4,000		2016	1.35%	4,000	-	4,000	-
Series 2012A August 16, 2012	422,000		2032		-		422,000	
Series 2012B August 16, 2012		234,000	2032			-	-	234,000
Series 2012C August 16, 2012 (Taxable)	2,500		2017		-	-	2,500	-
Totals for Date:					4,269,825	1,116,170	4,527,385	1,314,080

* *Totals do not include these Bonds*

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
Bonds Outstanding as of November 2, 2012
($ in Thousands)

	General Fund			Trunk Highway Fund		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2013	-	119,343	119,343	8,895	30,833	39,728
2014	267,285	215,685	482,970	82,525	46,767	129,292
2015	432,950	199,296	632,246	82,255	43,622	125,877
2016	403,785	178,619	582,404	82,155	40,348	122,503
2017	384,390	158,982	543,372	81,690	37,051	118,741
2018	365,100	140,384	505,484	81,230	33,729	114,959
2019	313,745	123,362	437,107	80,885	30,446	111,331
2020	303,855	107,688	411,543	80,335	27,179	107,514
2021	275,310	92,783	368,093	79,830	23,930	103,760
2022	263,310	78,748	342,058	78,270	20,788	99,058
2023	240,685	65,572	306,257	75,410	17,765	93,175
2024	220,905	53,691	274,596	74,805	14,813	89,618
2025	207,530	42,978	250,508	67,685	12,078	79,763
2026	183,420	33,597	217,017	60,370	9,686	70,056
2027	158,095	25,232	183,327	52,385	7,577	59,962
2028	144,020	17,819	161,839	49,190	5,814	55,004
2029	102,800	11,572	114,372	47,135	4,135	51,270
2030	87,260	7,183	94,443	43,950	2,615	46,565
2031	64,525	3,743	68,268	38,950	1,265	40,215
2032	33,700	1,505	35,205	27,000	320	27,320
2033	12,750	191	12,941	11,700	176	11,876
	$4,465,420	$1,677,973	$6,143,393	$1,286,650	$410,937	$1,697,587

** Totals do not include these Bonds*

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.

- Footnote 10 – Long-Term Commitments (see pages F-86 through F-87)
- Footnote 11 – Operating Lease Agreements (see page F-88)
- Footnote 12 – Long-term Liabilities (see pages F-89 through F-99).

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

Net Amount Transferred to Debt Service Fund
for State General Obligation Bonds Debt Service
($ in Thousands)

In Fiscal Year	General Fund	Trunk Highway Fund	All Other Funds*	Transfer Total
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**
2013 (est)	223,067	120,304	69,176	412,547**

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

**The debt service transfers for FY 2012 and FY 2013 is lower from prior fiscal years as a result of the Tobacco Securitization Bonds which were used in part to refund, in part, and prepay certain general obligation indebtedness of the State. See “Tobacco Settlement” in this official statement.

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

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CAPITAL INVESTMENT GUIDELINES

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

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

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

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 Global Insight, Inc. data used to develop the February 2011 revenue forecast and reflects the State 2011 fiscal year.

As of February 29, 2012, the last date of calculation, MMB was in compliance with the new Capital Investment Guidelines. The percentages as of that date were:

Guideline #1: Tax-supported principal outstanding as a percent of state personal income: 2.44%

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of state personal income: 3.99%

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2011, 40.0 percent were scheduled to mature within five years and 70.1 percent were scheduled to mature with ten years.(2)

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[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.

[2] Proceeds from the Tobacco Securitization Bonds were used to pay principal of and interest on the State's General Obligation Bonds in the Current Biennium, which will affect the next calculation of Guideline No. 3. It is the State's expectation that it will not be in compliance with Guideline No. 3 as of the date of the next calculation due to the issuance of the Tobacco Securitization Bonds.

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 2011 valuation, was estimated by the Commissioner of Revenue to be $522,347,000,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY
($ in Thousands)

Year of 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	515,532,000	6,815,000	522,347,000	(6.79)

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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 Minnesota Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State Certificates of Participation ("COP's"). These COP's were issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system; (ii) the acquisition, development and implementation of an integrated tax software project; and (iii) the payment of all fees and expenses incurred in connection to the issuance of the COP's. As of the date of this Official Statement, there are $65,555,000 of the COP's outstanding. MMB anticipates the prepayment of $11,495,000 in the near future from reverted proceeds that would reduce the COP's outstanding balance to $54,060,000.

University of Minnesota. The Minnesota Legislature has approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the "U of M"). In 2006, the Legislature appropriated from the General Fund $10.25 million in each of not more than 25 years, beginning in 2008, to the U of M for the payment of revenue bonds issued by the U of M to finance the stadium. The U of M issued $137,250,000 in bonds for the stadium in December 2006, $113,995,000 of these bonds are still 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.

The Minnesota Legislature has approved State financial assistance for up to four Biomedical Science Research Facilities for the U of M. In 2008, the Legislature appropriated from the General Fund amounts ranging from $850,000 to $15.55 million in each year beginning in 2010, for up to 25 years after certification of the last facility, to the U of M for the payment of revenue bonds issued by the U of M to finance the facilities. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. The U of M issued $153,120,000 in bonds for the Biomedical Science Research Facilities in September 2010, of which $111,400,000 is State secured appropriation bonds. The University of Minnesota also issued $71,820,000 in bonds for the Biomedical Science Research Facilities in October 2011, of which $52,485,000 is State secured appropriation bonds. As of the date of this Official Statement, $160,275,000 of these bonds are 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 $30,840,000 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 has not yet issued any of the $30 million in bonds as authorized in legislation.

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, $17,796,171 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 $2,150,754 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.

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, $5,230,000 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 sold to finance both of the facilities was $193,105,000, of which $142,350,000 is outstanding as of the date of this Official Statement. In August 2008 the amount of $3,210,000 was defeased thereby reducing the State's liability. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The Legislature appropriates an annual rental payment from the General Fund up to $13.5 million per year in each of 20 years, beginning in 2004.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner 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 $561 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts and intermediate school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

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

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

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due. As 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 2036, is approximately $11.5 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 $1.7 billion, with the maximum amount of principal and interest payable in any one month being $675 million.

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

Minnesota Laws 2005, Chapter 152, Article 1, Section 39, as amended by Minnesota Laws 2006, Chapter 259, Article 12, Section 15, provides that the Commissioner of Iron Range Resources shall issue revenue bonds payable from certain taconite production tax revenues in a total principal amount of $15,000,000, plus costs of issuance relating thereto, for the purpose of making grants to school districts located in the taconite relief area or taconite assistance area, as statutorily defined, to be used by such school districts for health, safety, and maintenance improvements. Bonds issued under this program are debt obligations subject to the school district credit enhancement program, provided that advances made by the State are not subject to the provisions of the school district credit enhancement program requiring the levy of an ad valorem tax by affected school districts in order to repay the State. The Commissioner of the Iron Range Resources issued $15,145,000 of the bonds in July, 2006 and as of the date of this Official Statement $11,175,000 of the bonds are outstanding.

City and County Credit Enhancement Program

Minnesota Statutes, Section 446A.086 (formerly Section 373.45), establishes a city and county bond credit enhancement program. The law authorizes and directs the Commissioner 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, (iii) stormwater facilities, or (iv) any publicly owned building or infrastructure improvement that has received partial funding from grants awarded by the Commissioner of Employment and Economic Development related to redevelopment, contaminated site cleanup, bioscience, small cities development programs, and rural business infrastructure programs, for which bonds are issued by the MPFA under Minnesota Statutes, Section 446A.087. See "Minnesota Public Facilities Authority (MPFA)" in this Appendix C for more information on MPFA bonds that may be credit enhanced under this program

To be eligible for the program, a city or county must have entered into an agreement with the MPFA, which requires notifications to the MPFA by the city or county or paying agent when funds are not sufficient to timely pay all or a portion of debt service on obligations issued under the program. The MPFA must notify the Commissioner of 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 $503 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 $49 million with the maximum amount of principal and interest payable in any one month being $22 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments on behalf of cities or counties in the future. If such payments are made, the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the cities or counties.

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 November 1, 2012

	Number of Series	Final Maturity	Original Principal Amount (in thousands)	Outstanding Principal Amount (in thousands)
Rental Housing	15	2048	$ 150,825	$ 86,950
Residential Housing Finance	60	2048	2,146,125	1,372,925
Multifamily Housing	1	2051	15,000	14,980
	76		$2,311,950	$1,474,855

The MHFA has also issued and there were outstanding as of November 1, 2012: one series of its conduit multifamily revenue bonds outstanding in the aggregate principal amount of $29,920,000, and 16 series of its Homeownership Finance and related bonds outstanding in the aggregate principal amount of $562,493,982. These bonds are limited obligations of the MHFA and subject to the MHFA's $5 billion debt limit, but are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above. MHFA has a tentative bond closing of Homeownership Finance Bonds in the amount of $75,000,000 scheduled to close on November 28,2012.

University of Minnesota. The University of Minnesota was established by Territorial Laws 1851, Chapter 3, adopted by the legislative assembly of the Territory of Minnesota. Pursuant to authorization by Congress on February 26, 1857, the voters of the State approved and adopted a State constitution on October 13, 1857. The State was admitted to the union by act of Congress passed on May 11, 1858.

The State Constitution confirmed and fixed the existence of the University as a separate institution of the State, having all rights, immunities, franchises and endowments previously granted or confirmed, and all lands and donations thereafter given to it. The University is governed by a board of twelve regents who are elected by the Legislature, and is dependent upon appropriations by the Legislature to pay much of its instructional costs. The regents are a body corporate with the right to sue and be sued and to make contracts.

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of the date of this Official Statement is $1,194,499,000. 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 $612,248,000 of bonds outstanding payable from the Student Educational Loan Fund, of which $612,248,000 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 $231,580,000 tax exempt bonds and $19,385,000 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 $3,119,710 and the other for $10,220,000. The guarantees are on a parity to right of payment with the revenue bonds. In addition to the bonds currently outstanding, MnSCU anticipates selling up to $70,000,000 total in tax-exempt and taxable revenue bonds in February 2013.

Minnesota Higher Education Facilities Authority ("MHEFA"). The MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law, as amended, authorizes MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed $1,300,000,000. As of the date of this Official Statement, the MHEFA has $934,798,489 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"). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed $15,000,000. As of the date of this Official Statement, the MSABC has $2,720,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota Rural Finance Authority ("RFA"). In 1986 the Legislature created the Minnesota Rural Finance Authority and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of 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 $203.1 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 $369,795,000 Clean

Water Revolving Fund Revenue Bonds outstanding, $119,085,000 Drinking Water Revolving Fund Revenue Bonds outstanding, $611,355,000 State Revolving Fund Revenue bonds outstanding and $15,200,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $1,115,435,000. The MPFA's bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed $1,500,000,000, excluding bonds issued under Minnesota Statutes, Section 446.087.

Tobacco Securitization Authority ("TSA"). TSA, is a body corporate and politic and a public instrumentality of, having a legal existence independent and separate from the state of Minnesota and established under Minnesota Statutes, Section 16A.98. TSA issued $756,955,000 aggregate principal amount Tobacco Securitization Authority Minnesota Tobacco Settlement Revenue Bonds, Taxable Series 2011A and Tax-Exempt Series 2011B (the "TSA Bonds"), all of which are currently outstanding. Net proceeds of the Tobacco Securitization Bonds were applied to the prepayment and refunding of certain State general obligation indebtedness and certificates of participation. The TSA Bonds will be refunded in their entirety from the proceeds of the Bonds.

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 $1,460,000 of pooled revenue bonds outstanding which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB has $423,750,675 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 $21,880,000 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 $149,660,000 of the 911 Revenue Bonds outstanding.

APPENDIX D

Refunded Authority Bonds

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$756,955,000 MINNESOTA TOBACCO SETTLEMENT REVENUE BONDS, SERIES 2011

$74,685,000 Taxable Series 2011A Bonds

Maturity Date	Principal Amount	Interest Rate	CUSIP
2014	$36,900,000	2.643%	88880CA A1
2015	37,785,000	3.093	88880CA B9

$682,270,000 Tax-Exempt Series 2011B Bonds

Maturity Date	Principal Amount	Interest Rate	CUSIP
2016	$ 25,255,000	5.00%	88880CA P8
2016	5,000,000	3.00	88880CA C7
2017	28,190,000	5.00	88880CA Q6
2017	3,500,000	4.00	88880CA D5
2018	32,410,000	5.00	88880CA E3
2019	30,015,000	5.00	88880CA R4
2019	2,925,000	3.50	88880CA F0
2020	34,300,000	5.00	88880CA G8
2021	32,610,000	5.00	88880CA S2
2021	3,175,000	4.00	88880CA H6
2022	37,480,000	5.00	88880CA J2
2023	38,550,000	5.25	88880CA K9
2024	40,720,000	5.25	88880CA L7
2025	43,165,000	5.25	88880CA M5
2026	39,640,000	5.25	88880CA T0
2026	6,075,000	4.85	88880CA N3
2031	279,260,000	5.25	88880CA U7

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APPENDIX E

Selected Economic and Demographic Information

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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	309,330	5,311	1.72	0.8	0.6
2011	311,592	5,345	1.72	0.7	0.6

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.

Data extracted by MMB staff in July 2012.

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NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2011
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Total Private	2,267.6	84.7	109,253	83.2
Goods-Producing	398.2	14.9	18,021	13.7
Mining and Logging	6.6	0.2	784	0.6
Construction	90.9	3.4	5,504	4.2
Manufacturing Durables	190.2	7.1	7,274	5.5
Manufacturing Non-Durables	110.6	4.1	4,460	3.4
Private Service Providing	1,869.4	69.9	91,232	69.5
Wholesale Trade	125.6	4.7	5,529	4.2
Retail Trade	279.4	10.4	14,643	11.1
Transportation, Warehousing, Utilities	90.9	3.4	4,848	3.7
Information	52.8	2.0	2,659	2.0
Financial Activities	174.3	6.5	7,681	5.8
Professional and Business Services	327.9	12.3	17,330	13.2
Education and Health Services	468.2	17.5	19,883	15.1
Leisure and Hospitality	234.9	8.8	13,319	10.1
Other Services	115.4	4.3	5,341	4.1
Government	408.1	15.3	22,105	16.8
Total (Non-Farm)	**2,675.7**	**100.0**	**131,358**	**100.0**

Note: Columns may not add due to rounding.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted by MMB staff July 2012.

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EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2011
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Wood Products	10.4	5.5	335	4.6
Fabricated Metal Products	38.5	20.3	1,344	18.5
Machinery	30.5	16.0	1,057	14.5
Computers and Electronic Products	46.3	24.3	1,107	15.2
Transportation Equipment	10.3	5.4	1,382	19.0
Medical Equipment and Supplies	16.1	8.4	309	4.2
Other Durables	38.1	20.1	1,740	23.9
Total Durable Goods Manufacturing	190.2	100.0	7,274	100.0

Note: Columns may not add due to rounding.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted by MMB staff July 2012.

EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2011
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	43.9	39.7	1,456	32.7
Paper Mfg., & Printing and Related	34.7	31.4	861	19.3
Other Non-Durables	31.9	28.8	2,143	48.1
Total Non-Durable Goods	110.6	100.0	4,460	100.0

Note: Columns may not add due to rounding.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted by MMB staff July 2012.

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

Category	Minnesota 1990	Minnesota 2000	Minnesota 2010	Minnesota %Change 90-00	Minnesota %Change 00-10	United States 1990	United States 2000	United States 2010	United States % Change 90-00	United States % Change 00-10
Total Private	1,788.0	2,277.3	2,224.7	27.4	(2.3)	91,072	110,995	107,384	21.9	(3.3)
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	1,838.4	28.9	4.8	67,349	86,346	89,633	28.2	3.8
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	172.5	27.5	4.7	6,614	7,687	7,652	16.2	(0.5)
Professional and Business Services	214.5	319.2	314.0	48.8	(1.6)	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	15,109	19,531	37.6	29.3
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**	**2,641.2**	**25.7**	**(1.6)**	**109,487**	**131,785**	**129,874**	**20.4**	**(1.5)**

Note: Columns may not add due to rounding.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted by MMB staff July 2012.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1995	$24,144	$23,262	103.8 %
1996	$25,871	$24,442	105.8
1997	$27,095	$25,654	105.6
1998	$29,273	$27,258	107.4
1999	$30,562	$28,333	107.9
2000	$32,599	$30,319	107.5
2001	$33,348	$31,157	107.0
2002	$34,071	$31,481	108.2
2003	$35,252	$32,295	109.2
2004	$37,017	$33,909	109.2
2005	$37,892	$35,452	106.9
2006	$39,867	$37,725	105.7
2007	$41,642	$39,506	105.4
2008	$43,466	$40,947	106.2
2009	$41,204	$38,846	106.1
2010	$42,798	$39,937	107.2
2011*	$44,672	$41,663	107.2

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 July 2012.

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).

* Preliminary

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PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR 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	$238,635	$405,919	5.46	8	$539,880	2.89	9	12,419	$32,685	2	12,831	$42,077	3
Indiana	$97,005	$167,276	5.60	6	$220,555	2.80	10	6,080	$27,510	9	6,484	$34,016	12
Iowa	$48,250	$79,920	5.18	10	$116,027	3.80	5	2,926	$27,311	10	3,046	$38,087	8
Kansas	$44,750	$76,684	5.53	7	$111,441	3.81	4	2,688	$28,524	7	2,853	$39,059	6
Michigan	$174,296	$292,606	5.32	9	$342,874	1.60	12	9,938	$29,442	3	9,884	$34,691	11
Minnesota	$86,524	$160,833	6.40	1	$227,288	3.52	6	4,919	$32,693	1	5,304	$42,853	2
Missouri	$90,177	$156,359	5.66	4	$220,635	3.50	7	5,595	$27,945	8	5,989	$36,840	9
Nebraska	$28,388	$48,998	5.61	5	$72,353	3.97	3	1,711	$28,633	6	1,826	$39,616	5
North Dakota	$10,117	$16,430	4.97	11	$28,935	5.82	1	642	$25,584	12	673	$43,020	1
Ohio	$202,486	$326,075	4.88	12	$417,235	2.50	11	11,353	$28,721	5	11,537	$36,166	10
South Dakota	$11,206	$19,970	5.95	2	$32,271	4.92	2	755	$26,456	11	814	$39,637	4
Wisconsin	$88,213	$156,603	5.91	3	$217,562	3.34	8	5,364	$29,197	4	5,687	$38,256	7

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 July 2012.

Note: Per capita personal income is total personal income divided by Census population.

Note: Current dollars (not adjusted for inflation).

GROWTH OF PERSONAL INCOME BY STATE IN NORTH CENTRAL REGION: 2010-2011

Growth Rank	State	2010 Personal Income (Millions)	2011 Personal Income (Millions)	Percent Growth
1	North Dakota	$28,935	$31,288	8.1
2	Iowa	$116,027	$123,933	6.8
3	South Dakota	$32,271	$34,274	6.2
4	Nebraska	$72,353	$76,624	5.9
5	Michigan	$342,874	$360,806	5.2
6	Illinois	$539,880	$568,049	5.2
7	Wisconsin	$217,562	$228,888	5.2
8	Minnesota	$227,288	$238,768	5.1
9	Indiana	$220,555	$231,674	5.0
10	Ohio	$417,235	$436,297	4.6
11	Kansas	$111,441	$116,230	4.3
12	Missouri	$220,635	$229,898	4.2
	Region	$2,547,056	$2,676,729	5.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi

Data extracted by MMB staff July 2012.

Note: Current dollars (not adjusted for inflation).

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

State	1990 Employment	2000 Employment	2010 Employment	Percent Increase 90-00	Percent Increase 00-10
Illinois	5,288	6,045	5,613	14.3%	(7.1)%
Indiana	2,522	3,000	2,796	19.0	(6.8)
Iowa	1,226	1,479	1,469	20.6	(0.6)
Kansas	1,092	1,346	1,328	23.3	(1.4)
Michigan	3,946	4,676	3,863	18.5	(17.4)
Minnesota	2,136	2,685	2,641	25.7	(1.6)
Missouri	2,345	2,749	2,651	17.2	(3.6)
Nebraska	731	911	940	24.6	3.3
North Dakota	266	328	376	23.3	14.8
Ohio	4,882	5,625	5,035	15.2	(10.5)
South Dakota	289	378	403	31.0	6.7
Wisconsin	2,292	2,834	2,729	23.7	(3.7)
Region	27,014	32,054	29,843	18.7	(6.9)

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Data extracted by MMB staff July 2012.

MINNESOTA & UNITED STATES UNEMPLOYMENT RATES
(Percent)

Year	Annual Average: Minnesota %	Annual Average: U.S. %
2000	3.1	4.0
2001	3.9	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.6	5.5
2005	4.2	5.1
2006	4.1	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	8.1	9.3
2010	7.4	9.6
2011	6.4	9.0

Month	Monthly Figures (Seasonally Adjusted): Minnesota %	U.S. %
2011		
January	6.8	9.1
February	6.7	9
March	6.6	8.9
April	6.6	9
May	6.6	9
June	6.7	9.1
July	6.6	9.1
August	6.5	9.1
September	6.3	9
October	6.1	8.9
November	5.9	8.7
December	5.7	8.5
2012		
January	5.6	8.3
February	5.7	8.3
March	5.8	8.2
April	5.6	8.1
May	5.6	8.2
June	5.6	8.2
July	5.8	8.3
August	5.9	8.1
September	5.8	7.8

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi/tools/laus.
Data extracted by MMB staff October 2012.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2011	Rank 2010	Company	Revenues ($ Millions)	Profits ($ Millions)	Industry	Industry Rank
22	22	UnitedHealth Group	$101,862.0	$5,142.0	Health Care: Insurance & Managed Care	1
38	33	Target	$69,865.0	$2,929.0	General Merchandisers	2
53	47	Best Buy	$50,272.0	$1,277.0	Specialty Retailers: Other	3
75	61	Supervalu	$37,534.0	($1,510.0)	Food and Drug Stores	5
78	103	CHS	$36,915.8	$961.4	Wholesalers: Food and Grocery	2
102	97	3M	$29,611.0	$4,283.0	Miscellaneous	1
132	126	U.S. Bancorp	$21,399.0	$4,872.0	Commercial Banks	8
164	158	Medtronic	$15,933.0	$3,096.0	Medical Products & Equipment	1
181	166	General Mills	$14,880.2	$1,798.3	Food Consumer Products	3
210	218	Land O'Lakes	$12,849.3	$182.2	Food Consumer Products	6
246	237	Xcel Energy	$10,654.8	$841.2	Utilities: Gas & Electric	14
248	246	Ameriprise Financial	$10,621.0	$1,076.0	Diversified Financials	7
259	265	C.H. Robinson Worldwide	$10,336.3	$431.6	Transportation and Logistics	1
268	346	Mosaic	$9,937.8	$2,514.6	Chemicals	8
327	325	Hormel Foods	$7,895.1	$474.2	Food Consumer Products	10
332	318	Thrivent Financial for Lutherans	$7,842.8	$454.6	Insurance: Life, Health (Mutual)	6
365	378	Ecolab	$6,798.5	$462.5	Chemicals	12
437	436	St. Jude Medical	$5,611.7	$825.8	Medical Products & Equipment	6
498	449	Nash-Finch	$4,807.2	$35.8	Wholesalers: Food and Grocery	4

Source: CNN Money, Fortune Magazine, http://money.cnn.com/magazines/fortune/fortune500/index.html

Issue date: May 21, 2012.

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APPENDIX F

State Financial Statements
For the Fiscal Year
Ended June 30, 2011

APPENDIX F

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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

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, 2011, which collectively comprise the state's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on 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 79 percent, 98 percent, and 19 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, National Sports Center Foundation, 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, net assets, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 20, 2011

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2011 Comprehensive Annual Financial Report

Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2011, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

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

The financial section of this annual report has four parts:

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

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

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

Government-wide Financial Statements

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

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

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

- An increase or decrease in the state's net assets from one year to the next indicates whether the financial position of the state is improving or deteriorating.

- Other indicators of the state's financial condition include the condition of its infrastructure and economic events and trends that affect future revenues and expenses.

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

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

Governmental Activities

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

Business-type Activities

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

Discretely Presented Component Units

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

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

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

- Housing Finance Agency

- Metropolitan Council

- University of Minnesota

The state's six 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

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 assists in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of the state. Governmental funds include the General, special revenue, capital project, Debt Service, and Permanent funds.

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

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

The state maintains 23 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Federal funds, which are reported as major funds. Information from the remaining 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 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in net assets. Information from the 8 nonmajor enterprise funds and the 7 internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 21 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 component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units' statements of net assets and statement of changes in net assets provide detail for each major component unit and aggregate the detail for nonmajor

component units. Individual nonmajor component unit detail can be found in the combining financial statements included in this report.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2011, by $11.9 billion (presented as net assets). Of this amount, a deficit of $2.6 billion was reported as unrestricted net assets. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors or the constitution. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

- The state's total net assets increased by $1.0 billion (9.6 percent) during fiscal year 2011. Net assets of governmental activities increased by $690 million (7.4 percent), while net assets of the business-type activities showed an increase of $352 million (22.5 percent). For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $3.5 billion, an increase of $805 million compared to the prior year. Included in the ending fund balance is a General Fund unassigned deficit of $901 million. For discussion on the variances from prior year, see the State Funds Financial Analysis section.

Long-Term Debt

- The state's total long-term liabilities increased by $614 million (7.5 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.

Government-wide Financial Analysis

As noted earlier, net assets serve as a useful indicator of a government's financial position over time. The state's combined net assets (governmental and business-type activities) totaled $11.9 billion at the end of 2011, compared to $10.9 billion at the end of the previous year.

Net Assets
June 30, 2011 and 2010
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current Assets[1]	$ 10,141,456	$ 9,048,422	$ 1,545,363	$ 1,402,508	$ 11,686,819	$ 10,450,930
Noncurrent Assets:						
Capital Assets[1]	12,356,742	11,998,091	1,906,660	1,776,280	14,263,402	13,774,371
Other Assets	807,350	853,394	176,380	138,734	983,730	992,128
Total Assets	$ 23,305,548	$ 21,899,907	$ 3,628,403	$ 3,317,522	$ 26,933,951	$ 25,217,429
Current Liabilities[1]	$ 6,476,809	$ 6,382,773	$ 700,861	$ 420,594	$ 7,177,670	$ 6,803,367
Noncurrent Liabilities	6,819,172	6,198,043	1,014,010	1,335,066	7,833,182	7,533,109
Total Liabilities	$ 13,295,981	$ 12,580,816	$ 1,714,871	$ 1,755,660	$ 15,010,852	$ 14,336,476
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt[1]	$ 9,147,520	$ 8,963,198	$ 1,352,739	$ 1,293,856	$ 10,500,259	$ 10,257,054
Restricted[1]	3,396,243	3,060,905	643,700	538,589	4,039,943	3,599,494
Unrestricted[1]	(2,534,196)	(2,705,012)	(82,907)	(270,583)	(2,617,103)	(2,975,595)
Total Net Assets	$ 10,009,567	$ 9,319,091	$ 1,913,532	$ 1,561,862	$ 11,923,099	$ 10,880,953

[1] 2010 has been restated to be consistent with 2011 presentation.

The largest portion, $10.5 billion of $11.9 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $4.0 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net asset restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net assets balance represents a deficit in unrestricted net assets of $2.6 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 assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the noncapital portion of net assets for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased $1.0 billion (9.6 percent) over the course of this fiscal year. This resulted from a $690 million (7.4 percent) increase in net assets of governmental activities, and a $352 million (22.5 percent) decrease in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2011 and 2010
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	$ 1,304,245	$ 1,231,253	$ 2,827,867	$ 2,489,629	$ 4,132,112	$ 3,720,882
Operating Grants and Contributions	9,398,609	10,164,213	1,697,323	1,958,195	11,095,932	12,122,408
Capital Grants	202,285	206,292	1,515	1,554	203,800	207,846
General Revenues:						
Individual Income Taxes	7,883,583	6,792,510	-	-	7,883,583	6,792,510
Corporate Income Taxes	1,204,521	539,534	-	-	1,204,521	539,534
Sales Taxes	4,760,684	4,379,236	-	-	4,760,684	4,379,236
Property Taxes	771,020	746,685	-	-	771,020	746,685
Motor Vehicle Taxes	1,074,769	997,214	-	-	1,074,769	997,214
Fuel Taxes	851,245	826,574	-	-	851,245	826,574
Other Taxes	2,192,739	2,224,237	-	-	2,192,739	2,224,237
Tobacco Settlement	172,207	157,924	-	-	172,207	157,924
Investment/Interest Income	19,836	21,242	7,058	8,483	26,894	29,725
Other Revenues	139,406	145,608	18,765	-	158,171	145,608
Total Revenues	$ 29,975,149	$ 28,432,522	$ 4,552,528	$ 4,457,861	$ 34,527,677	$ 32,890,383
Expenses:						
Public Safety and Corrections(1)	$ 976,261	$ 939,818	$ -	$ -	$ 976,261	$ 939,818
Transportation(1)	2,897,408	2,450,051	-	-	2,897,408	2,450,051
Agricultural, Environmental and Energy Resources	969,947	950,738	-	-	969,947	950,738
Economic and Workforce Development	695,050	715,085	-	-	695,050	715,085
General Education	7,499,159	8,042,744	-	-	7,499,159	8,042,744
Higher Education	892,921	981,859	-	-	892,921	981,859
Health and Human Services(1)	12,274,181	11,950,195	-	-	12,274,181	11,950,195
General Government(1)	832,859	762,123	-	-	832,859	762,123
Intergovernmental Aid	1,339,943	1,558,453	-	-	1,339,943	1,558,453
Interest	322,773	261,802	-	-	322,773	261,802
State Colleges and Universities	-	-	1,903,985	1,802,527	1,903,985	1,802,527
Unemployment Insurance	-	-	2,228,405	3,038,557	2,228,405	3,038,557
Lottery	-	-	382,759	377,025	382,759	377,025
Other(1)	-	-	269,880	247,989	269,880	247,989
Total Expenses	$ 28,700,502	$ 28,612,868	$ 4,785,029	$ 5,466,098	$ 33,485,531	$ 34,078,966
Excess (Deficiency) Before Transfers	$ 1,274,647	$ (180,346)	$ (232,501)	$ (1,008,237)	$ 1,042,146	$ (1,188,583)
Transfers(1)	(584,171)	(608,660)	584,171	608,660	-	-
Change in Net Assets	$ 690,476	$ (789,006)	$ 351,670	$ (399,577)	$ 1,042,146	$ (1,188,583)
Net Assets, Beginning(1)	$ 9,319,091	$ 10,108,097	$ 1,561,862	$ 1,961,439	$ 10,880,953	$ 12,069,536
Net Assets, Ending	$ 10,009,567	$ 9,319,091	$ 1,913,532	$ 1,561,862	$ 11,923,099	$ 10,880,953

(1) 2010 has been restated to be consistent with 2011 presentation.

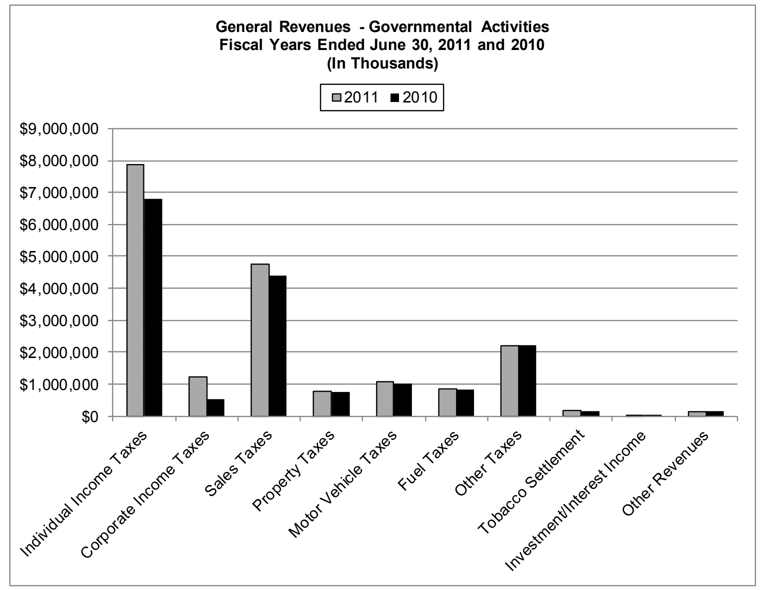
Approximately 54 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 33 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 12 percent of the total revenues. The remaining 1 percent came from other general revenues.

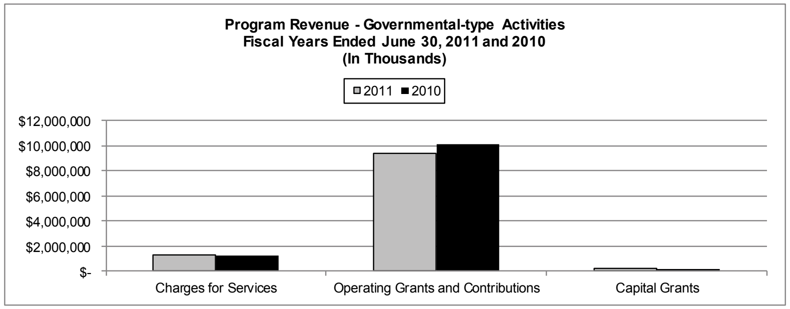
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

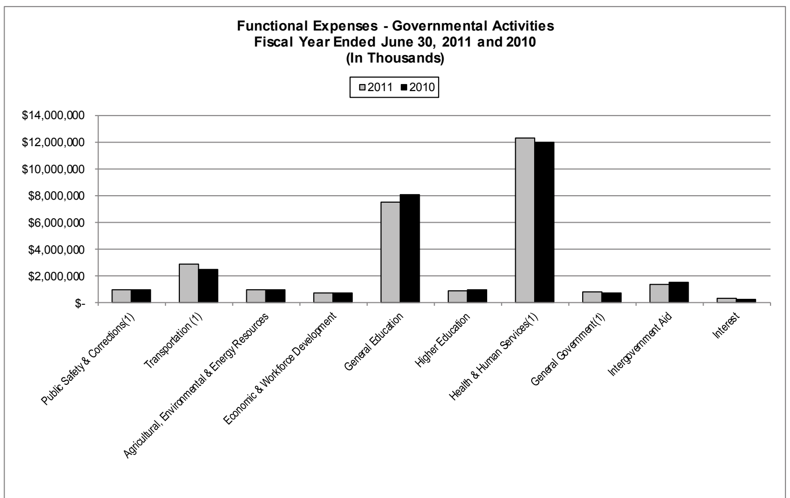
Governmental activities increased the state's net assets by $690 million compared to a decrease of $789 million in the prior year.

Significant increases in revenues were partially offset by decreases in other revenue sources. The increase in revenue was primarily attributable to the increase in income and sales taxes as a result of the strengthening economy after an economic downturn. Individual income taxes increase results mainly from an increase in wages, capital gains, and other non-wage income, while the corporate income taxes increase is from corporate profits. These increases are partially offset by a decrease in federal program revenues related to the American Recovery and Reinvestment Act (ARRA).





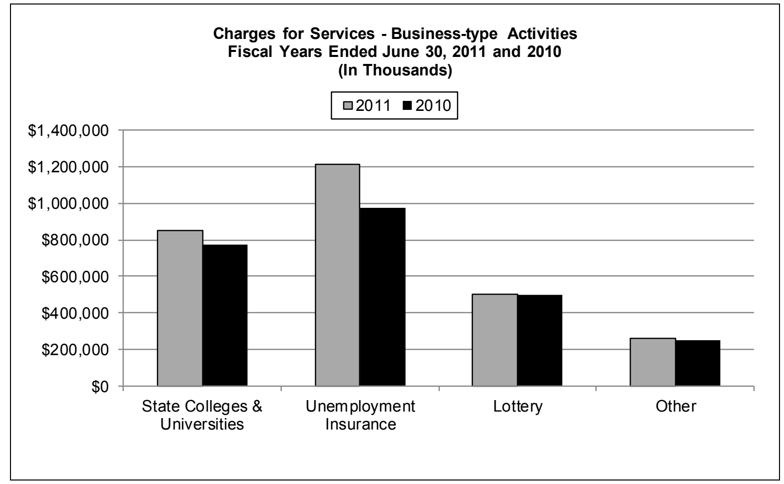
The slight net increase in functional expenses is attributable to increases in some expenses substantially offset by decreases in others. The increase in transportation expense related to increased grants to counties and cities as well as a grant to Metropolitan Council (component unit) as a result of the state transferring title of state owned capital assets associated with the Northstar Commuter Rail project. Increases in Health and Human Services expenses are due to growth in enrollment and the average costs per recipient. These increases were largely offset by decreases in state general education aid, aid to counties and cities as well as reductions in grants to the Office of Higher Education and University of Minnesota (component units).



(1) 2010 has been restated to be consistent with 2011 presentation.

Business-type Activities

Net assets for the state's proprietary funds increased by $352 million during the current year. This primarily resulted from a $146 million increase in net assets in the State Colleges and Universities Fund and a $187 million increase in net assets in the Unemployment Insurance Fund. The increase in the Colleges and Universities Fund resulted from an increase in tuition and fees due to increases in both enrollment and tuition rates. Due to additional funds received under ARRA, federal grants also increased. As a result of the strengthening economy and an increase in employment, the Unemployment Insurance Fund had significant reductions in benefits during the current year which were partially offset by reductions in federal grants associated with the recovery of a portion of the benefits. In addition, insurance premiums increased due to higher tax base and tax rates.



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 $3.5 billion, an increase of $805 million 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 a deficit of $901 million, an improvement in the unassigned fund balance by $625 million during the current year. This increase primarily resulted from an improvement of the economy.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund; however, the changes in federal grants related to ARRA grants shifted some expenditures back to the General Fund from the Federal Fund (special revenue fund) in the Public Safety and Corrections and the Health and Human Services functions. As previously noted, Transportation expenditures related to increased grants to counties, cities and Metropolitan Council (component unit) while Health and Human Services expenditure increases related to growth in enrollment and average costs per recipient. In addition, decreases in general education and intergovernmental aids expenditures resulted from decreases in aid for general education and aid to counties and cities. Finally, a reduction in grants to the Office of Higher Education and the University of Minnesota (component units) caused a decrease in higher education expenditures.

Proprietary Funds

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

The state's proprietary funds net assets increased by $352 million during the current year. This primarily resulted from a $146 increase in net assets of the State Colleges and Universities Fund and an increase of $187 in net assets 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 2011. These are material to understanding changes in General Fund balances that occurred in fiscal year 2011. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 16A.152, require that the budget be balanced for the biennium. The following includes actions taken by the Minnesota Legislature and the Governor affecting fiscal year 2011.

Actions Establishing the Fiscal Year 2011 Budget

The budget for state fiscal year 2011 was initially adopted through a combination of legislative action in May 2009 and gubernatorial action in July 2009. To close the $4.6 billion budget gap forecast for the 2010-2011 biennium, the 2009 Legislature passed bills narrowing the projected deficit to $2.7 billion. The Governor vetoed a bill that would have raised additional revenues to close the remaining budget gap. The Legislature adjourned in May 2009 with the $2.7 billion gap remaining. In July 2009, the Governor used unallotment authority in Minnesota Statutes, Section 16A.152, to implement K-12 payment deferrals ($1.7 billion) as well as unallotments and other administrative actions ($1 billion) to balance the budget. By May 2010, a projected $3.4 billion deficit was forecast for the 2010-2011 biennium due to a weaker than expected economic recovery and Minnesota Supreme Court action to invalidate the Governor's unallotments made the previous July. Action at the end of the 2010 legislative session re-balanced the budget for the 2010-2011 biennium by codifying most of the Governor's original unallotments on a one-time basis along with other spending and revenue changes.

Budget Actions during Fiscal Year 2011

The February 2011 forecast showed an improved outlook for the 2010-2011 biennium, due to modestly higher revenues and lower expenditures than previously forecast. As a result, relatively few changes were made to the budget during fiscal year 2011. A projected ending balance of $663 million for fiscal year 2011 permitted the release of $206 million in delayed tax refunds through a combination of legislative and executive actions.

The February 2011 forecast also reflected an expansion of Medical Assistance (the state's Medicaid program) for adults who are under 75 percent of the federal poverty guideline (FPG) and do not have dependent children. This action was the culmination of a number of changes during the 2010-2011 biennium to health care coverage for this group. These changes included a gubernatorial line-item veto of the state-funded General Assistance Medical Care (GAMC) program after the 2009 legislative session, the creation of a scaled-back but still state-funded version of GAMC toward the end of fiscal year 2010, and finally an expansion of Medicaid eligibility to replace the new GAMC during fiscal year 2011. Overall, the fiscal year 2011 budget reflects the following changes to health care coverage for childless adults:

- Reduction, restructuring, and elimination of General Assistance Medical Care (GAMC), which led to a temporary shift of some enrollment to MinnesotaCare in the Health Care Access Fund;
- Expanded enrollment in Medical Assistance, where the cost will be shared with the federal government at the state's regular matching rate through December 2013 and then fully paid by the federal government starting in January 2014; and
- Partial financing of the state share of Medicaid expansion with transfers from the Health Care Access Fund during fiscal years 2011 through 2013.

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 2011 with a balance of $994 million. On a GAAP basis, the General Fund reported a deficit of $150 million for fiscal year 2011, a difference of $1.1 billion from the budgetary General Fund balance. 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.

While the February 2011 forecast showed an improved outlook for fiscal year 2011, it also projected a General Fund deficit of $5 billion for the 2012-2013 biennium. The Governor and Legislature failed to reach agreement on a balanced 2012-2013 biennial budget by the constitutional deadline, triggering a 20-day state government shutdown in July. Effects of the 20-day shutdown included the temporary layoff of 19,000 state employees, additional costs for shutdown preparation and post-shutdown recovery, and minor permanent revenue loss. During this period, critical life safety activities continued as determined by court order. Limited staffing was retained to deliver state activities and manage financial transactions. To end the shutdown, the Governor and Legislature compromised on 2012-2013 biennial budget balanced primarily through spending reductions, payment shifts, reductions to reserves, and proceeds from bonds secured by tobacco settlement receipts. The state's most recent forecast projects that the General Fund will remain balanced on a budgetary basis for the 2012-2013 biennium. A forecast balance of $876 million for the 2012-2013 biennium is allocated by law to restoring the reserves. The increased reserves will provide a cushion against slower economic growth and uncertainty about changes in national fiscal policy.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2011, was $17.1 billion, less accumulated depreciation of $2.8 billion, resulting in a net book value of $14.3 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures 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, 2011 and 2010
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Capital Assets not Depreciated:						
Land	$ 2,048,043	$ 2,058,634	$ 88,009	$ 85,134	$ 2,136,052	$ 2,143,768
Buildings, Structures, Improvements	29,909	28,081	-	-	29,909	28,081
Construction in Progress	235,108	292,833	105,162	166,444	340,270	459,277
Development in Progress	74,673	34,151	-	-	74,673	34,151
Infrastructure	7,842,775	7,634,894	-	-	7,842,775	7,634,894
Easements	311,003	245,575	-	-	311,003	245,575
Art and Historical Treasures	2,353	1,989	-	-	2,353	1,989
Total Capital Assets not Depreciated	$ 10,543,864	$ 10,296,157	$ 193,171	$ 251,578	$ 10,737,035	$ 10,547,735
Capital Assets Depreciated:						
Buildings, Structures, Improvements[(1)]	$ 2,474,807	$ 2,299,250	$ 2,734,339	$ 2,532,752	$ 5,209,146	$ 4,832,002
Infrastructure	160,683	149,642	-	-	160,683	149,642
Internally Generated Computer Software	396	3,748	14,923	13,928	15,319	17,676
Easements	4,090	4,067	-	-	4,090	4,067
Library Collections	-	-	47,167	48,078	47,167	48,078
Equipment, Furniture, Fixtures	599,734	562,830	334,709	266,171	934,443	829,001
Total Capital Assets Depreciated	$ 3,239,710	$ 3,019,537	$ 3,131,138	$ 2,860,929	$ 6,370,848	$ 5,880,466
Less: Accumulated Depreciation[(1)]	1,426,832	1,317,603	1,417,649	1,336,227	2,844,481	2,653,830
Capital Assets Net of Depreciation	$ 1,812,878	$ 1,701,934	$ 1,713,489	$ 1,524,702	$ 3,526,367	$ 3,226,636
Total	$ 12,356,742	$ 11,998,091	$ 1,906,660	$ 1,776,280	$ 14,263,402	$ 13,774,371

[(1)] 2010 has been restated to be consistent with 2011 presentation.

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 2010, indicated that the average PQI for principal arterial pavement was 3.3 and 3.2 for all other pavements. The state has maintained a stable condition of pavement over the past 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 2010, indicated that 94 percent of principal arterial system bridges and 91 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.

Prior Period Adjustment Governmental Activities: During fiscal year 2011, depreciable building cost increased by $52.6 million and accumulated depreciation increased by $36.8 million. This was due to an additional building identified by Minnesota Department of Military Affairs and additional depreciation on equipment primarily at the Minnesota Department of Transportation as a result of recalculating depreciation in preparation for converting capital assets into the new statewide accounting system. This resulted in a net prior period adjustment of $15.9 million.

During the current year, the state placed additional emphasis on pavement and bridge maintenance and repair which caused a shift between costs associated with new roads to a greater focus on improvements to current infrastructure compared to the amounts originally budgeted.

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

Debt Administration

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

The state's general obligation bonds were rated on June 30, 2011, as follows:

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

Subsequent to June 30, 2011, both Standard & Poors and Fitch Ratings downgraded the state's bond ratings to AA+.

The state also 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.

Outstanding Bonded Debt and Unamortized Premium
June 30, 2011 and 2010
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation	$ 5,814,900	$ 5,103,210	$ 260,618	$ 250,353	$ 6,075,518	$ 5,353,563
Revenue	12,055	12,900	375,409	320,779	387,464	333,679
Certificate of Participation	79,408	80,649	-	-	79,408	80,649
Total	$ 5,906,363	$ 5,196,759	$ 636,027	$ 571,132	$ 6,542,390	$ 5,767,891

During fiscal year 2011, the state issued the following bonds:

- $635.0 million in general obligation state various purpose bonds
- $225.0 million in general obligation state trunk highway bonds
- $5.0 million in general obligation Rural Finance Authority bonds
- $687.1 million in state refunding bonds
- $220.7 million in state trunk highway refunding bonds

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 ASSETS
JUNE 30, 2011
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,921,933	$ 924,360	$ 5,846,293	$ 1,179,254
Investments	1,368,470	27,725	1,396,195	905,894
Accounts Receivable	2,506,819	528,092	3,034,911	411,450
Due from Component Units	13,037	-	13,037	-
Due from Primary Government	-	-	-	78,270
Accrued Investment/Interest Income	25,475	-	25,475	45,907
Federal Aid Receivable	1,196,156	42,155	1,238,311	3,435
Inventories	31,708	19,827	51,535	50,365
Loans and Notes Receivable	64,785	6,352	71,137	231,414
Internal Balances	6,912	(6,912)	-	-
Securities Lending Collateral	-	-	-	2,497
Other Assets	6,161	3,764	9,925	92,350
Total Current Assets	$ 10,141,456	$ 1,545,363	$ 11,686,819	$ 3,000,836
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 149,906	$ 149,906	$ 761,709
Investments-Restricted	-	-	-	914,584
Accounts Receivable-Restricted	-	-	-	7,792
Due from Primary Government	-	-	-	25,059
Other Assets-Restricted	-	69	69	16,370
Due from Component Units	96,929	-	96,929	-
Investments	-	-	-	3,463,683
Accounts Receivable	423,420	-	423,420	495,523
Loans and Notes Receivable	265,221	26,405	291,626	4,649,093
Depreciable Capital Assets (Net)	1,812,878	1,713,489	3,526,367	4,767,667
Nondepreciable Capital Assets	2,701,089	193,171	2,894,260	714,391
Infrastructure (Not depreciated)	7,842,775	-	7,842,775	-
Other Assets	21,780	-	21,780	13,267
Deferred Loss on Interest Rate Swap Agreements	-	-	-	30,815
Total Noncurrent Assets	$ 13,164,092	$ 2,083,040	$ 15,247,132	$ 15,859,953
Total Assets	$ 23,305,548	$ 3,628,403	$ 26,933,951	$ 18,860,789
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 5,186,853	$ 275,925	$ 5,462,778	$ 272,790
Due to Component Units	22,271	-	22,271	-
Due to Primary Government	-	-	-	55,357
Unearned Revenue	570,065	58,856	628,921	97,740
Accrued Interest Payable	81,628	11,986	93,614	80,963
General Obligation Bonds Payable	444,278	18,887	463,165	115,290
Loans and Notes Payable	12,518	277,623	290,141	267,221
Revenue Bonds Payable	880	15,690	16,570	396,010
Claims Payable	78,001	-	78,001	78,205
Compensated Absences Payable	33,472	15,768	49,240	136,078
Workers' Compensation Liability	17,884	3,396	21,280	-
Certificates of Participation Payable	7,925	-	7,925	-
Capital Leases Payable	6,838	5,420	12,258	575
Securities Lending Liabilities	-	-	-	2,497
Other Liabilities	14,196	17,310	31,506	65,079
Total Current Liabilities	$ 6,476,809	$ 700,861	$ 7,177,670	$ 1,567,805
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 139,784
Unearned Revenue-Restricted	-	-	-	20,714
Accrued Interest Payable-Restricted	-	-	-	10,551
Due to Primary Government	-	-	-	96,929
Unearned Revenue	-	-	-	7,700
General Obligation Bonds Payable	5,370,622	241,731	5,612,353	1,774,015
Loans and Notes Payable	19,065	187,657	206,722	2,391
Revenue Bonds Payable	11,175	359,719	370,894	4,298,435
Claims Payable	586,116	-	586,116	556,530
Compensated Absences Payable	251,563	126,071	377,634	81,030
Workers' Compensation Liability	103,777	4,321	108,098	-
Certificates of Participation Payable	71,483	-	71,483	-
Capital Leases Payable	144,318	40,748	185,066	10,820
Funds Held in Trust	-	-	-	248,991
Due to Component Units	16,684	-	16,684	-
Other Liabilities	244,369	53,763	298,132	165,977
Interest Rate Swap Agreements	-	-	-	30,815
Total Noncurrent Liabilities	$ 6,819,172	$ 1,014,010	$ 7,833,182	$ 7,444,682
Total Liabilities	$ 13,295,981	$ 1,714,871	$ 15,010,852	$ 9,012,487

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2011
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
NET ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Invested in Capital Assets,				
Net of Related Debt	$ 9,147,520	$ 1,352,739	$ 10,500,259	$ 3,447,729
Restricted for:				
Debt Service	$ 448,843	$ -	$ 448,843	$ -
Transportation	973,904	-	973,904	-
Public Safety and Corrections	25,376	57,725	83,101	-
Environmental Resources	883,947	-	883,947	-
Economic and Workforce Development	121,848	1,912	123,760	-
Arts and Cultural Heritage	10,904	-	10,904	-
School Aid-Nonexpendable	801,927	-	801,927	-
School Aid-Expendable	5,842	-	5,842	-
General Education	80,744	-	80,744	-
Health and Human Services	21,211	14,958	36,169	-
State Colleges and Universities	-	547,446	547,446	-
General Government	21,697	-	21,697	-
Other Purposes	-	21,659	21,659	
Component Units	-	-	-	5,611,535
Total Restricted	$ 3,396,243	$ 643,700	$ 4,039,943	$ 5,611,535
Unrestricted	$ (2,534,196)	$ (82,907)	$ (2,617,103)	$ 789,038
Total Net Assets	$ 10,009,567	$ 1,913,532	$ 11,923,099	$ 9,848,302

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBU-TIONS	CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 976,261	$ 157,201	$ 189,492	$ -
Transportation	2,897,408	21,782	713,417	194,232
Agricultural, Environmental and Energy Resources	969,947	369,400	460,743	7,932
Economic and Workforce Development	695,050	46,764	306,590	-
General Education	7,499,159	19,403	954,792	-
Higher Education	892,921	3	50,454	-
Health and Human Services	12,274,181	424,670	6,692,535	-
General Government	832,859	265,022	30,586	121
Intergovernment Aid	1,339,943	-	-	-
Interest	322,773	-	-	-
Total Governmental Activities	$ 28,700,502	$ 1,304,245	$ 9,398,609	$ 202,285
Business-type Activities:				
State Colleges and Universities	$ 1,903,985	$ 851,754	$ 508,588	$ 1,515
Unemployment Insurance	2,228,405	1,211,352	1,188,735	-
Lottery	382,759	504,514	-	-
Other	269,880	260,247	-	-
Total Business-type Activities	$ 4,785,029	$ 2,827,867	$ 1,697,323	$ 1,515
Total Primary Government	$ 33,485,531	$ 4,132,112	$ 11,095,932	$ 203,800
Component Units:				
University of Minnesota	$ 3,237,794	$ 1,474,110	$ 993,701	$ 203,085
Metropolitan Council	817,711	330,905	157,649	219,744
Housing Finance	493,806	167,265	255,814	-
Others	345,690	127,674	79,540	-
Total Component Units	$ 4,895,001	$ 2,099,954	$ 1,486,704	$ 422,829

General Revenues:
Taxes:
Individual Income Taxes
Corporate Income Taxes
Sales Taxes
Property Taxes
Motor Vehicle Taxes
Fuel Taxes
Other Taxes
Tobacco Settlement
Unallocated Investment/Interest Income
Other Revenues
State Grants Not Restricted
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning, as Reported
Prior Period Adjustments
Change in Fund Structure

Net Assets, Beginning, as Restated

Net Assets, Ending

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (629,568)		$ (629,568)	
(1,967,977)		(1,967,977)	
(131,872)		(131,872)	
(341,696)		(341,696)	
(6,524,964)		(6,524,964)	
(842,464)		(842,464)	
(5,156,976)		(5,156,976)	
(537,130)		(537,130)	
(1,339,943)		(1,339,943)	
(322,773)		(322,773)	
$ (17,795,363)		$ (17,795,363)	
	$ (542,128)	$ (542,128)	
	171,682	171,682	
	121,755	121,755	
	(9,633)	(9,633)	
	$ (258,324)	$ (258,324)	
$ (17,795,363)	$ (258,324)	$ (18,053,687)	
			$ (566,898)
			(109,413)
			(70,727)
			(138,476)
			$ (885,514)
$ 7,883,583	$ -	$ 7,883,583	$ -
1,204,521	-	1,204,521	-
4,760,684	-	4,760,684	-
771,020	-	771,020	-
1,074,769	-	1,074,769	-
851,245	-	851,245	-
2,192,739	-	2,192,739	228,197
172,207	-	172,207	-
19,836	7,058	26,894	498,841
139,406	18,765	158,171	86,013
-	-	-	889,729
(584,171)	584,171	-	-
$ 18,485,839	$ 609,994	$ 19,095,833	$ 1,702,780
$ 690,476	$ 351,670	$ 1,042,146	$ 817,266
$ 9,362,150	$ 1,502,946	$ 10,865,096	$ 9,031,036
15,857	-	15,857	-
(58,916)	58,916	-	-
$ 9,319,091	$ 1,561,862	$ 10,880,953	$ 9,031,036
$ 10,009,567	$ 1,913,532	$ 11,923,099	$ 9,848,302

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,933,042	$ 12,514	$ 2,631,076	$ 4,576,632
Investments	503,854	-	844,350	1,348,204
Accounts Receivable	2,367,692	207,636	352,798	2,928,126
Interfund Receivables	131,647	7,681	271,182	410,510
Due from Component Units	1,665	-	108,301	109,966
Accrued Investment/Interest Income	18,005	-	7,250	25,255
Federal Aid Receivable	-	1,122,885	73,271	1,196,156
Inventories	-	-	31,476	31,476
Loans and Notes Receivable	280,029	-	49,977	330,006
Deferred Costs	-	-	617	617
Investment in Land	-	-	16,008	16,008
Total Assets	$ 5,235,934	$ 1,350,716	$ 4,386,306	$ 10,972,956
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 3,558,259	$ 1,204,297	$ 368,193	$ 5,130,749
Interfund Payables	81,091	97,479	224,989	403,559
Due to Component Units	15,238	1,198	3,701	20,137
Deferred Revenue	1,729,788	47,619	140,191	1,917,598
Accrued Interest Payable	1,400	-	-	1,400
Total Liabilities	$ 5,385,776	$ 1,350,593	$ 737,074	$ 7,473,443
Fund Balances:				
Nonspendable	$ 579,800	$ -	$ 833,403	$ 1,413,203
Restricted	171,033	123	2,450,489	2,621,645
Committed	-	-	382,939	382,939
Assigned	-	-	2,306	2,306
Unassigned	(900,675)	-	(19,905)	(920,580)
Total Fund Balances	$ (149,842)	$ 123	$ 3,649,232	$ 3,499,513
Total Liabilities and Fund Balances	$ 5,235,934	$ 1,350,716	$ 4,386,306	$ 10,972,956

The notes are an integral part of the financial statements.

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

JUNE 30, 2011
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 3,499,513
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 7,842,775	
Nondepreciable Capital Assets	2,685,081	
Depreciable Capital Assets	3,154,160	
Accumulated Depreciation	(1,371,968)	
Total Capital Assets		12,310,048
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		1,355,305
The pension assets resulting from contributions in excess of the annual required contributions are not financial resources and therefore are not reported in the funds		21,487
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		318,339
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds Payable	$ (5,237,838)	
Bond Premium Payable	(577,062)	
Revenue Bonds Payable	(12,055)	
Certificate of Participation Payable	(73,480)	
Certificate of Participation Premium Payable	(5,928)	
Accrued Interest Payable on Bonds	(80,228)	
Loans and Notes Payable	(15,809)	
Claims Payable	(664,117)	
Workers' Compensation Liability	(121,661)	
Capital Leases Payable	(151,156)	
Compensated Absences Payable	(279,083)	
Net Pension Obligation	(72,299)	
Net Other Post-Employment Benefits Obligation	(141,922)	
Pollution Remediation	(43,669)	
Due to Component Units	(18,818)	
Total Liabilities		(7,495,125)
Net Assets of Governmental Activities		$ 10,009,567

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, 2011
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 7,828,818	$ -	$ -	$ 7,828,818
Corporate Income Taxes	1,135,193	-	-	1,135,193
Sales Taxes	4,425,136	-	256,389	4,681,525
Property Taxes	766,926	-	-	766,926
Motor Vehicle Taxes	230,016	-	844,753	1,074,769
Fuel Taxes	-	-	852,765	852,765
Other Taxes	1,439,017	-	763,638	2,202,655
Tobacco Settlement	172,886	-	-	172,886
Federal Revenues	254	8,606,018	556,503	9,162,775
Licenses and Fees	258,739	2,892	323,490	585,121
Departmental Services	114,545	15,921	163,068	293,534
Investment/Interest Income	108,862	184	154,190	263,236
Securities Lending Income	58	-	75	133
Other Revenues	356,067	72,726	303,079	731,872
Net Revenues	$ 16,836,517	$ 8,697,741	$ 4,217,950	$ 29,752,208
Expenditures:				
Current:				
Public Safety and Corrections	$ 579,977	$ 143,015	$ 188,498	$ 911,490
Transportation	286,796	351,910	2,035,209	2,673,915
Agricultural, Environmental and Energy Resources	205,342	310,937	506,244	1,022,523
Economic and Workforce Development	130,497	287,704	302,341	720,542
General Education	6,578,615	845,408	70,157	7,494,180
Higher Education	747,617	50,717	94,613	892,947
Health and Human Services	4,815,804	6,597,351	839,427	12,252,582
General Government	683,314	24,192	79,536	787,042
Intergovernment Aid	1,316,886	-	299	1,317,185
Securities Lending Rebates and Fees	37	-	52	89
Total Current Expenditures	$ 15,344,885	$ 8,611,234	$ 4,116,376	$ 28,072,495
Capital Outlay	25,571	47,728	626,284	699,583
Debt Service	40,867	418	655,975	697,260
Total Expenditures	$ 15,411,323	$ 8,659,380	$ 5,398,635	$ 29,469,338
Excess of Revenues Over (Under) Expenditures	$ 1,425,194	$ 38,361	$ (1,180,685)	$ 282,870
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 843,496	$ 843,496
Loan Proceeds	227	-	450	677
Proceeds from Refunding Bonds	-	-	907,785	907,785
Payment to Refunded Bonds Escrow Agent	-	-	(907,785)	(907,785)
Bond Issue Premium	-	-	233,570	233,570
Transfers-In	470,101	2,072	632,293	1,104,466
Transfers-Out	(1,159,118)	(40,433)	(462,691)	(1,662,242)
Net Other Financing Sources (Uses)	$ (688,790)	$ (38,361)	$ 1,247,118	$ 519,967
Net Change in Fund Balances	$ 736,404	$ -	$ 66,433	$ 802,837
Fund Balances, Beginning, as Reported	$ (886,246)	$ 123	$ 3,639,817	$ 2,753,694
Change in Fund Structure	-	-	(58,916)	(58,916)
Fund Balances, Beginning, as Restated	$ (886,246)	$ 123	$ 3,580,901	$ 2,694,778
Change in Inventory	-	-	1,898	1,898
Fund Balances, Ending	$ (149,842)	$ 123	$ 3,649,232	$ 3,499,513

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, 2011
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$	802,837
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 $130,074 in the current period		569,509
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		(4,370)
Capital assets donated to other governmental units or component units are considered grant expenses on the Statement of Activities, but the Governmental funds report no activity		(185,175)
Governmental funds do not report net transfers of capital assets between governmental funds and business-type funds		(20,144)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities reported with governmental activities		(2,097)
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used		1,898
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		196,337
Bond and loan proceeds provide current financial resources to governmental funds; however issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets		(1,985,528)
Repayment of bonds and loans are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets		1,255,719
Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds		61,490
Change in Net Assets of Governmental Activities	$	690,476

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, 2011
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 7,342,060	$ 7,251,715	$ 7,529,204
Corporate Income Taxes	799,435	913,790	924,613
Sales Taxes	4,491,675	4,433,542	4,372,077
Property Taxes	764,879	762,225	766,926
Motor Vehicle Taxes	237,013	233,701	232,552
Other Taxes	1,132,074	1,139,483	1,202,494
Departmental Earnings/Licenses and Fees	286,337	295,524	296,873
Investment/Interest Income	6,400	1,500	2,102
Tobacco Settlement	163,259	164,614	169,375
Other Revenues	445,258	377,721	431,877
Net Revenues	$ 15,668,390	$ 15,573,815	$ 15,928,093
Expenditures:			
Public Safety and Corrections	$ 598,952	$ 609,972	$ 593,429
Transportation	220,268	269,593	269,425
Agricultural, Environmental and Energy Resources	169,401	191,797	176,190
Economic and Workforce Development	108,355	126,186	118,008
General Education	6,142,624	6,191,866	6,186,102
Higher Education	753,477	752,271	751,069
Health and Human Services	4,779,863	4,496,397	4,228,502
General Government	1,131,918	715,972	685,478
Intergovernment Aid	1,605,812	1,357,377	1,357,269
Total Expenditures	$ 15,510,670	$ 14,711,431	$ 14,365,472
Excess of Revenues Over (Under) Expenditures	$ 157,720	$ 862,384	$ 1,562,621
Other Financing Sources (Uses):			
Transfers-In	$ 417,230	$ 490,712	$ 493,276
Transfers-Out	(801,364)	(1,241,658)	(1,241,658)
Net Other Financing Sources (Uses)	$ (384,134)	$ (750,946)	$ (748,382)
Net Change in Fund Balances	$ (226,414)	$ 111,438	$ 814,239
Fund Balances, Beginning, as Reported	$ 501,641	$ 501,641	$ 501,641
Prior Period Adjustments	-	-	33,488
Fund Balances, Beginning, as Restated	$ 501,641	$ 501,641	$ 535,129
Budgetary Fund Balances, Ending	$ 275,227	$ 613,079	$ 1,349,368
Less: Appropriation Carryover	-	-	42,435
Less: Reserved for Long-Term Receivables	-	-	37,829
Less: Budgetary Reserve	-	-	274,665
Undesignated Fund Balances, Ending	$ 275,227	$ 613,079	$ 994,439

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 770,820	$ 9,192	$ 144,348	$ 924,360	$ 345,301
Investments	27,725	-	-	27,725	20,266
Accounts Receivable	58,014	444,398	25,680	528,092	28,073
Interfund Receivables	29,063	-	2,223	31,286	-
Accrued Investment/Interest Income	-	-	-	-	220
Federal Aid Receivable	16,420	25,735	-	42,155	-
Inventories	12,626	-	7,201	19,827	232
Deferred Costs	1,336	-	518	1,854	5,544
Loans and Notes Receivable	6,352	-	-	6,352	-
Other Assets	-	-	1,910	1,910	-
Total Current Assets	$ 922,356	$ 479,325	$ 181,880	$ 1,583,561	$ 399,636
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 149,906	$ -	$ -	$ 149,906	$ -
Other Assets-Restricted	69	-	-	69	-
Deferred Costs	-	-	-	-	293
Loans and Notes Receivable	26,405	-	-	26,405	-
Depreciable Capital Assets (Net)	1,606,786	-	106,703	1,713,489	30,686
Nondepreciable Capital Assets	177,832	-	15,339	193,171	-
Total Noncurrent Assets	$ 1,960,998	$ -	$ 122,042	$ 2,083,040	$ 30,979
Total Assets	$ 2,883,354	$ 479,325	$ 303,922	$ 3,666,601	$ 430,615
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 191,134	$ 52,953	$ 31,838	$ 275,925	$ 82,064
Interfund Payables	-	17,590	20,608	38,198	39
Unearned Revenue	41,188	15,740	1,928	58,856	7,772
Accrued Interest Payable	-	11,589	397	11,986	-
General Obligation Bonds Payable	18,583	-	304	18,887	-
Loans and Notes Payable	577	277,046	-	277,623	6,869
Revenue Bonds Payable	7,710	-	7,980	15,690	-
Workers' Compensation Liability	3,396	-	-	3,396	-
Capital Leases	5,248	-	172	5,420	-
Compensated Absences Payable	14,290	-	1,478	15,768	564
Other Liabilities	17,278	-	32	17,310	-
Total Current Liabilities	$ 299,404	$ 374,918	$ 64,737	$ 739,059	$ 97,308
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 239,965	$ -	$ 1,766	$ 241,731	$ -
Loans and Notes Payable	4,524	183,133	-	187,657	8,905
Revenue Bonds Payable	257,204	-	102,515	359,719	-
Workers' Compensation Liability	4,321	-	-	4,321	-
Capital Leases	40,170	-	578	40,748	-
Compensated Absences Payable	115,618	-	10,453	126,071	5,388
Other Liabilities	52,041	-	1,722	53,763	675
Total Noncurrent Liabilities	$ 713,843	$ 183,133	$ 117,034	$ 1,014,010	$ 14,968
Total Liabilities	$ 1,013,247	$ 558,051	$ 181,771	$ 1,753,069	$ 112,276
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,322,661	$ -	$ 30,078	$ 1,352,739	$ 14,918
Restricted for:					
Bond Covenants	$ 66,364	$ -	$ -	$ 66,364	$ -
Debt Service	42,271	-	-	42,271	-
Capital Projects	1,979	-	-	1,979	-
Public Safety and Corrections	-	-	57,725	57,725	-
Economic and Workforce Development	-	-	1,912	1,912	-
Health and Human Services	-	-	14,958	14,958	-
Other Purposes	436,832	-	21,659	458,491	-
Total Restricted	$ 547,446	$ -	$ 96,254	$ 643,700	$ -
Unrestricted	$ -	$ (78,726)	$ (4,181)	$ (82,907)	$ 303,421
Total Net Assets	$ 1,870,107	$ (78,726)	$ 122,151	$ 1,913,532	$ 318,339

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 731,890	$ -	$ -	$ 731,890	$ -
Restricted Student Payments, Net	103,368	-	-	103,368	-
Net Sales	-	-	549,488	549,488	11,123
Rental and Service Fees	-	-	178,330	178,330	170,754
Insurance Premiums	-	1,210,389	33,587	1,243,976	686,157
Other Income	16,496	963	3,356	20,815	8,180
Total Operating Revenues	$ 851,754	$ 1,211,352	$ 764,761	$ 2,827,867	$ 876,214
Less: Cost of Goods Sold	-	-	376,314	376,314	-
Gross Margin	$ 851,754	$ 1,211,352	$ 388,447	$ 2,451,553	$ 876,214
Operating Expenses:					
Purchased Services	$ 218,838	$ -	$ 56,040	$ 274,878	$ 158,572
Salaries and Fringe Benefits	1,249,299	-	116,157	1,365,456	51,787
Student Financial Aid	56,887	-	-	56,887	-
Unemployment Benefits	-	2,172,287	-	2,172,287	-
Claims	-	-	22,731	22,731	616,531
Depreciation	97,297	-	10,786	108,083	8,441
Amortization	-	-	71	71	634
Supplies and Materials	164,292	-	8,674	172,966	6,627
Repairs and Maintenance	34,606	-	-	34,606	-
Indirect Costs	-	-	5,840	5,840	1,658
Other Expenses	46,217	38,309	8,284	92,810	2,794
Total Operating Expenses	$ 1,867,436	$ 2,210,596	$ 228,583	$ 4,306,615	$ 847,044
Operating Income (Loss)	$ (1,015,682)	$ (999,244)	$ 159,864	$ (1,855,062)	$ 29,170
Nonoperating Revenues (Expenses):					
Investment Income	$ 6,418	$ 7	$ 633	$ 7,058	$ 2,557
Federal Grants Revenues	420,175	-	-	420,175	-
State Grants and Contributions	65,481	-	-	65,481	-
Private Grants	22,932	-	-	22,932	-
Grants and Subsidies	1,515	1,188,735	-	1,190,250	-
Other Nonoperating Revenues	-	15,720	11	15,731	-
Interest and Financing Costs	(20,862)	(11,589)	(5,050)	(37,501)	(346)
Grants, Aids and Subsidies	(15,687)	(6,220)	(19,834)	(41,741)	-
Other Nonoperating Expenses	-	-	(7,468)	(7,468)	(5,299)
Gain (Loss) on Disposal of Capital Assets	3,189	-	(15,545)	(12,356)	830
Total Nonoperating Revenues (Expenses)	$ 483,161	$ 1,186,653	$ (47,253)	$ 1,622,561	$ (2,258)
Income (Loss) Before Transfers and Contributions	$ (532,521)	$ 187,409	$ 112,611	$ (232,501)	$ 26,912
Capital Contributions	65,480	-	19,873	85,353	271
Transfers-In	613,382	-	10,176	623,558	9
Transfers-Out	-	-	(124,740)	(124,740)	(29,289)
Change in Net Assets	$ 146,341	$ 187,409	$ 17,920	$ 351,670	$ (2,097)
Net Assets, Beginning, as Reported	$ 1,723,766	$ (266,135)	$ 45,315	$ 1,502,946	$ 320,436
Change in Fund Structure	-	-	58,916	58,916	-
Net Assets, Beginning, as Restated	$ 1,723,766	$ (266,135)	$ 104,231	$ 1,561,862	$ 320,436
Net Assets, Ending	$ 1,870,107	$ (78,726)	$ 122,151	$ 1,913,532	$ 318,339

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 841,237	$ 1,175,511	$ 765,027	$ 2,781,775	$ 867,469
Receipts from Other Revenues	-	-	2,773	2,773	9,471
Receipts from Repayment of Program Loans	3,803	-	-	3,803	-
Financial Aid Disbursements	(57,246)	-	-	(57,246)	-
Payments to Claimants	-	(2,212,074)	(338,383)	(2,550,457)	(620,006)
Payments to Suppliers	(456,599)	-	(117,591)	(574,190)	(116,684)
Payments to Employees	(1,240,782)	-	(115,339)	(1,356,121)	(51,596)
Payments to Others	-	-	(37,257)	(37,257)	(58,225)
Payments of Program Loans	(3,935)	-	-	(3,935)	-
Net Cash Flows from Operating Activities	$ (913,522)	$ (1,036,563)	$ 159,230	$ (1,790,855)	$ 30,429
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 510,340	$ 1,198,289	$ -	$ 1,708,629	$ -
Grant Disbursements	(15,687)	(6,197)	(19,872)	(41,756)	-
Transfers-In	613,382	-	10,612	623,994	19
Transfers-Out	-	(7,746)	(121,047)	(128,793)	(29,412)
Advances from Other Funds	-	1,031,297	-	1,031,297	-
Repayments of Advances from Other Funds	-	(1,169,911)	-	(1,169,911)	-
Repayment of Bond Principal	-	-	(12,100)	(12,100)	-
Interest Paid	-	-	(5,150)	(5,150)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,108,035	$ 1,045,732	$ (147,557)	$ 2,006,210	$ (29,393)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 43,629	$ -	$ -	$ 43,629	$ -
Investment in Capital Assets	(160,003)	-	(34,755)	(194,758)	(8,920)
Proceeds from Disposal of Capital Assets	4,905	-	47	4,952	3,043
Proceeds from Capital Debt	116,707	-	-	116,707	-
Proceeds from Loans	-	-	-	-	6,173
Capital Lease Payments	(4,977)	-	(160)	(5,137)	-
Repayment of Loan Principal	(826)	-	-	(826)	(8,413)
Repayment of Bond Principal	(26,340)	-	(11,600)	(37,940)	-
Interest Paid	(20,151)	-	(806)	(20,957)	(354)
Net Cash Flows from Capital and Related Financing Activities	$ (47,056)	$ -	$ (47,274)	$ (94,330)	$ (8,471)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 7,543	$ -	$ -	$ 7,543	$ 26,572
Purchase of Investments	(4,396)	-	-	(4,396)	(25,790)
Investment Earnings	4,748	-	650	5,398	2,864
Net Cash Flows from Investing Activities	$ 7,895	$ -	$ 650	$ 8,545	$ 3,646
Net Increase (Decrease) in Cash and Cash Equivalents	$ 155,352	$ 9,169	$ (34,951)	$ 129,570	$ (3,789)
Cash and Cash Equivalents, Beginning, as Reported	$ 765,374	$ 23	$ 118,688	$ 884,085	$ 349,090
Change in Fund Structure	-	-	60,611	60,611	-
Cash and Cash Equivalents, Beginning, as Restated	$ 765,374	$ 23	$ 179,299	$ 944,696	$ 349,090
Cash and Cash Equivalents, Ending	$ 920,726	$ 9,192	$ 144,348	$ 1,074,266	$ 345,301

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(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)	$ (1,015,682)	$ (999,244)	$ 159,864	$ (1,855,062)	$ 29,170
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 97,297	$ -	$ 10,786	$ 108,083	$ 8,441
Amortization	-	-	71	71	634
Miscellaneous Nonoperating Revenues	342	9,138	-	9,480	-
Miscellaneous Nonoperating Expenses	-	-	(6,296)	(6,296)	(5,256)
Loan Principal Repayments	3,803	-	-	3,803	-
Loans Issued	(3,935)	-	-	(3,935)	-
Provision for Loan Defaults	35	-	-	35	-
Loans Forgiven	568	-	-	568	-
Change in Valuation of Assets	1,517	-	-	1,517	-
Change in Assets and Liabilities:					
Accounts Receivable	(9,870)	(44,236)	832	(53,274)	259
Inventories	785	-	(346)	439	(3,165)
Other Assets	-	-	(85)	(85)	(429)
Accounts Payable	11,911	(13,039)	(6,978)	(8,106)	72
Compensated Absences Payable	2,855	-	732	3,587	(169)
Unearned Revenues	(647)	10,764	489	10,606	683
Other Liabilities	(2,501)	54	161	(2,286)	189
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 102,160	$ (37,319)	$ (634)	$ 64,207	$ 1,259
Net Cash Flows from Operating Activities	$ (913,522)	$ (1,036,563)	$ 159,230	$ (1,790,855)	$ 30,429
Noncash Investing, Capital and Financing Activities:					
Transferred/Donated Assets	$ -	$ -	$ 20,088	$ 20,088	$ 271
Capital Assets Acquired Through Leases/Loans	32,406	-	237	32,643	-
Disposal of Capital Assets	-	-	(15,390)	(15,390)	-
Capital Assets Purchased on Account	23,197	-	-	23,197	-
Investment Earnings on Account	-	-	-	-	810
Bond Premium Amortization	1,961	-	-	1,961	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 40,202	$ -	$ 105,687
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 3,407,606	$ 75,326	$ -
Investments:			
Guaranteed Investment Account	$ 1,372,618	$ -	$ -
Debt Securities	10,376,859	153,017	-
Equity Securities	35,884,368	350,689	-
Mutual Funds	3,958,308	-	-
Total Investments	$ 51,592,153	$ 503,706	$ -
Accrued Interest and Dividends	$ 137,596	$ 2,364	$ -
Securities Trades Receivables (Payables)	(1,089,067)	(9,829)	-
Total Investment Pool Participation	$ 54,048,288	$ 571,567	$ -
Receivables:			
Accounts Receivable	$ -	$ -	$ 24,671
Interfund Receivables	13,576	-	-
Other Receivables	103,115	-	-
Accrued Interest and Dividends	149	-	-
Total Receivables	$ 116,840	$ -	$ 24,671
Securities Lending Collateral	$ 3,323,570	$ 30,252	$ -
Depreciable Capital Assets (Net)	26,358	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 57,555,687	$ 601,819	$ 130,358
LIABILITIES			
Accounts Payable	$ 23,326	$ -	$ 130,358
Interfund Payables	13,576	-	-
Accrued Expense	61	-	-
Revenue Bonds Payable	23,672	-	-
Bond Interest	43	-	-
Compensated Absences Payable	2,570	-	-
Securities Lending Liabilities	3,323,570	30,252	-
Total Liabilities	$ 3,386,818	$ 30,252	$ 130,358
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 54,168,869	$ 571,567	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 919,910	$ -
Member	1,158,554	-
Contributions From Other Sources	27,966	-
Participating Plans	-	32,167
Total Contributions	$ 2,106,430	$ 32,167
Net Investment Income:		
Investment Income	$ 10,283,573	$ 96,277
Less: Investment Expense	(69,336)	-
Net Investment Income	$ 10,214,237	$ 96,277
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 27,541	$ 267
Borrower Rebates	(3,092)	(128)
Management Fees	(9,822)	(22)
Net Securities Lending Revenue	$ 14,627	$ 117
Total Investment Income	$ 10,228,864	$ 96,394
Transfers From Other Funds	$ 47,737	$ -
Other Additions	9,797	-
Total Additions	$ 12,392,828	$ 128,561
Deductions:		
Benefits	$ 3,652,316	$ -
Refunds	250,444	39,708
Administrative Expenses	35,048	-
Transfers to Other Funds	24,979	-
Total Deductions	$ 3,962,787	$ 39,708
Net Increase (Decrease)	$ 8,430,041	$ 88,853
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 45,746,335	$ 482,714
Prior Period Adjustments	(7,507)	-
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 45,738,828	$ 482,714
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 54,168,869	$ 571,567

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010 and JUNE 30, 2011
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 270,165	$ 183,742	$ 268,197	$ 457,150	$ 1,179,254
Investments	144,461	300,367	135,679	325,387	905,894
Accounts Receivable	8,671	20,818	354,057	27,904	411,450
Due from Other Governmental Units	-	6,833	-	-	6,833
Due from Primary Government	-	72,706	3,188	2,376	78,270
Accrued Investment/Interest Income	17,601	1,256	3,088	23,962	45,907
Federal Aid Receivable	2,940	-	-	495	3,435
Inventories	-	26,347	23,972	46	50,365
Deferred Costs	13,307	-	-	3,057	16,364
Loans and Notes Receivable	-	-	8,755	222,659	231,414
Securities Lending Collateral	-	-	2,497	-	2,497
Other Assets	24,604	5,958	38,248	343	69,153
Total Current Assets	$ 481,749	$ 618,027	$ 837,681	$ 1,063,379	$ 3,000,836
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 257,440	$ 130,609	$ 175,939	$ 197,721	$ 761,709
Investments-Restricted	777,538	-	117,183	19,863	914,584
Accounts Receivable-Restricted	-	4,842	-	2,950	7,792
Due from Primary Government-Restricted	-	8,375	-	16,684	25,059
Other Assets-Restricted	-	16,370	-	-	16,370
Investments	-	-	3,382,971	80,712	3,463,683
Accounts Receivable	-	-	153,224	342,299	495,523
Loans and Notes Receivable	2,065,339	49,104	54,329	2,480,321	4,649,093
Depreciable Capital Assets (Net)	1,445	2,337,716	2,425,962	2,544	4,767,667
Nondepreciable Capital Assets	-	475,803	237,677	911	714,391
Other Assets	-	-	5,703	7,564	13,267
Deferred Loss on Interest Swap Agreements	30,815	-	-	-	30,815
Total Noncurrent Assets	$ 3,132,577	$ 3,022,819	$ 6,552,988	$ 3,151,569	$ 15,859,953
Total Assets	$ 3,614,326	$ 3,640,846	$ 7,390,669	$ 4,214,948	$ 18,860,789
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 15,027	$ 90,582	$ 158,211	$ 8,970	$ 272,790
Due to Primary Government	-	299	4,872	50,186	55,357
Unearned Revenue	-	6,355	74,679	16,706	97,740
Accrued Bond Interest Payable	46,799	3,028	11,866	19,270	80,963
General Obligation Bonds Payable	-	88,322	26,968	-	115,290
Loans and Notes Payable	-	-	264,600	2,621	267,221
Revenue Bonds Payable	317,245	1,245	6,775	70,745	396,010
Claims Payable	-	4,279	33,244	40,682	78,205
Compensated Absences Payable	190	4,402	131,383	103	136,078
Securities Lending Liabilities	-	-	2,497	-	2,497
Other Liabilities	-	575	65,079	-	65,654
Total Current Liabilities	$ 379,261	$ 199,087	$ 780,174	$ 209,283	$ 1,567,805
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 84,126	$ 55,658	$ -	$ 139,784
Unearned Revenue-Restricted	-	20,714	-	-	20,714
Accrued Bond Interest Payable-Restricted	-	9,920	-	631	10,551
Due to Primary Government	-	-	30,639	66,290	96,929
Unearned Revenue	3,634	-	4,066	-	7,700
General Obligation Bonds Payable	-	1,219,105	554,910	-	1,774,015
Loans and Notes Payable	-	1,405	-	986	2,391
Revenue Bonds Payable	2,238,169	2,693	250,633	1,806,940	4,298,435
Claims Payable	-	14,467	10,745	531,318	556,530
Compensated Absences Payable	1,658	4,269	74,173	930	81,030
Funds Held in Trust	96,996	-	151,995	-	248,991
Other Liabilities	187	69,415	102,684	4,511	176,797
Interest Rate Swap Agreements	30,815	-	-	-	30,815
Total Noncurrent Liabilities	$ 2,371,459	$ 1,426,114	$ 1,235,503	$ 2,411,606	$ 7,444,682
Total Liabilities	$ 2,750,720	$ 1,625,201	$ 2,015,677	$ 2,620,889	$ 9,012,487
NET ASSETS					
Invested in Capital Assets,					
Net of Related Debt	$ 1,445	$ 1,762,184	$ 1,680,645	$ 3,455	$ 3,447,729
Restricted-Expendable	862,161	275,166	1,877,053	1,532,986	4,547,366
Restricted-Nonexpendable	-	-	1,064,169	-	1,064,169
Unrestricted	-	(21,705)	753,125	57,618	789,038
Total Net Assets	$ 863,606	$ 2,015,645	$ 5,374,992	$ 1,594,059	$ 9,848,302

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND JUNE 30, 2011
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 493,806	$ 817,711	$ 3,237,794	$ 345,690	$ 4,895,001
Program Revenues:					
Charges for Services	$ 167,265	$ 330,905	$ 1,474,110	$ 127,674	$ 2,099,954
Operating Grants and Contributions	255,814	157,649	993,701	79,540	1,486,704
Capital Grants and Contributions	-	219,744	203,085	-	422,829
Net (Expense) Revenue	$ (70,727)	$ (109,413)	$ (566,898)	$ (138,476)	$ (885,514)
General Revenues:					
Taxes	$ -	$ 228,197	$ -	$ -	$ 228,197
Investment Income	-	22,331	452,236	24,274	498,841
Other Revenues	1,484	2,229	81,004	1,296	86,013
Total General Revenues before Grants	$ 1,484	$ 252,757	$ 533,240	$ 25,570	$ 813,051
State Grants Not Restricted	47,801	-	623,300	218,628	889,729
Total General Revenues	$ 49,285	$ 252,757	$ 1,156,540	$ 244,198	$ 1,702,780
Change in Net Assets	$ (21,442)	$ 143,344	$ 589,642	$ 105,722	$ 817,266
Net Assets, Beginning, as Reported	$ 885,048	$ 1,872,301	$ 4,785,350	$ 1,488,337	$ 9,031,036
Net Assets, Ending	$ 863,606	$ 2,015,645	$ 5,374,992	$ 1,594,059	$ 9,848,302

The notes are an integral part of the financial statements.

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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 statement for the fiscal year ended June 30, 2011:

GASB Statement No. 59 “Financial Instruments Omnibus” was issued in June 2010. The statement updates and improves existing standards regarding financial reporting and disclosure requirements for certain financial instruments and external investment pools for which significant issues have been identified. This statement had no 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 or incomplete. These criteria include the state's ability to appoint a voting majority of an organization's governing body, and either the state’s ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state.

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

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

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. 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. MC includes the Metropolitan Sports Facilities Commission as a component unit. The fiscal year for MC ends December 31.

- University of Minnesota (U of M) – U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of the U of M's operating budget. The legislature elects the twelve-member board of regents, which governs U of M, but the state does not have direct authority over the management of the university. The state has issued debt for U of M capital projects. U of M includes several foundations as component units.

- Agricultural and Economic Development Board (AEDB) – AEDB administers programs for agricultural and economic development. AEDB has seven members, four of whom are commissioners of state departments. 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. The authority is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

- Rural Finance Authority (RFA) – RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program, and agricultural improvement program. The board of the authority consists of state department heads and members appointed by the governor. RFA is under the administrative control of the commissioner of the Department of Agriculture, who is a member of the board. The state has issued general obligation bond debt for RFA programs.

- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by the state commissioner of the Department of Commerce. The commissioner enters into administrative contracts, sets premium rates, and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. The fiscal year for WCARP ends December 31.

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

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

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

Housing Finance Agency 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 55455	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite E-200 St. Paul, Minnesota 55101-1351
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 8300 Norman Center Drive, Suite 1000 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	

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

- Higher Education Facilities Authority – The governor appoints a majority of the board. The Authority can issue revenue bonds and notes in its name. The state has no statutory authority to affect the operations of the Authority.

- Joint Underwriting Association – The state commissioner of the Department of Commerce appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.

- Metropolitan Airports Commission – The governor appoints a majority of the voting commissioners. The state has no statutory authority to directly affect the commission's activities and operations. Holders of the commission's debt instruments have no recourse against the state.

- Workers' Compensation Reinsurance Association – The state commissioner of the Department of Labor and Industry appoints, or approves the appointment of, a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

The following organizations, which are included in the primary government, prepare and publish separate financial reports, which may contain differences in presentation resulting from differing reporting emphasis. These financial reports may be obtained directly from each organization.

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

The focus of the government-wide statements is on financial information of the state as an entity and the change in the overall financial position of the state as a result of the activities of the fiscal year. Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements. These amounts are reported as expenditures in the governmental fund financial statements. Long-term debt is recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liabilities, rather than as expenditures.

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

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

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

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

Fund Financial Statements

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

Governmental funds, including the general, special revenue, capital projects, debt service, and permanent funds, are presented on a current financial resource measurement focus and modified accrual basis of accounting in the fund financial statements. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual spending conforms to the budget. Because the governmental fund statements are presented using a different measurement focus and basis of accounting than used in the governmental column in the government-wide statements, reconciliations explaining the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column are included.

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

The state's fiduciary funds are presented in the fund financial statements by type (pension 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 assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are followed in accounting for these funds. The fund types included in this category are the enterprise and internal service funds.

- Enterprise funds account for activities that charge a fee to external users for goods or services. Activities of enterprise funds are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.
- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include motor pool, central services, central stores, 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 trust 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, pollution remediation obligations, pension and other postemployment benefits, and claims and judgments, which are recorded when due and expected to be liquidated with available financial resources. The following provides further detail on specific items regarding the modified accrual basis of accounting.

Tax Revenues – Tax revenues, excluding property taxes, are recognized in the period they become both measurable and available to finance expenditures of the current period. Measurable means that taxpayer liability is supported by sufficient documentation and can be reasonably estimated. The state's liability for anticipated refunds of such taxes is estimated and recorded as reductions in revenue in the period when the related tax is recognized.

Property Tax Revenues – Laws of Minnesota Special Session 2001 established a state general tax (property tax) against commercial-industrial and seasonal recreational property. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. Levies are determined based on the formula contained in the laws. The state preliminarily certifies the state general levy rate to each county no later than November 1 of each year for taxes payable in the following calendar year. The state certifies the final state general tax levy on January 1 of each year to each county. Property taxes are due to counties in two installments for each year – May 15 and October 15. The counties pay the state general tax to the state on three dates – June 30, December 1, and January 25, for any adjustments or changes. Local units of government, as agents for the state, assess the state general tax. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

Federal Revenues – Federal revenues, earned by incurring allowable obligations, are recognized at the same time the related obligation is recognized, with one exception. Trunk Highway Fund (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.

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

Cash Equivalents and Investments

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

Investments – Investments are reported at fair value. The basis for determining the fair value of investments that is not based on market quotations includes analysis of future cash flows, audited financial statements, and independent appraisals. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the State Board of Investment. See Note 2 – Cash, 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. For the Trunk Highway Fund (special revenue fund), inventories are valued using weighted-average cost. Inventories maintained by the various funds are determined by annual and periodic physical counts. Inventories of proprietary funds are valued using the first-in, first-out, average cost, or specific cost methods.

Securities Lending

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

Restricted Assets

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

Income Tax Credits

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

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis.

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

Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Compensated Absences

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

Capital Assets

Capital assets, which include land, buildings, equipment, infrastructure, and intangible assets, 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 $30,000 for equipment, $300,000 for buildings, and $30,000 to $2,000,000 for internally generated computer software, depending on the fund type. 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, 20-50 years for easements, 8-12 years for internally generated computer software, 3-10 years for small improvements, and 3-12 years for equipment. Transportation infrastructure assets using the modified approach, land, construction 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, net pension and other postemployment benefit obligations, and arbitrage rebate requirements. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

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

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

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The State Deferred Compensation Fund (pension trust fund) represents the value of all assets of the plan. The plan is available to all public employees in the state and is administered by the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts, or in qualifying contracts, as required by federal law. The State Board of Investment determines the investment options available to plan participants and oversees the activities of the investment managers. The majority of the assets of the plan are invested in various mutual funds. The state is not liable for any investment losses under the plan.

Net Assets/Fund Balances and Fund Balance Classification Policies and Procedures

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

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

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

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 formal action of the state legislature 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 state officials to whom the state 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 an 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 budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

Generally, internal service fund activity has been eliminated from the government-wide statements. Internal service fund activity from external customers is reported under governmental activities in the government-wide statements. Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

Change in Fund Structure

As the capital assets held by the state which were purchased from the debt issued in the 911 Services Fund (enterprise fund) have increased, the capital projects account related to this activity was moved from the Building Fund (capital projects fund) to the 911 Services Fund (enterprise fund) on July 1, 2010.

Prior Period Adjustments

See Note 6 – Capital Assets for discussion of the prior period adjustment related to capital assets and Note 8 – Pension and Investment Trust Funds for discussion of the prior period adjustment related to pension trust funds contingent receivables.

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, 2011, fair value of investment derivatives are 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, 2011, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $945,956,000 that is $38,399,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool and a guaranteed investment contract with fair values of $275,638,000 and $189,423,000, respectively.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2011:

Primary Government
Derivative Activity for the Year Ended June 30, 2011
By Derivative Type
(In Thousands)

	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	$ 25,767	32,868	$ -
Warrants	(9)	-	-
	$ 25,758	32,868	$ -
Fiduciary Activities:			
Futures	$ 33,294	$ 204,896	$ -
Futures Options Bought	(1,371)	4,772	-
Futures Options Written	3,692	(3,845)	-
FX Forwards	(4,327)	350,043	(473)
Stock Rights/Warrants	3,234	2,209	3,491
	$ 34,522	$ 558,075	$ 3,018

Credit Risk: Minnesota is exposed to credit risk through eight 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 $1,993,412 should these counter parties fail to perform. These counter parties have Standard & Poor's (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 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 US 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.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Standard & Poor's Rating Scale
As of June 30, 2011
(In Thousands)

	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 361,964	1.24	100%	-	-	-
U.S. Agencies	756,715	2.05	100%	-	-	-
Mortgage-backed Securities	302,884	4.62	82%	8%	1%	9%
State or Local Government Bonds	104,821	11.20	99%	1%	-	-
Corporate Bonds	192,773	6.58	16%	69%	11%	4%
Short Term Notes	1,520,752	0.58	74%	13%	-	13%
Commercial Paper	2,572,049	0.08	42%	58%	-	-
Repurchase Agreements	66,032	-	-	-	-	100%
Certificates of Deposit	399,532	0.08	46%	52%	-	2%
Total Debt Securities	$ 6,277,522					
Equity Investments:						
Corporate Stock	$ 753,913					
Other Investments:						
Escheat Property	$ 12,371					
Money Market Accounts	6,045					
Total Other Investments	$ 18,416					
Total Investments	$ 7,049,851 (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
Standard & Poor's Rating Scale
As of June 30, 2011
(In Thousands)

	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 2,146,381	8.15	100%	-	-	-
U.S. Agencies	481,198	5.38	94%	-	-	6%
Mortgage-backed Securities	3,241,762	4.37	82%	8%	5%	5%
TBA Mortgage-backed Securities	1,077,792	5.81	100%	-	-	-
State or Local Government Bonds	150,309	21.91	12%	61%	-	27%
Corporate Bonds	2,918,768	8.10	8%	77%	11%	4%
Foreign Country Bonds	414,745	6.09	56%	15%	-	29%
Commercial Paper	10,957	0.08	42%	58%	-	-
Asset-backed Securities	441,591	4.60	49%	6%	7%	38%
Certificates of Deposit	1,660	0.08	47%	53%	-	-
Repurchase Agreements	107,929	0.00	-	-	-	100%
Short Term Notes	2,764,740	0.73	13%	2%	-	85%
FX Forwards	(473)	N/A	-	-	-	100%
Total Debt Securities	$ 13,757,359					
Other Investments:						
Guaranteed Investment Account						
Guaranteed Investment Contract (GIC)	$ 189,423					
Synthetic GIC	907,557					
Short Term Investments Pool	275,638					
Total Guaranteed Investment Account	$ 1,372,618					
State Street Global Investment Pools	278,492					
Mutual Funds	3,958,308					
Total Other Investments	$ 5,609,418					
Equity Investments:						
Corporate Stock	$ 29,282,331					
Alternative Equities	6,949,235					
Stock Rights/Warrants	3,491					
Total Equity Investments	$ 36,235,057					
Total Investments	$ 55,601,834 (1)					

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

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations

- Aggregate value may not exceed 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, 2011.

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, 2011.

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2011
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 2,022	$ -	$ 427,695
Brazilian Real	153	-	93,432
Canadian Dollar	1,482	22,217	569,595
Danish Krone	310	-	80,566
Euro Currency	7,441	62,666	1,757,263
Hong Kong Dollar	2,067	-	415,794
Indian Rupee	335	-	155,042
Indonesian Rupah	54	-	69,243
Japanese Yen	15,125	-	1,106,199
New Taiwan Dollar	1,208	-	111,153
Norwegian Krone	460	-	54,859
Pound Sterling	5,703	34,068	1,141,207
Singapore Dollar	904	-	95,321
South African Rand	83	-	78,441
South Korean Won	1,255	-	218,676
Swedish Krona	1,760	-	130,263
Swiss Franc	1,033	-	395,558
Other	775	-	282,543
Total	$ 42,170	$ 118,951	$ 7,182,850

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, 2011, such investment had an average duration of 3.16 days and an average weighted maturity of 49.02 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, 2011, 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, 2011, were $7,124,967,000 and $6,896,797,000 respectively. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

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

Housing Finance Agency

As of June 30, 2011, Housing Finance Agency (HFA) had $1,449,604,000 of cash, cash equivalents, and investments. As of June 30, 2011, $368,168,000 of deposits and $994,087,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 1.1 – 29.1 years.

HFA cash equivalents included $159,437,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2011, all the investment agreement providers, or the investment agreement guarantors if more highly rated, had a Standard & Poor's long-term credit rating of 'A+' or higher and a Moody's long-term credit rating of 'A1' or higher, except for Depfa Bank PLC's Standard & Poor's rating which is discussed below. 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. Certain investment agreements with Depfa Bank PLC ($33,942,000) and Credit Agricole CIB ($11,503,000) require a downgrade to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating is 'BBB' from Standard & Poor's and Credit Agricole CIB's ratings was downgraded by Standard & Poor's to 'A+' during fiscal year 2011, HFA reduced the carrying value of those agreements by $612,000 as of June 30, 2011.

HFA investments had an estimated fair market value of $921,999,000 as of June 30, 2011. Included in these investments were $10,983,000 in U.S. Treasuries (not rated), $265,870,000 in Certificates of Deposit, and $603,755,000 in U.S. Agencies having a Standard & Poor's rating of 'AAA' and Moody's Investors Services rating of 'Aaa.' An additional $24,090,000 in municipal debt investments had a Standard & Poor's rating of 'AA' and Moody's Investors Services rating of 'Aa.'

HFA had investments in single issuers as of June 30, 2011, excluding investments issued or explicitly guaranteed by the U.S. Government that exceeded five percent or more of total investments. These investments amounted to $369,738,000 and involved Federal Home Loan Bank and 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, 2011, as Interest Rate Swap Agreements noncurrent liability. The change in fair value for fiscal year 2011 is reported in Deferred Loss on Interest Swap Agreements noncurrent asset.

As of June 30, 2011, HFA had six, six, and two interest rate swap agreements with counterparties USB AG, Royal Bank of Canada, and Citibank, N.A. for total notional amounts of $138,870,000; $196,515,000; and 75,130,000 having fair values of ($9,223,000); ($16,790,000); and ($4,802,000); respectively. For these counterparties, respectively, the increase (decrease) in fair values for fiscal year ended June 30, 2011, were ($1,976,000); ($3,494,000); and ($795,000).

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, UBS AG, Royal Bank of Canada, and Citibank, N.A. have been rated by Moody's as 'Aa3,' 'Aa1,' and 'A1,' respectively, and by Standard & Poor's as 'A+,' 'AA-,' and 'A+,' respectively.

All swaps are pay-fixed 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 cumulative 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 SIMFA 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, 2010, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of $614,718,000. Of this amount, $604,001,000 was subject to rating. Using the Moody's Investors Services rating scale, $382,023,000 of these investments were rated 'Aaa' and $123,184,000 were rated 'Aa3,' while $98,794,000 were not rated.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $81,002,000 U.S. Treasury and agency investments, MC has a custodial credit risk exposure of $3,010,000 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, 2010. The investment portfolio has an average yield of 1.6 percent, modified duration of 1.7 years, effective duration of 2.1 years, and convexity of -.08.

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

Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2010
(In Thousands)

		Estimated Fair Value
Fair Value of Portfolio Before Basis Point Increase	$	603,047
Fair Value of Portfolio After Basis Point Increase of:		
50 Points	$	585,021
100 Points	$	581,305
150 Points	$	577,571
200 Points	$	573,919

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% 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 and since 2006, its natural gas consumption. The hedging transactions are separate from fuel purchase transactions. For 2010, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2010, MC had 301 New York Mercantile Exchange (NYMEX) heating oil futures contracts (13.8 million gallons) acquired from January 7, 2009, through December 21, 2010, to terminate on dates from January 31, 2011, through October 31, 2012. MC also had 55 natural gas futures contracts acquired from January 20, 2009, through October 19, 2010, to terminate on dates from January 27, 2011, through September 26, 2012.

As of December 31, 2010, the heating oil and natural gas futures contracts had a fair value of $4,155,000 and ($704,000), respectively. These values are reported in “Other Assets–Current” and offset in “Accounts Payable–Current.”

By using NYMEX heating oil futures to hedge diesel fuel, MC has a risk that 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, 2011, University of Minnesota (U of M), including its discretely presented component units, had $444,136,000 of cash and cash equivalents and $3,635,833,000 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 $419,032,000 and investments of $1,660,739,000.

Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts are fully insured, regardless of balance, at qualified FDIC-insured institutions. As of June 30, 2011, the U of M’s bank balance of $76,766,000 was fully insured but 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, 2011, $936,989,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $832,027,000 was rated AA or Better
- $31,807,000 was rated BBB to A
- $27,364,000 was rated BB or less
- $45,791,000 was not rated

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

- $550,147,000 in government agencies with an average duration of .38 to 1.90 years
- $25,914,000 in corporate bonds with an average duration of 8.00 years
- $57,557,000 in mortgage backed securities with an average duration of 4.64 years
- $202,184,000 in cash and cash equivalents with an average duration of 0.00 years
- $306,000 in asset-backed securities with an average duration of 8.13 years
- $22,478,000 in emerging markets with an average duration of 9.05 years
- $10,853,000 in muni securities with an average duration of 23.83 years
- $10,228,000 in sovereign securities with an average duration of 9.95 years
- $11,531,000 in other types of securities with an average duration of 0.51 years

As of June 30, 2011, U of M had $75,059,000 of equity investments subject to foreign currency risk. The two largest components of this amount are $8,489,000 in Japanese Yen and $28,457,000 in Euro Currency.

U of M has entered into three pay-fixed, receive-variable interest rate swaps to convert all of a portion of the associated variable rate debt to synthetic fixed rates to hedge against the variability of cash flows for budgeting purposes. On February 1, 2011, the U of M terminated the three interest rate swap agreements at a cost of $17,195,000, which included a net realized loss of $4,695,000.

The U of M has three other separate pay-fixed, receive-variable swaps that are considered ineffective. At June 30, 2011, their total fair value was ($16,930,000), with changes in fair value reported as investment income.

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

Nonmajor Component Units

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 4,755	$ 19,863
National Sports Center Foundation	287	-
Office of Higher Education	302,726	-
Public Facilities Authority	322,119	98,349
Rural Finance Authority	21,470	-
Workers' Compensation Assigned Risk Plan	3,514	307,750
Total	$ 654,871	$ 425,962

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2010, or June 30, 2011, as applicable
(In Thousands)

Note 3 – Disaggregation of Receivables

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2011
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 817,713	$ -	$ -	$ 817,713
Sales and Use	483,302	-	-	483,302
Property	365,279	-	-	365,279
Health Care Provider	221,619	-	92,295	313,914
Highway Users	-	-	91,995	91,995
Child Support	69,103	72,181	-	141,284
Workers' Compensation	-	-	106,485	106,485
Other	410,676	135,455	64,136	610,267
Net Receivables	$ 2,367,692	$ 207,636	$ 354,911	$ 2,930,239
	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	$ -	$ 444,398	$ -	$ 444,398
Tuition and Fees	58,014	-	-	58,014
Other	-	-	25,680	25,680
Net Receivables	$ 58,014	$ 444,398	$ 25,680	$ 528,092
Total Government-wide Net Receivables				$ 3,458,331

[1]Includes $2,113 Internal Service Funds.

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

- Corporate and Individual Taxes $167,044,000
- Sales and Use Taxes $48,521,000
- Child Support $293,810,000
- Other Receivables $74,905,000

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

- Corporate and Individual Taxes $163,891,000
- Sales and Use Taxes $70,118,000
- Child Support $77,373,000
- Health Care Provider $94,273,000
- Other Receivables $17,765,000

Note 4 – Loans and Notes Receivable

Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2011
(In Thousands)

	General Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ 32,757
Economic Development	75,113	47,035	-	-
School Districts	112,925	-	-	-
Agricultural, Environmental and Energy Resources	73,862	884	-	-
Transportation	14,058	1,866	189	-
Other	4,071	-	3	-
Total	$ 280,029	$ 49,785	$ 192	$ 32,757

Component Units
Loans and Notes Receivable
As of June 30, 2011
(In Thousands)

Housing Finance Authority	$ 2,065,339
Metropolitan Council	49,104
University of Minnesota	63,084
Agricultural and Economic Development Board	2,508
Office of Higher Education	718,090
Public Facilities Authority	1,925,164
Rural Finance Authority	57,218
Total	$ 4,880,507

Note 5 – Interfund Transactions

Primary Government

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

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

Primary Government
Interfund Receivables and Payables
As of June 30, 2011
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 96,374
Nonmajor Governmental Funds	16,849
Nonmajor Enterprise Funds	18,385
Internal Service Funds	39
Total Due to General Fund From Other Funds	$ 131,647
Due to the Federal Fund From:	
General Fund	$ 2,053
Nonmajor Governmental Funds	5,620
Unemployment Insurance Fund	8
Total Due to Federal Fund From Other Funds	$ 7,681
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 29,063
Total Due to State Colleges and Universities From Other Funds	$ 29,063
Due to the Nonmajor Enterprise Funds From:	
Nonmajor Enterprise Funds	$ 2,223
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,223
Due to Fiduciary Funds From:	
Fiduciary Funds	$ 13,576
Total Due to Fiduciary Funds From Other Fiduciary Funds	$ 13,576
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 79,038
Federal Fund	1,105
Unemployment Insurance Fund	17,582
Nonmajor Governmental Funds	173,457
Total Due to Nonmajor Governmental Funds From Other Funds	$ 271,182

Primary Government
Interfund Transfers
Year Ended June 30, 2011
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 40,433
Nonmajor Governmental Funds	301,589
Nonmajor Enterprise Funds	100,306
Internal Service Funds	27,773
Total Transfers to General Fund From Other Funds	$ 470,101
Transfers to the Federal Fund From:	
Nonmajor Governmental Funds	$ 1,991
Internal Service Funds	81
Total Transfers to Federal Fund From Other Funds	$ 2,072
Transfers and Capital Contributions to the State Colleges and Universities Fund From:	
General Fund	$ 605,690
Nonmajor Governmental Funds – Capital Contributions	73,172
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	$ 678,862
Transfers to Fiduciary Funds From:	
General Fund	$ 22,750
Fiduciary Funds	24,979
Internal Service Funds	8
Total Transfers to Fiduciary Funds From Other Funds	$ 47,737
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 529,210
Nonmajor Governmental Funds	77,231
Nonmajor Enterprise Funds	24,434
Internal Service Funds	1,418
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 632,293
Transfers and Capital Contributions to the Nonmajor Enterprise Funds From:	
General Fund	$ 1,468
Nonmajor Governmental Funds	8,708
Government-wide Capital Assets	19,873
Total Transfers and Capital Contributions to Nonmajor Enterprise Funds From Other Funds	$ 30,049
Transfers and Capital Contributions to Internal Service Funds From:	
Internal Service Funds	$ 9
Government-wide Capital Assets	271
Total Transfers and Capital Contributions to Internal Service Funds	$ 280

Component Units

Primary Government and Component Units
Receivables and Payables
As of June 30, 2011
(In Thousands)

		Due From Primary Government		Due To Primary Government
Component Units				
Major Component Units:				
Metropolitan Council	$	81,081	$	299
University of Minnesota		3,188		35,511
Total Major Component Units	$	84,269	$	35,810
Nonmajor Component Units	$	19,060	$	116,476
Total Component Units	$	103,329	$	152,286

		Due From Component Units		Due To Component Units
Primary Government				
Major Governmental Funds:				
General Fund	$	1,665	$	15,238
Federal Fund		-		1,198
Total Major Governmental Funds	$	1,665	$	16,436
Nonmajor Governmental Funds	$	108,301	$	3,701
Total Primary Government	$	109,966	$	20,137 (1)

(1) Due to component units on the Government-wide Statement of Net Assets totals $38,955 and includes $18,818 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 $42,320,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The $83,192,000 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 $18,818,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2011
(In Thousands)

	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 2,058,634	$ 91,967	$ (102,558)	$ 2,048,043
Buildings, Structures, Improvements	28,081	1,828	-	29,909
Construction in Progress	292,833	138,785	(196,510)	235,108
Development in Progress	34,151	41,311	(789)	74,673
Infrastructure	7,634,894	309,917	(102,036)	7,842,775
Easements	245,575	65,428	-	311,003
Art and Historical Treasures (1)	1,989	364	-	2,353
Total Capital Assets not Depreciated	$ 10,296,157	$ 649,600	$ (401,893)	$ 10,543,864
Capital Assets Depreciated:				
Buildings, Structures, Improvements (2)	$ 2,299,250	$ 206,726	$ (31,169)	$ 2,474,807
Infrastructure	149,642	24,080	(13,039)	160,683
Internally Generated Computer	3,748	47	(3,399)	396
Easements	4,067	23	-	4,090
Equipment, Furniture, Fixtures	562,830	72,892	(35,988)	599,734
Total Capital Assets Depreciated	$ 3,019,537	$ 303,768	$ (83,595)	$ 3,239,710
Accumulated Depreciation for:				
Buildings, Structures, Improvements (2)	$ (894,832)	$ (77,873)	$ 9,901	$ (962,804)
Infrastructure	(42,540)	(5,105)	351	(47,294)
Easements	(469)	(96)	-	(565)
Internally Generated Computer	(1,658)	-	1,658	-
Equipment, Furniture, Fixtures (2)	(378,104)	(64,103)	26,038	(416,169)
Total Accumulated Depreciation	$ (1,317,603)	$ (147,177)	$ 37,948	$ (1,426,832)
Total Capital Assets Depreciated, Net	$ 1,701,934	$ 156,591	$ (45,647)	$ 1,812,878
Governmental Act. Capital Assets, Net	$ 11,998,091	$ 806,191	$ (447,540)	$ 12,356,742

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

(2) Prior year amounts have been restated for the prior period adjustment.

Prior Period Adjustment Governmental Activities: During fiscal year 2011, depreciable buildings cost increased by $52,633,000 with corresponding accumulated depreciation of $1,239,000 and equipment accumulated depreciation increased by $35,537,000. This was attributable to a building identified by the Minnesota Department of Military Affairs that was not previously reported and additional depreciation on equipment primarily at the Minnesota Department of Transportation due to recalculating depreciation in preparation for converting capital assets into the new statewide accounting system. The net prior period adjustment was $15,857,000. These changes have been reflected as an adjustment to beginning balances.

Capital outlay expenditures in the governmental funds totaled $699,583,000 for fiscal year 2011. Donations of general capital assets received during fiscal year 2011 were valued at $8,053,000. Transfers of $232,598,000 were primarily from construction in progress for completed projects. Additions in internal service funds were $13,134,000, which included both assets purchased and transfers between asset categories for computer software. Accumulated depreciation related to the transfers is also included as an addition to the accumulated depreciation.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2011, consisted of equipment with a cost of $3,706,000 and buildings with a cost of $180,005,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2011
(In Thousands)

	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 85,134	$ 3,338	$ (463)	$ 88,009
Construction in Progress	166,444	156,369	(217,651)	105,162
Total Capital Assets not Depreciated	$ 251,578	$ 159,707	$ (218,114)	$ 193,171
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 2,532,752	$ 266,764	$ (65,177)	$ 2,734,339
Library Collections	48,078	6,034	(6,945)	47,167
Internally Generated Computer	13,928	2,400	(1,405)	14,923
Equipment, Furniture, Fixtures	266,171	97,941	(29,403)	334,709
Total Capital Assets Depreciated	$ 2,860,929	$ 373,139	$ (102,930)	$ 3,131,138
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,106,105)	$ (76,558)	$ 11,959	$ (1,170,704)
Library Collections	(27,837)	(6,763)	6,970	(27,630)
Internally Generated Computer	(6,137)	(1,926)	1,345	(6,718)
Equipment, Furniture, Fixtures	(196,148)	(35,134)	18,685	(212,597)
Total Accumulated Depreciation	$ (1,336,227)	$ (120,381)	$ 38,959	$ (1,417,649)
Total Capital Assets Depreciated, Net	$ 1,524,702	$ 252,758	$ (63,971)	$ 1,713,489
Business-type Act. Capital Assets, Net	$ 1,776,280	$ 412,465	$ (282,085)	$ 1,906,660
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,763	$ -	$ -	$ 29,763
Equipment, Furniture, Fixtures	6,198	2,399	(267)	8,330
Total Capital Assets Depreciated	$ 35,961	$ 2,399	$ (267)	$ 38,093
Accumulated Depreciation for:				
Buildings	$ (6,682)	$ (758)	$ -	$ (7,440)
Equipment, Furniture, Fixtures	(4,084)	(460)	249	(4,295)
Total Accumulated Depreciation	$ (10,766)	$ (1,218)	$ 249	$ (11,735)
Total Capital Assets Depreciated, Net	$ 25,195	$ 1,181	$ (18)	$ 26,358
Fiduciary Funds, Capital Assets, Net	$ 25,624	$ 1,181	$ (18)	$ 26,787

Primary Government
Depreciation Expense
Year Ended June 30, 2011
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 32,558
Transportation	45,937
Agricultural, Environmental & Energy Resources	11,046
Economic and Workforce Development	1,004
General Education	5,319
Health and Human Services	21,344
General Government	12,866
Internal Service Funds	9,075
Total Governmental Activities	$ 139,149
Business-type Activities:	
State Colleges and Universities	$ 97,297
Lottery	913
Other	9,944
Total Business-type Activities	$ 108,154

Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2011
(In Thousands)

	Administration	Transportation
Authorization	$ 132,344	$ 749,296
Less: Expended through June 30, 2011	(96,103)	(241,448)
Less: Unexpended Commitment	(31,441)	(480,213)
Remaining Available Authorization	$ 4,800	$ 27,635

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. These acres totaled 2,520,908 on June 30, 2011.

Component Units

Component Units
Capital Assets
As of December 31, 2010, or June 30, 2011, as applicable
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 111,670	$ 87,416	$ 911	$ 199,997
Construction in Progress	-	364,133	100,413	-	464,546
Museums and Collections	-	-	49,846	-	49,846
Permanent Easement	-	-	2	-	2
Buildings and Improvements	-	3,156,448	3,244,372	3,228	6,404,048
Equipment	7,843	749,546	843,541	2,018	1,602,948
Capitalized Software	-	-	97,940	-	97,940
Other Intangible Assets	-	-	8,937	-	8,937
Infrastructure	-	-	411,194	-	411,194
Total	$ 7,843	$ 4,381,797	$ 4,843,661	$ 6,157	$ 9,239,458
Less: Accumulated Depreciation	$ 6,398	$ 1,568,278	$ 2,238,589	$ 2,702	$ 3,815,967
Net Total	$ 1,445	$ 2,813,519	$ 2,605,072 (1)	$ 3,455	$ 5,423,491

(1) In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of $58,567 as of June 30, 2011.

Note 7 – Disaggregation of Payables

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2011
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds(1)	Total
School Aid Programs	$ 2,170,622	$ 314,089	$ 1	$ 2,484,712
Tax Refunds	416,038	-	-	416,038
Medical Care Programs	590,652	680,435	62,918	1,334,005
Grants	174,089	136,680	101,685	412,454
Salaries and Benefits	99,729	15,106	60,442	175,277
Vendors/Service Providers	70,369	51,260	160,315	281,944
Other	36,760	6,727	38,936	82,423
Net Payables	$ 3,558,259	$ 1,204,297	$ 424,297	$ 5,186,853

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 128,189	$ -	$ 8,168	$ 136,357
Vendors/Service Providers	53,235	-	3,452	$ 56,687
Other	9,710	52,953	20,218	$ 82,881
Net Payables	$ 191,134	$ 52,953	$ 31,838	$ 275,925
Total Government-wide Net Payables				$ 5,462,778

(1)Includes $56,104 Internal Service Funds.

Note 8 – Pension and Investment Trust Funds

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

Three plan administrators, who prepare and publish their own stand-alone comprehensive annual financial reports, including financial statements and required supplementary information, and Minnesota State Colleges and Universities (MnSCU), which publishes a stand-alone pension statement, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below.

See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses of MSRS, PERA and TRA. The address for MnSCU is included in the "Defined contribution Funds" section of this note.

Plan Administrator	Plans Covered
Minnesota State Retirement System (MSRS)	State Employees Retirement Fund Correctional Employees Retirement Fund Elective State Officers Fund Judges Retirement Fund Legislators Retirement Fund State Patrol Retirement Fund Unclassified Employees Retirement Fund Health Care Savings Plan Minnesota Deferred Compensation Plan Hennepin County Supplemental Retirement Fund
Public Employees Retirement Association (PERA)	General 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

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.

Except as described below, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported 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 Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2011, 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-seven employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent of a member's average salary 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 Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Annual benefits increase by 1.0 percent in 2011 and 2012, then by the CPI up to 1.5 percent until the fund is 90 percent of full funding, then the CPI up to 2.5 percent. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

  The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have direct contact with inmates. Eighty county employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. Annual benefits increase by at least 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

  The Public Employees Retirement Fund (PERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: 'basic' for members not covered by the Social Security Act (closed to new members since 1968) and 'coordinated' for members who are covered by the act. Normal retirement age is 65. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. 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. MERF was closed to new members as of July 1, 1978. The Actuarial Accrued Liability is 66 percent funded according to the latest actuarial evaluation. The normal retirement age is 60. The annuity formula for participants is 2.0 percent for each of the first 10 years of service and 2.5 percent each year thereafter of average salary. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is funding a portion of the unfunded actuarial liability, which is set in the state's biennial budget. The state is not liable for any additional portion of the unfunded liability without legislative action. 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 575 employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity formula for 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 and 1.7 percent for service rendered before July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increases will not occur until January 1, 2013, when they will be at least 2.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state, 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. 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 per year of service 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. Normal retirement age is 55. The annuity is 2.4 percent of average salary for each year 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 Elective State Officers Fund (ESOF) covers state constitutional officers elected prior to July 1, 1997. The ESOF is excluded from the single-employers plan disclosures since no active, contributing members remain in the plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C. Annual benefits to retirees and survivors increase by 2.0 percent or 2.5 percent if the SERF's accrued liability funding ratio is a least 90 percent determined on a market value of assets basis. A prior period adjustment of $214,000 was made to exclude a potential receivable from the state in the event of a termination of the retirement plan. As the plan has not been terminated, the plan does not have a receivable.

The Judges Retirement Fund (JRF) covers judges of the Supreme Court, Court of Appeals, and district courts. Normal retirement age is 65. The annuity is 2.7 percent of average salary for each

year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.8 percent. 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 Legislators 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). Normal retirement age is 62. 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's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis. A prior period adjustment of $7,293,000 was made to exclude a potential receivable from the state in the event of a termination of the retirement plan. As the plan has not been terminated, the plan does not have a receivable.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. Normal retirement age is 55. The annuity is 3.0 percent of average salary for each year of allowable service. Annual benefits increase by 1.5 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.

Statutory Contribution Rates
Year Ended June 30, 2011

	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352	352C	490	3A	352B	352	354
Required Contribution Rate of							
Active Members	8.60%	N/A	8.00%	9.00%	10.40%	5.00%	5.50%
Employer(s)	12.10%	N/A	20.50%	N/A	15.60%	5.00%	5.50%

Multiple Employer Plan
Required Contributions
(In Thousands)

		SERF	TRF
Required Contributions:			
Employee	2011	$ 122,029	$ 218,024
	2010	$ 113,716	$ 214,909
	2009	$ 108,866	$ 212,043
Employers[1]	2011	$ 118,563	$ 222,723
	2010	$ 115,181	$ 220,538
	2009	$ 107,211	$ 220,268
Primary Government[2]	2011	$ 86,698	$ 28,287
	2010	$ 82,642	$ 28,693
	2009	$ 77,816	$ 28,066

[1]Contributions were at least 100 percent of required contributions.
[2] Primary Government's portion of Employer Contributions.

Contribution rates are statutorily determined.

Single Employer Plan Disclosures
As of June 30, 2011
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 48,580	$ 11,645	$ 6,784	$ 20,818
Interest on Net Pension Obligation (NPO)[1]	4,989	(668)	55	(1,508)
Amortization Adjustment to ARC[1]	(3,492)	490	(89)	1,096
Annual Pension Cost (APC)	$ 50,077	$ 11,467	$ 6,750	$ 20,406
Contributions	(40,894)	(11,307)	(2,965)	(16,451)
Increase (Decrease) in NPO	$ 9,183	$ 160	$ 3,785	$ 3,955
NPO, Beginning Balance	$ 58,689	$ (7,857)	$ 642	$ (17,745)
NPO, Ending (Asset)	$ 67,872	$ (7,697)	$ 4,427	$ (13,790)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2011	$ 50,077	$ 11,467	$ 6,750	$ 20,406
	2010	$ 49,088	$ 12,146	$ 7,992	$ 23,536
	2009	$ 46,729	$ 9,999	$ 4,900	$ 20,454
Percentage of APC Contributed	2011	82%	99%	44%	81%
	2010	76%	99%	27%	72%
	2009	73%	112%	31%	75%
Net Pension Obligation (NPO) (End of Year)	2011	$ 67,872	$ (7,697)	$ 4,427	$ (13,790)
	2010	$ 58,689	$ (7,857)	$ 642	$ (17,745)
	2009	$ 46,856	$ (8,732)	$ (5,204)	$ (24,451)

Schedule of Funding Status
(In Thousands)

	CERF	JRF	LRF	SPRF
Actual Valuation Date[1]	7/1/2010	7/1/2010	7/1/2010	7/1/2010
Actuarial Value of Plan Assets	$ 603,863	$ 144,728	$ 26,821	$ 567,211
Actuarial Accrued Liability	$ 851,086	$ 240,579	$ 86,236	$ 683,360
Total Unfunded Actuarial Liability	$ 247,223	$ 95,851	$ 59,415	$ 116,149
Funded Ratio	71%	60%	31%	83%
Annual Covered Payroll	$ 192,450	$ 39,291	$ 1,877	$ 63,250
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	128%	244%	3,165%	184%

[1] The July 1, 2010, Annual Valuation Report is the most recently issued report available.

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

Actuarial Assumptions for 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, 2010.
- The calculation of the actuarial valuation of assets is the sum of the market asset value at July 1, 2010, 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 8.5 percent and 6.5 percent, respectively, except for the SPRF whose post-retirement return is 7.0 percent.
- Minnesota statutory valuation standards do not require an inflation rate assumption to cost the plans. Benefit increases after retirement are accounted for by the 6.5 percent post-retirement investment return assumption that is 2.0 percent less than the pre-retirement investment return assumption, except for the SPRF where the 7.0 percent post-retirement investment return is 1.5 percent less than the pre-retirement investment return assumption.
- The amortization method uses level percentage of projected payroll growth, except for the ESOF plan, which uses the level dollar amortization method.
- Projected payroll growth is a level 4.5 percent except for JRF which is a level 4.0 percent.
- The statutory amortization periods for SERF, CERF, ESORF, JRF, LRF, and SPRF are through June 30, of 2040, 2038, 2017, 2038, 2021, and 2036, respectively.
- Additional actuarial assumptions are detailed in the July 1, 2010, actuarial valuation reports for the MSRS defined benefit retirement funds. These reports are located online at: http://www.commissions.leg.state.mn.us/lcpr/valuations.htm#Valuations.

Defined Contribution Funds

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

Plan Descriptions and Contribution Information

The Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employee and employer contribution rate is 1.0 percent of the employee's salary. As of June 30, 2011, there were 1,938 participants in the plan for Hennepin County.

The Health Care Savings Plan (HCSP), 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 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. As of June 30, 2011, there were 67,386 participants in the plan for 419 employers.

The Unclassified Employees Retirement Fund (UNCL), 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 Judges Retirement Fund. Statutory contribution rates are 5.0 percent for employee and 6.0 percent for employer. However, the contribution rate for participating judges is 8.0 percent with no employer contribution. Vesting occurs immediately, and normal retirement age is 55. 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. As of June 30, 2011, there were 3,269 participants in the plan from 14 employers.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. As of June 30, 2010, there were 7,227 members in the plan from approximately 1,000 units of government.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between $6,000 and $15,000. Statutes allow additional employer and employee contributions under specific circumstances. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is 18,485.

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, 2011
(In Thousands)

	HCSRF	HCSP	UNCL	DCF	CURF
Employee Contributions	$ 467	$ 132,486	$ 5,415	$ 1,496	$ 34,853
Employer Contributions	$ 467	N/A	$ 6,357	$ 1,622	$ 41,307

The Minnesota Deferred Compensation Plan (MNDCP) 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. As of June 30, 2011, the plan has 79,536 participants from 547 employers.

Investment Trust Funds

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). These funds are investment pools for external participants.

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 (UNCL):

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

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

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

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative 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. In addition, Minnesota Statutes, Section 136F.481, authorized MnSCU to implement an early separation incentive program in fiscal year 2010. Approximately 250 former faculty members and staff currently receive this benefit. The cost of the benefits was $3,838,000 during fiscal year ended June 30, 2011, with a remaining liability as of June 30, 2011, of $6,326,000.

Primary Government – Postemployment Benefits Other Than Pensions

Plan Description

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes 43A.27, Subdivision 3, and Minnesota Statutes 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, 2010, there were approximately 2,450 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age of 65. As of July 1, 2010, there were approximately 1,150 correctional and law enforcement retirees receiving an explicit rate subsidy.

The state also offered an early retirement incentive that provided up to 24 months of employer contributions to the health and dental premiums at the level of coverage the employee was receiving at the time of separation. Employees must have met the eligibility requirements and retire before June 30, 2011, to receive this benefit. There were approximately 1,000 retirees receiving an explicit rate subsidy under this incentive. The state does not issue a separate financial report for its OPEB plan.

Funding Policy

The contribution requirement of plan members and the state are established and may be amended by the state legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2011, the state contributed $39,518,000 to the plan. Plan members receiving benefits through the implicit rate subsidy contributed $21,877,000 through their average required contribution of $447 per month for retiree-only coverage and $1,315 for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.75 percent discount rate. For year ending June 30, 2011, the state's ARC is $76,132,000.

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, 2011
(In Thousands)

Annual Required Contributions (ARC)[1]	$ 76,132
Interest on Net OPEB Obligation (NOO)[1]	6,013
Amortization Adjustment to ARC[1]	(4,895)
Annual OPEB Cost (Expense)	$ 77,250
Contributions	(39,518)
Increase in NOO	$ 37,732
NOO, Beginning Balance	$ 126,579
NOO, Ending[2]	$ 164,311

[1]Components of annual OPEB cost.

[2]Governmental Activities and Business-type Activities include $142,597 and $21,513, respectively. Remaining amounts are included in Fiduciary Funds.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010, and 2009 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 77,250	51%	$ 164,311
June 30, 2010	$ 76,312	43%	$ 126,579
June 30, 2009	$ 73,706	38%	$ 83,363

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $799,321,000. 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 $3,027,241,000, and the ratio of the UAAL to the covered payroll was 26.4 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, 2010.
- 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 4.0 percent.
- The annual health care cost trend rate is 6.25 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 $95,384,000 as of December 31, 2010, for this purpose. The annual required contribution for 2010 was $29,711,000 or 10.9 percent of annual covered payroll. As of December 31, 2010, 2009, and 2008, the net OPEB obligation was $57,948,000, $44,400,000 and $29,579,000 respectively. The actuarial accrued liability (AAL) for benefits was $328,428,000 as of December 31, 2010, all of which was unfunded. The covered payroll was $272,088,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 120.7 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, 2011, was $20,969,000 or 1.8 percent of annual covered payroll. As of June 30, 2011, the net OPEB obligation was $44,131,000. The actuarial accrued liability (AAL) for benefits was $99,135,000 as of June 30, 2011, all of which was unfunded. The covered payroll was $1,175,527,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 8.4 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, 2011, were as follows:

Primary Government
Encumbrances
As of June 30, 2011
(In Thousands)

Major Fund: General Fund	$ 112,775
Non-Major Governmental Funds	1,823,692
Total Encumbrances	$ 1,936,467

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes Chapter 115C, requires the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). As of November 2011, the Petrofund has reimbursed eligible applicants approximately $413,000,000 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 $425,000,000 and $465,000,000 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 twenty-five percent of the metropolitan solid waste landfill fee. Money in the account is appropriated for closure and post closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a 30 year period after closure if determined that the operator/owner cannot take the necessary actions as directed by 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 $108,266,000 for construction and renovation of college and university facilities.

Component Units

As of June 30, 2011, the Housing Finance Agency (HFA) had committed approximately $353,915,000 for the purchase or origination of future loans or other housing assistance.

Metropolitan Council enters into contracts for various purposes such as transit services and construction projects. As of December 31, 2010, unpaid commitments for Metro Transit Bus services were approximately $115,304,000. Future commitments for Metro Transit Light Rail were approximately $62,273,000, while future commitments for Metro Transit Commuter Rail were approximately $6,985,000. Finally, future commitments for Regional Transit and Environmental Services were approximately $240,715,000 and $51,852,000, respectively.

University of Minnesota (U of M) has construction projects in progress with an estimated completion cost of $446,812,000. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2011, Public Facilities Authority (PFA) had committed approximately $178,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $15,000,000 for grants.

Note 11 – Operating Lease Agreements

Operating Leases

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

Lease expenditures for the fiscal year ended June 30, 2011, totaled approximately $78,572,000 and $19,786,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2010, totaled approximately $1,431,000 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
2012	$ 76,716	2012	$ 17,652	2011	$ 1,210
2013	67,829	2013	13,477	2012	1,001
2014	47,177	2014	14,321	2013	933
2015	36,512	2015	6,242	2014	636
2016	27,748	2016	5,413	2015	196
2017-2021	51,065	2017-2021	25,496	2016-2020	286
2022-2026	9,910	2022-2026	8,207	2021-2025	100
2027-2031	3,717	2027-2031	-	2026-2030	100
2032-2036	-	2032-2036	-	2031-2035	100
2037-2041	-	2037-2041	-	2036-2040	27
Total	$ 320,674	Total	$ 90,808	Total	$ 4,589

Note 12 – Long-Term Liabilities – Primary Government

Primary Government
Long-Term Liabilities
Year Ended June 30, 2011
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 5,103,210	$ 1,984,851	$ 1,273,161	$ 5,814,900	$ 444,278
Loans	41,319	6,623	16,359	31,583	12,518
Revenue Bonds	12,900	-	845	12,055	880
Claims	743,710	3,558	83,151	664,117	78,001
Pollution Remediation	51,127	10,984	18,442	43,669	14,196
Compensated Absences	294,287	254,383	263,635	285,035	33,472
Workers' Compensation	105,257	35,769	19,365	121,661	17,884
Certificates of Participation	80,649	-	1,241	79,408	7,925
Capital Leases	158,175	-	7,019	151,156	6,838
Net Pension Obligation	58,689	56,827	43,217	72,299	-
Net Other Postemployment Obligation	110,950	65,141	33,494	142,597	-
Due to Component Unit	21,376	227	2,785	18,818	2,134
Total	$ 6,781,649	$ 2,418,363	$ 1,762,714	$ 7,437,298	$ 618,126
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 250,353	$ 29,900	$ 19,635	$ 260,618	$ 18,887
Loans	603,020	1,031,297	1,169,037	465,280	277,623
Revenue Bonds	320,779	86,807	32,177	375,409	15,690
Compensated Absences	144,975	21,141	24,277	141,839	15,768
Workers' Compensation	6,518	4,961	3,762	7,717	3,396
Capital Leases	18,662	32,643	5,137	46,168	5,420
Net Other Postemployment Obligation	15,482	11,914	5,883	21,513	-
Total	$ 1,359,789	$ 1,218,663	$ 1,259,908	$ 1,318,544	$ 336,784

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	$ 4,962,290	$ 852,610	$ -	$ 260,618	$ 6,075,518
Revenue Bonds	-	12,055	-	375,409	387,464
Loans	-	15,809	15,774	465,280	496,863
Due to Component Unit	-	18,818	-	-	18,818
Capital Leases	148,624	2,532	-	46,168	197,324
Certificates of Participation	79,408	-	-	-	79,408
Claims	15,869	648,248	-	-	664,117
Compensated Absences	136,615	142,468	5,952	141,839	426,874
Workers' Compensation	98,884	22,777	-	7,717	129,378
Net Pension Obligation	72,299	-	-	-	72,299
Net Other Postemployment Benefit Obligation	141,922	-	675	21,513	164,110
Pollution Remediation	-	43,669	-	-	43,669
Total	$ 5,655,911	$ 1,758,986	$ 22,401	$ 1,318,544	$ 8,755,842

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for pollution remediation, claims, compensated absences, workers' compensation, net pension obligation, and net other postemployment benefit obligation.

Primary Government
General Obligation Bonds
Principal and Interest Payments
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 444,278	$ 236,590	$ 18,887	$ 11,212	$ 463,165	$ 247,802
2013	450,875	217,753	18,085	10,390	468,960	228,143
2014	418,543	197,985	18,002	9,518	436,545	207,503
2015	408,068	178,693	17,587	8,654	425,655	187,347
2016	379,258	160,067	17,132	7,807	396,390	167,874
2017-2021	1,572,114	557,661	76,906	27,260	1,649,020	584,921
2022-2026	1,100,271	231,025	56,119	10,769	1,156,390	241,794
2027-2031	464,431	40,181	20,379	1,479	484,810	41,660
Total	$ 5,237,838	$ 1,819,955	$ 243,097	$ 87,089	$ 5,480,935	$ 1,907,044
Bond Premium	577,062	-	17,521	-	594,583	-
Total	$ 5,814,900	$ 1,819,955	$ 260,618	$ 87,089	$ 6,075,518	$ 1,907,044

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
2012	$ 880	$ 511	$ 15,690	$ 16,546	$ 16,570	$ 17,057
2013	915	475	20,000	15,537	20,915	16,012
2014	955	438	20,645	14,715	21,600	15,153
2015	995	396	21,475	13,859	22,470	14,255
2016	1,040	351	22,310	12,934	23,350	13,285
2017-2021	5,920	993	108,265	50,094	114,185	51,087
2022-2026	1,350	30	92,930	26,381	94,280	26,411
2027-2031	-	-	55,430	8,691	55,430	8,691
2032-2036	-	-	10,353	374	10,353	374
Total	$ 12,055	$ 3,194	$ 367,098	$ 159,131	$ 379,153	$ 162,325
Bond Premium	-	-	8,311	-	8,311	-
Total	$ 12,055	$ 3,194	$ 375,409	$ 159,131	$ 387,464	$ 162,325

Primary Government
Loans Payable and Due to Component Unit
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities [(1)] Principal	Business-type Activities [(1)] Interest	Total Principal	Total Interest
2012	$ 14,652	$ 831	$ 577	$ 252	$ 15,229	$ 1,083
2013	10,045	623	502	208	10,547	831
2014	12,492	497	470	179	12,962	676
2015	3,295	371	396	159	3,691	530
2016	2,408	274	378	143	2,786	417
2017-2021	4,276	687	1,635	465	5,911	1,152
2022-2026	2,027	324	1,083	130	3,110	454
2027-2031	1,206	66	60	1	1,266	67
Total	$ 50,401	$ 3,673	$ 5,101	$ 1,537	$ 55,502	$ 5,210

[(1)] Loan to the Unemployment Insurance Enterprise Fund of $460,179 is not included.

Primary Government
Capital Leases
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
2012	$ 6,838	$ 7,536	$ 5,420	$ 1,111	$ 12,258	$ 8,647
2013	7,027	7,240	4,769	1,123	11,796	8,363
2014	7,310	6,930	4,745	1,197	12,055	8,127
2015	7,145	6,582	4,611	1,261	11,756	7,843
2016	7,491	6,212	4,389	1,865	11,880	8,077
2017-2021	43,212	24,857	19,091	6,411	62,303	31,268
2022-2026	54,288	12,849	1,898	362	56,186	13,211
2027-2031	17,845	1,097	1,137	14	18,982	1,111
2032-2036	-	-	108	-	108	-
Total	$ 151,156	$ 73,303	$ 46,168	$ 13,344	$ 197,324	$ 86,647

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest
2012	$ 7,925	$ 3,291
2013	8,245	2,974
2014	8,575	2,644
2015	8,920	2,301
2016	9,270	1,945
2017 - 2021	30,545	3,104
Total	$ 73,480	$ 16,259
Premium on Certificates of Participation	5,928	-
	$ 79,408	$ 16,259

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 2011, 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, 2011
(In Thousands)

General Fund	$ 405,179
Special Revenue Funds:	
Trunk Highway Fund	$ 45,225
Natural Resources Funds	9
Miscellaneous Special Revenue Fund	308
Total Special Revenue Funds	$ 45,542
Capital Projects Fund:	
Building Fund	$ 204
Total Transfers to Debt Service Fund	$ 450,925

General Obligation Bond Issues

In August 2010, the state issued $865,000,000 general obligation bonds, Series 2010A through Series 2010C:

- Series 2010A for $635,000,000 in state various purpose bonds were issued at true interest rates of 3.17 percent.
- Series 2010B for $225,000,000 in state trunk highway bonds were issued at a true interest rate of 3.13 percent.
- Series 2010C for $5,000,000 in state taxable bonds were issued at a true interest rate of 1.87 percent.

In September 2010, the state issued $907,785,000 general obligation bonds, Series 2010D and Series 2010E:

- Series 2010D for $687,115,000 in state various purpose refunding bonds were issued at a true interest rate of 2.21 percent to advance refund $631,850,000 general obligation bonds. The state increased its debt service cash flows by $74,787,000, but realized a net present value savings and economic gain of $33,559,000.
- Series 2010E for $220,670,000 in state trunk highway refunding bonds were issued at a true interest rate of 2.24 percent to advance refund $201,820,000 general obligation bonds. The state increased its debt service cash flows by $21,313,000, but realized a net present value savings and economic gain of $12,199,000.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

Primary Government
General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2011 Outstanding Amount	Refunded Bond Call Date
August 26, 2009	$ 157,285	$ 153,000	$ 153,000	October 1, 2011
October 23, 2009	100,395	92,225	92,225	November 1, 2012
September 29, 2010	133,962	123,025	123,025	August 1, 2012
September 29, 2010	85,125	78,175	78,175	November 1, 2012
September 29, 2010	298,435	274,070	274,070	August 1, 2013
September 29, 2010	226,002	207,550	207,550	August 1, 2014
September 29, 2010	164,261	150,850	150,850	November 1, 2014
	$ 1,165,465	$ 1,078,895	$ 1,078,895	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2011. 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, 2011
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 698	$ 6,830	5.00
State Operated Community Services	-	2,070	5.00
State Transportation	7,560	206,960	2.00 - 5.00
Waste Management	-	65	5.00
Water Pollution Control	-	255	5.00
Maximum Effort School Loan	-	29,840	5.00
Rural Finance Authority	18,500	56,000	5.00 - 5.60
Refunding Bonds	-	1,633,485	1.75 - 5.00
Municipal Energy Building	-	15	5.00
Trunk Highway	1,546,838	852,610	2.00 - 5.00
Various Purpose	1,060,710	2,692,805	2.00 - 5.00
Total	$ 2,634,306	$ 5,480,935	

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).

Capital Leases

In 2006, the state entered into capital lease agreements with St. Paul Port Authority (SPPA - not part of the state's reporting entity) to purchase two newly constructed buildings on state owned land for $180,005,000. Lease payments are scheduled over 20 years and approximate the debt service payments of SPPA. The state has other capital lease agreements to purchase equipment. The leases meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase the buildings under a bargain purchase option and the equipment at any time during the lease period.

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of $15,809,000 were from local government entities to finance certain trunk highway projects. In addition, $18,818,000 in loans from the Public Facilities Authority (component unit – Due to Component Unit) were outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

Business-type activities loans include unpaid cash advances of $460,179,000 by the U.S. Treasury for unemployment benefit payments of the Unemployment Insurance Fund (enterprise fund). These cash advances are authorized by Section 1201 of the Social Security Act. Repayments will be funded by future Unemployment Insurance benefit premiums. Minnesota Statutes, Section 268.051, Subdivision 8, provides for a taxpaying employer special assessment for the payment of interest on Unemployment Insurance Fund's unpaid cash advances. The remaining business-type activities loans are loans to purchase equipment and loans from energy companies to improve energy efficiencies in the colleges and universities.

Revenue Bonds Payable

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. To repay the bonds, the Iron Range Resources and Rehabilitation Board 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 $25,876,000 for fiscal year 2011, have averaged approximately one third of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. The interest rates on the bonds are 4.00 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. For fiscal year 2011, principal and interest paid by the Iron Range Resources and Rehabilitation Board on the bonds was $1,391,000. The total principal and interest remaining to be paid as of June 30, 2011, is $15,249,000 payable through November 2021.

The state is authorized by Minnesota Statutes, Section 403.275, and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, $35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. On November 13, 2008, $42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. On October 22, 2009, $60,510,000 in revenue bonds were issued at a true interest rate of 3.17 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, 2011, is $137,279,000, payable through June 2025. Principal and interest paid during fiscal year 2011 and total 911 fee revenues were $17,250,000 and $63,373,000, 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 $300,000,000 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 1.0 percent to 6.5 percent. Vermilion Community College and Itasca Community College issued revenue bonds through the state of Minnesota Higher Education Facility Authority and the Itasca County Housing Redevelopment Authority. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $385,542,000. Principal and interest paid for the current year and total customer net revenues were $15,940,000 and $110,055,000, 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 51 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,286,000. Principal and interest paid and total customer net revenues during fiscal year 2011 were $205,000 and $414,000, respectively. These revenue bonds have a variable interest rate of 2.5 percent to 5.75 percent.

Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 34.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $122,000. Principal and interest paid and total customer net revenues during fiscal year 2011 were $84,000 and $253,000, respectively. These revenue bonds have a fixed interest rate of 6.0 percent.

Pollution Remediation

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, 2011, were $43,669,000. Of this total, $28,756,000 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.

Claims

Municipal solid waste landfill liability of $164,017,000 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.

Claims of $35,600,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

The remaining claim amount of $464,500,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00 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.

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $285,035,000 and $141,839,000 respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental activities and business-type activities liability for workers' compensation of $121,661,000 and $7,717,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2011, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2011, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling $29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. The revenue bonds have a variable interest rate of 5.38 to 6.00 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds. The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2011, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was $2,087,000. The total principal and interest remaining to be paid as of June 30, 2011, is $ 40,014,000, payable through 2030.

Long-Term Debt Repayment Schedule
Fiduciary Funds
Revenue Bonds – SERF, TRF, and PERF
(In Thousands)

Year Ended June 30	Principal	Interest
2012	$ 700	$ 1,376
2013	750	1,338
2014	775	1,297
2015	825	1,254
2016	875	1,208
2017-2021	5,225	5,227
2022-2026	7,050	3,500
2027-2031	7,472	1,142
Total	$ 23,672	$ 16,342

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2011, net of unamortized discounts/premiums, was $2,555,414,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had $1,307,427,000 in general obligation bonds and $3,938,000 of revenue bonds outstanding on December 31, 2010, both net of unamortized discounts/premiums.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2011, the principal amount of revenue bonds and general obligation bonds outstanding, net of unamortized discounts/premiums, was $257,408,000 and $581,878,000, respectively.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2011, the principal amount of revenue bonds outstanding was $4,455,000.

Office of Higher Education (OHE) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2011, the outstanding principal of revenue bonds was $626,853,000, 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 the revenue bonds at any time shall not exceed $1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of revenue bonds outstanding on June 30, 2011, net of unamortized discounts/premiums, was $1,246,377,000.

Component Units
General Obligation Bonds
Major Component Units
(In Thousands)

Year Ended December 31	MC Principal	MC Interest[1]	Year Ended June 30	U of M Principal	U of M Interest
2011	$ 88,322	$ 39,742	2012	$ 26,968	$ 26,761
2012	114,757	38,572	2013	25,827	25,384
2013	82,778	36,466	2014	29,015	24,177
2014	81,500	33,827	2015	30,500	22,783
2015	82,069	31,211	2016	32,130	21,351
2016-2020	431,636	113,734	2017-2021	155,235	83,400
2021-2025	301,905	46,082	2022-2026	104,915	51,681
2026-2030	104,255	8,044	2027-2031	101,535	23,048
2031-2035	1,590	27	2032-2036	36,495	3,679
2036-2040	-	-	2037-2041	1,310	33
Total	$ 1,288,812	$ 347,705	Total	$ 543,930	$ 282,297
Unamortized Discounts/ Premiums and Issuance Costs	18,615	-		37,948	-
Total	$ 1,307,427	$ 347,705	Total	$ 581,878	$ 282,297

[1]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	Year Ended December 31	MC Principal	MC Interest
2012	$ 317,245	$ 81,042	$ 6,775	$ 13,161	2011	$ 1,245	$ 138
2013	158,310	80,541	6,845	11,071	2012	1,305	81
2014	56,770	78,215	7,970	10,704	2013	1,365	27
2015	54,360	76,121	7,695	10,323	2014	-	-
2016	54,975	74,055	8,070	9,949	2015	-	-
2017-2021	294,855	336,746	46,955	43,142	2016-2020	-	-
2022-2026	341,305	276,258	60,100	29,996	2021-2025	-	-
2027-2031	442,755	200,780	57,610	14,428	2026-2030	-	-
2032-2036	482,165	115,504	34,380	4,469	2031-2035	-	-
2037-2041	313,440	30,419	-	-	2036-2040	-	-
2042-2046	24,985	2,715	-	-	2041-2045	-	-
2047-2051	11,635	492			2046-2050	-	-
2052-2056	180	1	-	-	2051-2055	-	-
Total	$ 2,552,980	$ 1,352,889	$ 236,400	$ 147,243	Total	$ 3,915	$ 246
Unamortized Discounts/ Premiums and Issuance Costs	2,434	-	21,008	-		23	-
Total	$ 2,555,414	$ 1,352,889	$ 257,408	$ 147,243	Total	$ 3,938	$ 246

Component Units
Revenue Bonds Nonmajor Component Units
(In Thousands)

Year Ended June 30	AEDB Principal	AEDB Interest	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2012	$ 685	$ 204	$ -	$ 5,654	$ 70,060	$ 57,534
2013	725	171	360	5,654	70,550	54,308
2014	750	137	1,135	5,647	73,825	50,939
2015	785	99	1,090	5,612	77,620	47,293
2016	525	66	3,045	5,580	83,835	43,425
2017-2021	985	69	21,570	25,270	428,155	155,204
2022-2026	-	-	18,150	20,079	258,640	61,985
2027-2031	-	-	8,050	17,100	122,810	14,331
2032-2036	-	-	42,800	15,424	-	-
2037-2041	-	-	429,200	6,526	-	-
2042-2044	-	-	100,000	400	-	-
	$ 4,455	$ 746	$ 625,400	$ 112,946	$ 1,185,495	$ 485,019
Unamortized Discounts/Premiums and Issuance Costs	-	-	1,453	-	60,882	-
Total	$ 4,455	$ 746	$ 626,853	$ 112,946	$ 1,246,377	$ 485,019

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M has entered into three separate interest rate swaps. All of these are pay-fixed, receive-variable interest rate swaps which change U of M's variable interest rate bonds to synthetic fixed-rate bonds. The University has three freestanding pay-fixed, receive-variable interest rate swaps that are considered ineffective hedges, where the changes in fair value are 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 interest rates on all of the bonds are reset periodically. The rates on all of the bonds, except the taxable Series 2008A bonds and the tax-exempt Series 2008B and 2010 bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1.0 percent; 17.0 percent; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25 percent. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14.0 percent; or the three month average of the three-month T-Bill plus an applicable spread of 1.25 percent.

The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15.0 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 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 4.62 percent for the year ended June 30, 2011.

Housing Finance Agency

As of June 30, 2011, all of the Housing Finance Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed as an interest rate swap agreement liability, whereas the inception-to-date change in fair value as of June 30, 2011, is included in the deferred loss on interest rate swap agreements asset on the Statement of Net Assets. 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 $160,600,000 outstanding as of June 30, 2011. 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, 2011.

Public Facilities Authority had $345,500,000 of various refunding series bonds that were defeased but not yet redeemed as of June 30, 2011. These amounts are not reflected in the financial statements as of June 30, 2011.

Pollution Remediation Obligations

For the fiscal year ended June 30, 2011, the U of M's pollution remediation liability totaled $2,700,000.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2011
(In Thousands)

	Minnesota State Colleges and Universities			
	Revenue Fund	Vermilion Modular Housing	Itasca Residence Halls	911 Services
Condensed Statement of Net Assets				
Assets:				
Current Assets	$ 75,206	$ 85	$ (3)	$ 63,690
Restricted Assets	162,963	142	383	-
Notes Receivable	1,800	-	-	-
Capital Assets	240,629	794	3,427	89,102
Total Assets	$ 480,598	$ 1,021	$ 3,807	$ 152,792
Liabilities:				
Current Liabilities	$ 27,972	$ 92	$ 108	$ 15,538
Noncurrent Liabilities	263,120	80	2,038	102,885
Total Liabilities	$ 291,092	$ 172	$ 2,146	$ 118,423
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 105,825	$ 714	$ 1,299	$ -
Restricted	83,681	62	292	34,369
Unrestricted	-	73	70	-
Total Net Assets	$ 189,506	$ 849	$ 1,661	$ 34,369
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	$ 108,102	$ 253	$ 414	$ 63,373
Depreciation Expense	(12,424)	(36)	(119)	(6,588)
Other Operating Expenses	(72,391)	(139)	(209)	(30,996)
Operating Income (Loss)	$ 23,287	$ 78	$ 86	$ 25,789
Nonoperating Revenues (Expenses):				
Interest Income	$ 650	$ -	$ 8	$ 126
Private Grants	1,260	-	-	-
Interest Expense	(8,881)	(11)	(120)	(4,381)
Other	(832)	-	-	(35,224)
Transfers-In (Out)	-	-	-	19,175
Change in Net Assets	$ 15,484	$ 67	$ (26)	$ 5,485
Beginning Net Assets	174,022	782	1,687	(30,032)
Prior Period Adjustment	-	-	-	-
Change in Fund Structure	-	-	-	58,916
Ending Net Assets	$ 189,506	$ 849	$ 1,661	$ 34,369
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	$ 34,756	$ 127	$ 218	$ 31,359
Net Cash Provided Noncapital Activities	387	-	-	-
Noncapital Financing Activities	-	-	-	(37,862)
Capital and Related Financing Activities	35,771	(83)	(205)	(31,671)
Investing Activities	561	-	8	126
Net Increase (Decrease)	$ 71,475	$ 44	$ 21	$ (38,048)
Beginning Cash and Cash Equivalents	$ 131,618	$ 159	$ 243	$ 35,949
Change in Fund Structure	-	-	-	60,611
Ending Cash and Cash Equivalents	$ 203,093	$ 203	$ 264	$ 58,512

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

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.
- MnSCU Vermilion Modular Housing accounts for the construction and operation of student housing at Vermilion Community College.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- 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

Primary Government

In addition to the pension trust funds included in the reporting entity (see Note 8 – Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The state is not liable for any additional portion of the unfunded liability without legislative action. The pension trust funds involved, the year-end for which the most current data is available, and the unfunded liabilities are described below (in thousands):

Primary Government
Contingent Liabilities
(In Thousands)

Fund	Liability as of	Unfunded Liability
St. Paul Teachers Retirement Fund	June 30, 2010	$ 470,185
Duluth Teachers Retirement Fund	June 30, 2010	$ 57,341
Local Police and Fire Funds [1]	December 31, 2010	$ 207,574

[1] The Local Police and Fire Fund consists of five local funds. Legislation was passed in 2011 which merges the Minneapolis Police Relief Association and the Minneapolis Fire Relief Association in December 2011 with the Police and Fire Fund (pension trust fund).

Note 16 – Equity

Restricted Net Assets – Government-wide Statement of Net Assets

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

Primary Government
Restricted Net Asset Balances
As of June 30, 2011
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Debt Service	$ 448,843	$ -	$ -	$ 448,843
Public Safety	-	25,258	57,843	83,101
Transportation	945,105	28,799	-	973,904
Environmental Resources	153,105	719,889	10,953	883,947
Economic and Workforce Development	-	121,433	2,327	123,760
Art and Cultural Heritage	10,904	-	-	10,904
School Aid - Nonexpendable	801,927	-	-	801,927
School Aid - Expendable	5,842	-	-	5,842
General Education	-	77,166	3,578	80,744
Health and Human Services	-	19,801	16,368	36,169
State Colleges and Universities	-	-	547,446	547,446
General Government	-	20,813	884	21,697
Other Purposes	-	-	21,659	21,659
Total Restricted Net Assets	$ 2,365,726	$ 1,013,159	$ 661,058	$ 4,039,943

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:

Primary Government
Fund Balances
As of June 30, 2011
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ -	$ -	$ 31,476	$ 31,476
Trust Fund Principal	579,800	-	-	579,800
Permanent Fund Principal	-	-	801,927	801,927
Restricted for:				
Arts and Cultural Heritage	-	-	10,904	10,904
Public Safety	-	-	25,295	25,295
Transportation	-	-	978,502	978,502
Environmental	24,513	123	312,481	337,117
Economic and Workforce Development	75,013	-	73,912	148,925
Health and Human Services	-	-	20,923	20,923
General Education	71,507	-	9,235	80,742
General Government	-	-	21,455	21,455
Debt Service	-	-	814,106	814,106
Capital Projects	-	-	177,834	177,834
Permanent Fund	-	-	5,842	5,842
Committed to:				
Public Safety	-	-	49,095	49,095
Transportation	-	-	2,862	2,862
Environmental	-	-	60,930	60,930
Economic and Workforce Development	-	-	176,481	176,481
Health and Human Services	-	-	81,496	81,496
General Education	-	-	379	379
General Government	-	-	11,696	11,696
Assigned to:				
Capital Projects	-	-	2,306	2,306
Unassigned:	(900,675)	-	(19,905)	(920,580)
Total Fund Balances	$ (149,842)	$ 123	$ 3,649,232	$ 3,499,513

Deficit Equity Balances

A $856,000 deficit total net asset balance in the Behavioral Services Fund (enterprise fund) occurred during the fiscal year ended June 30, 2011. Repayment schedules have been established. This fund's operations continue to be evaluated for future operations.

A $19,905,000 deficit fund balance in the Transportation Fund (capital projects) was caused by a delay in issuing bonds. The Transportation Fund borrowed from the Trunk Highway Fund (special revenue) until bonds were issued in September 2011.

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 $4,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature.

The liability coverage is up to the statutory limit (tort claims cap) of $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 work place safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,800,000.

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 $2,117,078 greater than coverage during the fiscal year ended June 30, 2011.

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, 2011, was 3,023 members and their dependents. The members of the pool include 21 school districts, 30 cities/townships, 2 counties, and 10 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 $200,000.

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 6/30/10	$ 9,341	$ 8,185	$ 2,877	$ 14,649
Fiscal Year Ended 6/30/11	$ 14,649	$ (3,349)	$ 2,091	$ 9,209
Tort Claims				
Fiscal Year Ended 6/30/10	$ –	$ 375	$ 375	$ –
Fiscal Year Ended 6/30/11	$ –	$ 818	$ 818	$ –
Workers' Compensation				
Fiscal Year Ended 6/30/10	$ 100,340	$ 32,787	$ 21,355	$ 111,772
Fiscal Year Ended 6/30/11	$ 111,772	$ 39,901	$ 22,295	$ 129,378
State Employee Insurance Plans				
Fiscal Year Ended 6/30/10	$ 45,390	$ 568,346	$ 568,920	$ 44,816
Fiscal Year Ended 6/30/11	$ 44,816	$ 614,842	$ 612,034	$ 47,624

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

	Year Ended June 30 2011	2010
Unpaid Claims and Claim Adjustment Expenses, Beginning	$ 1,960	$ 895
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	$ 22,643	$ 18,788
Increases (Decreases) in Provision for Insured Events of Prior Years	12	(316)
Total Incurred Claims and Claim Adjustment Expenses	$ 22,655	$ 18,472
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 20,720	$ 16,848
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,952	559
Total Payments	$ 22,672	$ 17,407
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$ 1,943	$ 1,960

Component Units

Housing Finance Agency

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

Metropolitan Council

Metropolitan Council (MC) is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss as discussed 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 reevaluated 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 4.34 percent. The self-insurance retention limit for workers' compensation is $1,800,000 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 1.5 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 12/31/09	$ 15,318	$ 7,842	$ 7,351	$ 15,809
Fiscal Year Ended 12/31/10	$ 15,809	$ 10,106	$ 7,169	$ 18,746
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/10	$ 7,920	$ 2,185	$ 2,287	$ 7,818
Fiscal Year Ended 6/30/11	$ 7,818	$ 2,345	$ 2,300	$ 7,863
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/10	$ 14,132	$ 2,978	$ 4,427	$ 12,683
Fiscal Year Ended 6/30/11	$ 12,683	$ 3,517	$ 4,235	$ 11,965
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/10	$ 18,257	$ 239,781	$ 239,394	$ 18,644
Fiscal Year Ended 6/30/11	$ 18,644	$ 246,634	$ 241,117	$ 24,161

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, 2011
(In Thousands)

GAAP Basis Fund Balance:	$	(149,842)
Less: Encumbrances		63,867
Unassigned Fund Balanace	$	(213,709)
Basis of Accounting Differences:		
Revenue Accruals/Adjustments:		
Taxes Receivable	$	(467,757)
Tax Refunds Payable		382,770
Human Services Receivable		(100,023)
Unearned Revenue		11,855
Escheat Asset		(12,257)
Other Receivables		(17,922)
Permanent School Fund Reimbursement		(3,748)
Investments at Market		8,470
Expenditure Accruals/Adjustments:		
Medical Care Programs		590,652
Human Services Grants Payable		54,541
Education Aids		2,098,345
Police and Fire Aid		79,681
Other Payables		1,224
Other Financial Sources (Uses):		
Transfers-In		(14,106)
Fund Structure Differences:		
Terminally Funded Pension Plans		21
Perspective Differences:		
Account with no Legally Adopted Budget		(1,048,669)
Long-Term Receivables		(37,829)
Appropriation Carryover		(42,435)
Budgetary Reserve	$	(274,665)
Budgetary Basis:		
Undesignated Fund Balance	$	994,439

Note 19 – Litigation Report

1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The Tort Claims appropriations for each of the fiscal years ending June 30, 2011, and June 30, 2012, 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) *35W Bridge Collapse.* On August 1, 2007, the 35W interstate bridge over the Mississippi River collapsed. Thirteen people were killed, and approximately 145 injured. The bridge, which opened in 1967, was designed by a private contractor under contract with the state of Minnesota and was inspected and maintained by the Minnesota Department of Transportation ("MnDOT"). The state has received 186 Notices of Tort Claim arising from the collapse of the 35W bridge. The Minnesota Legislature enacted a compensation account codified in Minnesota Statutes, Section 3.7391 et seq., and appropriated $36,640,000 for payments to representatives of decedents and claimants who were on the 35W bridge at the time of the collapse. A panel of three attorneys determined the amount of payments. All 179 claimants accepted payments from the compensation account and the emergency relief account in the aggregate amount of about $37 million on the condition that they waived the right to sue the state for additional recovery. However, the majority of those claimants have commenced litigation against the original bridge designer, an engineering firm that inspected the bridge under contract with the state, and a construction company that was performing work on the bridge at the time of the collapse. The state has been third-partied into this litigation which is venued in Hennepin County district court. Although the state's position is that its exposure in this litigation is capped at $1 million, the constitutionality of this cap may be challenged. The state has brought third party claims against the other defendants seeking recovery of the $37 million paid to claimants by the statutory compensation account, the emergency relief account and for state's damages associated with the collapse. The state's claim against the construction company performing work on the bridge at the time of the collapse has been settled for $1 million. The state's claim against the company which had performed inspections and analysis of the bridge has been settled for $5 million. The state is pursuing a claim against the company that designed the bridge. The Minnesota Supreme Court affirmed lower court rulings that the state's claim can proceed.

3) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over $15 million in excess of current levels.

   a) At any one time, there are hundreds of MnDOT eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department, and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds $15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund (special revenue fund). MnDOT has agreed to acquire properties for 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 and 2011. 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 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.

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 total financial potential impact to the state of the Commissioner losing the legal issue in these cases is approximately $20.9 million in one-time refunds with an on-going annual impact of $4.2 million.

d) *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry* (Ramsey County District Court). The Home Insurance Company ("Home") seeks a declaration that it is entitled to reimbursement from the Special Compensation Fund (special revenue fund) for certain workers' compensation payments Home has made. Home, which is in liquidation, seeks the reimbursement to which it claims it is entitled under the state's workers' compensation scheme, and without recourse to the General Fund. Defendants Minnesota Department of Labor and Industry and Special Compensation Fund have denied Home's requests for reimbursement, raising various statutory defenses and stating that Home is not entitled to reimbursement under the law. Home claims it is entitled to $21 million in past and future reimbursements. Summary judgment motions of both parties were heard in May 2010. The district court granted partial summary judgment in favor of the plaintiff in the amount of $7,265,246, and denied summary judgment as premature as to future payments on qualifying claims. The District Court granted the state's motion for clarification of the grant of partial judgment and ruled that the state only has to reimburse Home amounts it has actually paid to Minnesota Insurance Guaranty Association, and which are eligible for reimbursement under the statute. The state has the option to appeal the district court grant of partial summary judgment.

e) *Jensen, et al. v. METO, et al.* (U.S. District Court). Parents/guardians of several patients/former patients of the Minnesota Extended Treatment Options ("METO") program allege violations of various state and federal constitutional and statutory rights because of alleged misuse of restraints and seclusion of people committed in part because of developmental disabilities and seek class action status, money damages and injunctive relief. A settlement on monetary issues was reached (with the state contributing $2.8 million) and a settlement agreement filed and approved by the federal district court on June 23, 2011. The class notice and claims process has been completed and judgment on the monetary claims has been entered.

f) *Minnesota Energy Resources Corp. 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, 2009, 2010, and 2011 are consolidated. 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, the weighting of cost factors and claim that the property tax assessments are not applied evenly throughout Minnesota.

g) *Meriwether Minnesota Land & Timber LLC, et al. v. State of Minnesota, et al.* (Ramsey County District Court). Plaintiffs, six large paper and timber companies, enrolled thousands of acres of forest land in a program created pursuant to the Sustainable Forest Incentive Act (SFIA), Minnesota Statutes, Section 290C.01 *et. seq.* (2010). Under the SFIA program, landowners receive annual incentive payments if they enroll land in the program and abide by the program's conditions. The legislature capped the 2010 SFIA incentive payment at $100,000. Plaintiffs challenge the constitutionality of this cap, and allege that they are entitled to payment under the prior statutory formula. Plaintiffs allege claims of breach of contract and promissory estoppel, unconstitutional impairment of contract, unconstitutional taking, and violation of equal protection. Plaintiffs claim that they are entitled to a $7.7 million incentive payment for 2010. The 2011 legislature amended the SFIA to repeal the statutory formula and provide for an incentive payment of $7 per acre, subject to a cap of $100,000. The district court granted Plaintiffs' motion for partial summary judgment for 2010 and required the Department of Revenue to calculate amounts based on the district court order. The state has filed an appeal.

h) *R.J. Reynolds Tobacco Co. v. Commissioner of Revenue* (Minnesota Tax Court). This is a corporate franchise case where the taxpayer originally reported a $2.9 billion sale from the sale of certain international business operations as business income apportionable to Minnesota, which increased its sales factor denominator by the gain amount. The Commissioner excluded gain from the company's sales factor and made no adjustment to the taxable income. The taxpayer objected, arguing that the business income must be represented in the apportionment factors to avoid distortion, or in the alternative, the gain must be deemed non-business income because the taxpayer did not conduct a unitary business with its international operations. The Commissioner rejected both arguments and also allowed only an 80 percent deduction for dividends received from a foreign subsidiary, rather than a 100 percent deduction. The Commissioner denied the taxpayer's refund claim asserting that the gain from the sale of trademark assets ($2.6 billion) was non-business income. The amount at issue with this particular taxpayer is $3.2 million plus $1.2 million in a denied refund claim. If the Commissioner's decision is not upheld, the Commissioner estimates that the outcome of this litigation will affect similarly situated taxpayers resulting in a prospective loss of $8 million per year starting in fiscal year 2011, and a retroactive effect of $24 million for fiscal year 2011. RJR's motion for summary judgment was denied by the tax court. Trial is scheduled for late May 2012.

i) *HealthStar Home Health Inc. et al. v. Commissioner of Human Services* (Ramsey County District Court). Plaintiffs, comprising several personal care assistance (PCA) agencies, personal care assistants, and individuals receiving PCA services, through the Medical Assistance, MinnesotaCare, or Alternative Care programs, filed a lawsuit challenging a 20 percent reduction in the rate paid for PCA services furnished by a close relative of the PCA recipient. Plaintiffs allege that the reduction, enacted into law during the 2011 legislative special session, violates the state constitution's equal protection guarantees and Title VI of the federal Civil Rights Act. The court issued a written order on October 27, 2011, barring the Commissioner from enforcing the new law, pending litigation. The parties expect that some of the substantive issues will be briefed and resolved on an accelerated schedule. The Department of Human Services estimates that implementing the legislation would save the state and federal governments each approximately $55 million over the next four fiscal years (2012-2015).

j) *Skaja v. Minnesota Department of Health* and *Bearder, et al. v. State of Minnesota, et al.* (Hennepin County District Court). On November 16, 2011, the Minnesota Supreme Court issued an opinion in the *Bearder* case, holding that blood specimens collected under the newborn screening program are "genetic information" and that statutes governing the newborn screening program provide a limited exception to the requirements of the Genetic Privacy Act. The *Bearder* case was remanded to district court for further proceedings. Twelve families subsequently served the *Skaja* complaint and seek class action status, declaratory relief, injunctive relief and damages for alleged violation of the Genetic Privacy Act. The purported class includes all parents and children whose blood specimens were stored or used after newborn screening testing was complete.

Note 20 – Subsequent Events

Primary Government

Effective July 1, 2011, the state secured a line of credit in the maximum amount of $600,000,000 to increase liquidity and assist in managing the fluctuations of forecasted state receipts and disbursements. The extent to which the line of credit is actually utilized to meet cash flow needs will be determined by the variance between estimated and actual receipts and the timing of major payments during any given month. The state has not accessed this line of credit, which expires on June 30, 2012.

On July 7, 2011, Fitch Ratings downgraded the state's bond rating to AA+ from AAA.

On August 30, 2011, the state sold $60,380,000 of 911 Revenue Bonds at a true interest rate of 2.96 percent. These bonds will provide funding for implementation of a statewide 911 public safety radio communications systems project. The revenue bonds are secured by a monthly statewide 911 surcharge applied to subscribers of any basic telephone service capable of originating a 911 emergency telephone call.

On September 23, 2011, Standard & Poor's downgraded the state's bond rating to AA+ from AAA.

On October 12, 2011, the state sold $445,000,000 of general obligation state various purpose bonds Series 2011A at a true interest rate of 2.82 percent, and $320,000,000 of general obligation state trunk highway bonds Series 2011B at a true interest rate of 2.89 percent, $4,000,000 general obligation state taxable state bonds Series 2011C at a true interest rate of 1.32 percent. These bonds are backed by the full faith and credit and taxing power of the state.

Blended Component Unit

In July 2011, Minnesota Statutes, Section 16A.98, created the Tobacco Securitization Authority (Authority) to manage securitization of the tobacco settlement payments exclusively for the state's benefit. The Authority is a legally separate entity governed by a three-member board consisting of state department heads.

On November 1, 2011, the state and the Authority entered into a Sale Agreement. In this Sale Agreement, the state will sell all tobacco settlement revenues paid or payable to the state on and subsequent to July 1, 2013, in exchange for the proceeds from the tobacco revenue bonds.

On November 29, 2011, the Authority sold $682,270,000 tobacco settlement revenue bonds Series 2011B at a true interest rate of 4.80 percent and $74,685,000 taxable tobacco settlement revenue bonds Series 2011A at a true interest rate of 3.08 percent. These bonds are backed solely by pledged revenues under the Sale Agreement.

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,000 bridges and tunnels maintained by the state.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (Mn/DOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below.

Description	PQI Range	PSR Range	SR Range
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI will be used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher and all other pavements will be maintained at 2.8 PQI (good) or higher.

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
2010	3.33	3.17
2009	3.25	3.12
2008	3.28	3.15

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the bridges under Mn/DOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound, but may have some minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

Rating	Description
Good	If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.
Fair	If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.
Poor	If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

Principal Arterial	2010	2009	2008
Fair to Good	94.4%	94.0%	93.5%

All Other Systems	2010	2009	2008
Fair to Good	91.3%	90.4%	90.2%

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	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
	2009	153,692	357,479	511,171	12,312	250,415	262,727	773,898
	2008	183,449	308,443	491,892	10,836	223,926	234,762	726,654
	2007	148,320	480,900	629,220	63,835	223,476	287,311	916,531
Actual	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
	2009	175,274	257,489	432,763	37,994	408,090	446,084	878,847
	2008	252,306	279,664	531,970	35,341	364,939	400,280	932,250
	2007	150,497	253,040	403,537	15,125	312,567	327,692	731,229

Actuarial Measures of Pension Funding Progress

The state of Minnesota is the employer for five defined benefit single employer plans that are administered by Minnesota State Retirement System (MSRS). MSRS prepares and publishes its own stand-alone comprehensive annual financial report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address).

The Elective State Officers Fund (ESOF) is excluded from the single employer plan disclosures since this plan is closed to new entrants and any former active employees have retired, terminated, or elected coverage under another plan.

Required supplementary information of funding progress is provided for the following plans: Correctional Employees Retirement Fund (CERF), Judicial Retirement Fund (JRF), Legislative Retirement Fund (LRF), and State Patrol Retirement Fund (SPRF).

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		CERF	JRF	LRF	SPRF
Actuarial Valuation Date	2010[1]	7/1/2010	7/1/2010	7/1/2010	7/1/2010
	2009	7/1/2009	7/1/2009	7/1/2009	7/1/2009
	2008	7/1/2008	7/1/2008	7/1/2008	7/1/2008
Actuarial Value of Plan Assets	2010	$ 603,863	$ 144,728	$ 26,821	$ 567,211
	2009	$ 590,339	$ 147,120	$ 28,663	$ 584,501
	2008	$ 572,719	$ 147,542	$ 39,209	$ 595,082
Actuarial Accrued Liability	2010	$ 851,086	$ 240,579	$ 86,236	$ 683,360
	2009	$ 821,250	$ 241,815	$ 90,431	$ 725,334
	2008	$ 760,363	$ 231,623	$ 86,131	$ 693,686
Total Unfunded Actuarial Liability	2010	$ 247,223	$ 95,851	$ 59,415	$ 116,149
	2009	$ 230,911	$ 94,695	$ 61,768	$ 140,833
	2008	$ 187,644	$ 84,081	$ 46,922	$ 98,604
Funded Ratio[2]	2010	71%	60%	31%	83%
	2009	72%	61%	32%	81%
	2008	75%	64%	46%	86%
Annual Covered Payroll	2010	$ 192,450	$ 39,291	$ 1,877	$ 63,250
	2009	$ 193,445	$ 39,444	$ 1,963	$ 61,511
	2008	$ 194,391	$ 38,296	$ 1,993	$ 60,029
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2010	128%	244%	3165%	184%
	2009	119%	240%	3147%	229%
	2008	97%	220%	2354%	164%

[1]The July 1, 2010, 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		7/1/2010 (1)
		7/1/2008
		7/1/2006
Actuarial Value of Plan Assets	7/1/2010	$ -
	7/1/2008	$ -
	7/1/2006	$ -
Actuarial Accrued Liability	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
	7/1/2006	$ 659,044
Total Unfunded Actuarial Liability	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
	7/1/2006	$ 659,044
Funded Ratio(2)	7/1/2010	0%
	7/1/2008	0%
	7/1/2006	0%
Annual Covered Payroll	7/1/2010	$ 3,027,241
	7/1/2008	$ 2,785,335
	7/1/2006	$ 2,838,228
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2010	26%
	7/1/2008	27%
	7/1/2006	23%

(1) The July 1, 2010, 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.

	Fiscal Year Ended (In Thousands)									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Required Contribution and Investment Revenue:										
Earned	$ 22,149	$ 23,458	$ 22,764	$ 19,177	$ 14,942	$ 13,219	$ 13,439	$ 12,286	$ 25,031	$ 34,161
Ceded	2,243	2,321	2,231	1,736	1,491	1,347	1,298	1,218	2,684	2,660
Net Earned	$ 19,906	$ 21,137	$ 20,533	$ 17,441	$ 13,451	$ 11,872	$ 12,141	$ 11,068	$ 22,347	$ 31,501
2. Unallocated Expenses	$ 2,715	$ 2,528	$ 2,296	$ 1,904	$ 1,638	$ 1,547	$ 1,505	$ 1,534	$ 2,037	$ 2,411
3. Estimated claims and Expenses End of Policy Year:										
Incurred	$ 21,055	$ 19,715	$ 19,466	$ 16,499	$ 12,551	$ 11,206	$ 10,748	$ 9,473	$ 19,350	$ 24,134
Ceded	2,513	1,570	1,980	1,913	1,382	1,782	380	667	562	1,491
Net Incurred	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 15,824	$ 15,847	$ 15,699	$ 12,909	$ 10,055	$ 8,226	$ 9,403	$ 7,921	$ 16,848	$ 20,720
One Year Latter	18,091	17,572	17,367	14,141	11,282	9,352	10,415	8,482	18,828	
Two Years Latter	18,034	17,579	17,764	14,139	11,301	9,358	10,413	8,454		
Three Years Latter	18,034	17,579	17,764	14,139	11,301	9,358	10,413			
Four Years Latter	18,034	17,579	17,764	14,139	11,301	9,358				
Five Years Latter	18,034	17,579	17,696	14,139	11,301					
Six Years Latter	18,034	17,579	17,696	14,139						
Seven Years Latter	18,034	17,579	17,696							
Eight Years Latter	18,034	17,579								
Nine Years Latter	18,034									
5. Re-estimated Ceded Claims and Expenses	$ 2,513	$ 1,570	$ 1,980	$ 1,913	$ 1,382	$ 1,782	$ 380	$ 667	$ 562	$ 1,491
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643
One Year Latter	18,114	17,595	17,385	14,152	11,294	9,362	10,425	8,502	18,848	
Two Years Latter	18,034	17,579	17,764	14,139	11,301	9,358	10,413	8,454		
Three Years Latter	18,034	17,579	17,764	14,139	11,301	9,358	10,413			
Four Years Latter	18,034	17,579	17,764	14,139	11,301	9,358				
Five Years Latter	18,034	17,579	17,696	14,139	11,301					
Six Years Latter	18,034	17,579	17,696	14,139						
Seven Years Latter	18,034	17,579	17,696							
Eight Years Latter	18,034	17,579								
Nine Years Latter	18,034									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ (508)	$ (566)	$ 210	$ (447)	$ 132	$ (66)	$ 45	$ (352)	$ 60	$ -

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.

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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 dated November 14, 2012 relating to the Bonds (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 5 hereof (collectively, the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds of a series are reoffered.

3.02. *Continuing Disclosure.*

(a) *General Undertaking.* On behalf of the State the Commissioner covenants and agrees with the Registered Owners (as hereinafter defined) 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 of a series, 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 of a series, 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 2012 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the Fiscal Year ending on the previous June 30, prepared by the State's Department of Management and Budget 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 Securities and Exchange Commission (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 "Material" (as defined in paragraph (b)(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 with respect to a series of Bonds so long as any Bonds of such series are outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (3) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (i) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2-12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that Rule 15c2-12 is in effect and interpreted at the time of the amendment or supplement

was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

(3) If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(4) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) *Failure to Comply; Remedies.* If the State fails to comply with any provision of this Section 3.02, any person aggrieved thereby, including the Registered Owner of any outstanding Bond of a series, 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, a waiver of the State’s sovereign immunity, or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State.

In the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

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APPENDIX H

Forms of Legal Opinions

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November __, 2012

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, MN 55155

$54,665,000
State of Minnesota
State General Fund Appropriation Refunding Bonds
Taxable Series 2012A

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 $54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A, dated November 21, 2012 (the "Series 2012A Bonds"). The Series 2012A Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State, including, in particular, Minnesota Statutes Section 16A.99 (the "Act"), and the Order dated April 5, 2012, as supplemented on November 14, 2012, of the Commissioner of Management and Budget (collectively, the "Order") authorizing issuance of the Series 2012A Bonds for the purpose of refunding the $74,685,000 outstanding aggregate principal amount Tobacco Securitization Authority Minnesota Tobacco Settlement Revenue Bonds, Taxable Series 2011A. We have also examined the constitution and statutes of the State, the form of bond prepared for this issue, the decision of the Minnesota Supreme Court in *Schowalter v. The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota*, Court file no. A12-0622, October 31, 2012, pertaining to the issue of which the Series 2012A Bonds are a part and such certified proceedings and other papers as we deem necessary to render this opinion as bond counsel. 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 2012A Bonds have been authorized and issued in accordance with the constitution and laws of the State, including, in particular, the Act and constitute valid and binding special obligations of the State, payable in each fiscal year only from amounts appropriated by the Legislature of the State pursuant to the Act for such fiscal year. The Series 2012A Bonds 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 Series 2012A Bonds or to any payment that the State agrees to make under the Act and the Order. The State has not pledged any other revenue or asset for the payment of the principal of or interest on the Series 2012A Bonds.

2. Interest on the Series 2012A Bonds is includable in gross income for federal income tax purposes, in taxable net income of individuals, estates or trusts 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 and other tax consequences to holders of the Series 2012A Bonds.

In order to ensure compliance with Treasury Circular 230, taxpayers holding the Series 2012A Bonds are hereby notified that: (a) any discussion of United States federal tax issues in this opinion is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Internal Revenue Code of 1986, as amended; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

November ___, 2012

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, MN 55155

$601,555,000
State of Minnesota
State General Fund Appropriation Refunding Bonds
Tax-Exempt Series 2012B

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 $601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B, dated November 21, 2012 (the "Series 2012B Bonds"). The Series 2012B Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State, including, in particular, Minnesota Statutes Section 16A.99 (the "Act"), and the Order dated April 5, 2012, as supplemented on November 14, 2012, of the Commissioner of Management and Budget (collectively, the "Order") authorizing issuance of the Series 2012B Bonds for the purpose of refunding the $682,270,000 outstanding aggregate principal amount Tobacco Securitization Authority Minnesota Tobacco Settlement Revenue Bonds, Tax-Exempt Series 2011B. We have also examined the constitution and statutes of the State, the form of bond prepared for this issue, the decision of the Minnesota Supreme Court in *Schowalter v. The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota*, Court file no. A12-0622, October 31, 2012, pertaining to the issue of which the Series 2012B Bonds are a part and such certified proceedings and other papers as we deem necessary to render this opinion as bond counsel. 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 2012B Bonds have been authorized and issued in accordance with the constitution and laws of the State, including, in particular, the Act and constitute valid and binding special obligations of the State, payable in each fiscal year only from amounts appropriated by the Legislature of the State pursuant to the Act for such fiscal year. The Series 2012B Bonds 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 Series 2012B Bonds or to any payment that the State agrees to make under the Act and the Order. The State has not pledged any other revenue or asset for the payment of the principal of or interest on the Series 2012B Bonds.

2. Interest on the Series 2012B 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; (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 2012B 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 2012B Bonds, with covenants made by the Commissioner of Management and Budget in the Order relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2012B 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 2012B Bonds. No provision has been made for an increase in the interest payable on the Series 2012B 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 2012B Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

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STATE OF MINNESOTA • STATE GENERAL FUND APPROPRIATION REFUNDING BONDS, TAXABLE SERIES 2012A AND TAX-EXEMPT SERIES 2012B

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