OFFICIAL STATEMENT DATED JULY 24, 2003

NEW ISSUE

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

$3,000,000
STATE OF MINNESOTA

General Obligation
Taxable State Bonds

Dated: August 1, 2003 **Due: August 1, as shown below**

Year	Amount	Interest Rate	Price or Yield	CUSIP 604128
2008	3,000,000	3.50%	3.40%	6J2

(Plus accrued interest from August 1, 2003)

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE ISSUED TO FINANCE THE COST OF STATE RURAL FINANCE AUTHORITY PROGRAMS, AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE BONDS AND INTEREST THEREON WHEN DUE.

The Bonds will not be subject to redemption and prepayment.

Form and Payment:

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

The Bonds are offered by the State subject to the legal opinions of Dorsey & Whitney LLP, bond counsel, as to the validity of the Bonds and tax exemption, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or about August 5, 2003.

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

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

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

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

STATE OF MINNESOTA OFFICERS

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

COMMISSIONER OF FINANCE

Dan McElroy

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$3,000,000

General Obligation
Taxable State Bonds

Dated August 1, 2003

INTRODUCTION

General

This Official Statement, including the cover page, this Official Statement Supplement contained on pages S-1 through S-42, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $3,000,000 General Obligation Taxable State Bonds of the State of Minnesota (the "State") to be dated August 1, 2003 (the "Bonds"), to prospective purchasers and actual purchasers of the Bonds. This Introduction contains only a brief description of or references to a portion of such information, and prospective and actual purchasers should read this entire Official Statement.

Purpose

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

Bonds are being issued for the purpose of financing all or a portion of the cost of programs of the Minnesota Rural Finance Authority ("RFA") which is established by Minnesota Statutes, Chapter 41B and described in the section hereof entitled "The Bonds — Authorization and Purpose" and in Appendix C. Pending use of the Bond proceeds for these purposes, they will be invested for the State by the State Board of Investment in accordance with State laws.

Security

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

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months, and is payable semiannually on each February 1 and August 1 to maturity or prior redemption, commencing February 1, 2004. If principal or interest is due on a date on which commercial banks are not open for business, then payment will be made on the first day thereafter when such banks are open for business. The Bonds are subject to redemption and prepayment at the option of the State on the terms and conditions stated in the section hereof entitled "Redemption and Prepayment."

The Bonds are issuable in fully registered form without interest coupons and in denominations of $5,000 or multiples thereof of a single maturity. However, the Bonds will be issued 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. 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."

Legal Opinions

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

Additional Bonds

The State plans to sell $460 million of tax-exempt general obligation bonds on July 22, 2003. The State does not expect to sell additional general obligation bonds within 30 days after the date of the sale of the Bonds.

Revenue and Expenditure Forecasting

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

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

Budget — Current Biennium

Approved revenue and expenditure measures for the biennium ending June 30, 2005 (the "Current Biennium") are summarized as set forth below. The Accounting General Fund is defined on page S-2.

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2003 LEGISLATIVE SESSIONS
($ in Millions)

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

Economic Update

Accounting General Fund tax receipts for the Previous Biennium are now estimated to be $10 million below the end of 2003 Legislative Sessions Forecast.

Individual income tax receipts were estimated to be $133 million below the end of 2003 Legislative Sessions Forecast. Final payments and refunds for income tax year 2002 accounted for $96 million of the shortfall. Sales tax receipts were $5.2 million above forecast, corporate income tax receipts were $58 million above forecast due to lower than forecast corporate tax refund payments and motor vehicle receipts were $3.3 million below forecast. All other tax receipts were $62.6 million above forecast.

Bonds Outstanding

The total amount of State general obligation bonds outstanding on August 1, 2003, including this issue and the Refunded Bonds will be approximately $3.3 billion. The total amount of general obligation bonds authorized but unissued as of August 1, 2003, will be approximately $1.4 billion. See Appendix B, pages B-1 and B-2.

Cash Flow Information

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout Fiscal Year 2004. The Commissioner anticipates that the Statutory General Fund may have a negative cash balance from time to time in Fiscal Year 2005. See Appendix D.

Additional Information

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

THE BONDS

Authorization and Purpose

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

Statutory Provisions. The $3,000,000 General Obligation Taxable State Various Purpose Bonds being issued comprise bonds authorized by:

Laws 2002, Chapter 393, authorizes the issuance of $15,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and Chapter 41B, to provide moneys to develop the State's agricultural resources, of which $3,000,000 are included in this issue.

Security[1]

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State to the payment of the principal of and interest on the Bonds when due. The Minnesota Constitution,

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

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

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the Accounting General Fund (as defined on page S-2) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the Accounting General Fund an amount equal to the deficiency. Since 1966, as a result of transfer of moneys to the Debt Service Fund from the Accounting General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

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

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

BOOK ENTRY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REDEMPTION AND PREPAYMENT

The Bonds will not be subject to redemption and prepayment prior to their stated maturity dates.

TAX STATUS

Interest to be paid on the Bonds is includable in gross income of the recipient for United States income tax purposes and in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is subject to Minnesota franchise taxes imposed on corporations and financial institutions.

LEGAL OPINIONS

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

FINANCIAL INFORMATION

General financial information relating to the State is set forth in this Official Statement Supplement attached hereto, which comprises pages S-1 through S-42 and Appendices A through K, and is a part of this Official Statement.

LITIGATION

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

While at any given time, including the present, there are numerous civil actions pending against the State which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 11 to the State Financial Statements for the Fiscal Year Ended June 30, 2002, set forth in Appendix A and additional actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of $10 million on the State's expenditures or revenues during the Current Biennium.

The following is a discussion of developments regarding the actions described in the referenced Note 11 that occurred and are subsequent to the date of the financial statements contained in Appendix A, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix A and are material for purposes of this Official Statement.

1. *Tort Claims.* The Tort Claims appropriations for the Fiscal Years ending June 30, 2002 and June 30, 2003 is $761,000.

2. *Amoco, et al. v. Commissioner of Revenue.* Minnesota Supreme Court. The Minnesota Supreme Court affirmed the Tax Court in all respects. Consequently, the Commissioner prevailed on the "in lieu" issue, and Amoco prevailed on the unitary issue. This means that the State will collect only $6 million of the additional $30 million it originally assessed Amoco in additional tax and interest.

3. *AT&T Corp. v. Commissioner of Revenue.* Minnesota Tax Court. The parties have settled all issues, except for the capital equipment claim, which will be presented on briefs and stipulated facts and will be heard in September 2003. The amount of this remaining claim is approximately $10 million.

4. *Austin, et al. v. Goodno.* Ramsey County District Court. Plaintiffs, Minnesota Family Investment Program (MFIP) recipients, filed a class action seeking to block changes to the MFIP made the 2003 legislative sessions including a Supplemental Social Security Income deeming provision, a requirement that a family's HUD housing assistance be counted as unearned income and a lowering of the exit level for MFIP from 120% of the federal poverty guidelines to 115% of the federal poverty guidelines. Fiscal Year 2004 savings from implementation of the three challenged changes are estimated to be in excess of $20 million. The changes were scheduled to go into effect over the next three months. A temporary restraining order issued preventing the Department of Human Services from putting the three changes into effect has been vacated.

5. *Automatic Merchandising Council, et al., v. Commissioner of Revenue, et al.,* Ramsey County District Court. Plaintiffs' Motion for Summary Judgment, heard on August 26, 2002, was denied and summary judgment was granted for the Commissioner at the end of November 2002. Plaintiffs appealed from the District Court's decision, and the case was argued to the court of Appeals on May 14, 2003.

6. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Ramsey County District Court. Plaintiffs challenge the Statute, which imposes a fee of 35 cents per pack on the sale of cigarettes manufactured by a manufacturer that is not making annual payments to the State of Minnesota under the settlement in State v. Philip Morris Inc., et al. or that has not entered into a similar agreement also requiring annual payments. Plaintiffs challenge enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. Plaintiffs' motion for a temporary restraining order was denied. The fee is estimated to generate $12.9 million over the Current Biennium.

7. *Rukavina, et al. v. Pawlenty, et al.,* Ramsey County District Court. In January 2003, two Minnesota State legislators, two Minnesota residents and an association of counties and school districts sued the Governor and the Commissioner of Finance claiming that the Governor and Commissioner's unallotment of $49 million from the Minnesota 21st Century Minerals Fund was in violation of State law and the Minnesota Constitution. Cross-motions for summary judgment are expected to be filed later this summer. The Plaintiffs are requesting that the $49 million that was unallotted to the Accounting General Fund be restored to the 21st Century Minerals Fund.

8. *Sprint Spectrum LP, Sprint Communications Company, LP, and United Telephone Company of Minnesota v. Commissioner of Revenue.* Minn. Tax Court Nos. 7299, 7308, 7309; and *XO Communications, Inc. v. Commissioner of Revenue.* Minn. Tax Court Nos. 7430 & 7442. The Tax Court issued its decision affirming the Commissioner's denial of the refund claims in the *Sprint* and *United Telephone* cases on May 23, 2003. An appeal to the Minnesota Supreme Court has been filed. A decision in the *XO Communications* case is pending and is expected in approximately 60 days.

CONTINUING DISCLOSURE

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

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Bonds at public sale to Griffin, Kubik, Stephens & Thompson, Inc. as Underwriters, for a price of $3,010,950.00 and accrued interest, with the Bonds to bear interest at the rates set forth on the cover page of this Official Statement.

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

RATINGS

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

AUTHORIZATION OF OFFICIAL STATEMENT

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

Dan McElroy
Commissioner of Finance
State of Minnesota

OFFICIAL STATEMENT SUPPLEMENT

STATE OF MINNESOTA

General Obligation Bonds

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FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2002 are included herein as Appendix A. These financial statements provide financial information for the State's general fund as set forth in the audited financial statements included in Appendix A (the ''Accounting General Fund'') and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise fund, of which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor of the State to the extent indicated in his report included in Appendix A. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in the Appendix in reliance upon the report of the Legislative Auditor and upon the expertise of the Legislative Auditor in accounting and auditing.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2002 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2003 will not be available until December 31, 2003. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2003 with comparative data for the same period ending June 30, 2002 are summarized on pages S-7 and S-8.

FINANCIAL INFORMATION

Budgeting Process

The State's constitutionally prescribed fiscal period is a biennium, and the State adopts budgets on a biennial basis. Each biennium ends on June 30 of an odd-numbered year and includes two fiscal years, each beginning on July 1 and ending on June 30. The biennium which began on July 1, 1999, and which ended on June 30, 2001, is referred to herein as the "FY 2000-2001 Biennium." The biennium which began on July 1, 2001, and which ended on June 30, 2003, is referred to herein as the "Previous Biennium." The biennium which began on July 1, 2003 and which will end on June 30, 2005, is referred to herein as the "Current Biennium." The biennium which will begin on July 1, 2005 and which will end on June 30, 2007, is referred to herein as the "Next Biennium."

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (in odd-numbered calendar years). Appropriations for the Current Biennium, for example, were enacted by the 2003 Legislature in June 2003. Supplemental appropriations and changes in revenue measures are usually adopted during legislative sessions in even-numbered calendar years.

Preliminary planning for the Current Biennium budget began in February 2001 when the Department of Finance began forecasting the Current Biennium revenues that would be available or generated and expenditures that would be incurred if the Governor's then proposed Previous Biennium revenues and expenditures were as forecasted and associated laws were to continue unchanged into the Current Biennium. Throughout the budget process, and at the end of the 2001 and 2002 legislative sessions, the Department of Finance continued to project the ongoing effects (called ''planning estimates'') of the Previous Biennium budget on Current Biennium revenues and spending. Planning estimates from the end of the 2002 legislative sessions became the basis for the Governor's Current Biennium budget proposals as described below.

The Current Biennium budget process officially began when the Governor issued budgetary policies and objectives in July 2002. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2002. In November 2002, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor for submission to the Legislature in February 2003. In February 2003, the Department of Finance prepared a revised forecast of revenues and expenditures, and on the basis of this forecast, the

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

The budget process just outlined, beginning with the development of planning estimates in February 2002, and finishing with gubernatorial approvals and vetoes, describes the process that is generally followed for each biennium.

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

Pages S-27 to S-36 show in summary form the results of the Revenue and Expenditure Forecasts, the Governor's Recommendations to the Legislature and the legislative changes made for the Current Biennium.

Cash Flow Account

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

The Legislature did not fund the Cash Flow Account for the Current Biennium. However, the Legislature did provide that if on the basis of a future revenue and expenditure forecast, the Commissioner of Finance determines that there will be a positive unrestricted budgetary Accounting General Fund balance at the close of the biennium, the first $350 million of the balance will be allocated to the Cash Flow Account.

Budget Reserve Account

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

The Legislature established the Budget Reserve Account at $522 million for the Current Biennium. The Legislature did provide that if on the basis of a future revenue and expenditure forecast, the Commissioner of Finance determines that there will be a positive unrestricted budgetary Accounting General Fund balance at the close of the biennium, and after the first $350 million of the balance is allocated to the Cash Flow Account, the Budget Reserve Account receives the next allocation until its balance is $653 million.

Control Procedures

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

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

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

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

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

REVENUE AND EXPENDITURE FORECASTING

General

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

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

The basic economic data on which the State Economist relies for forecasting purposes are provided by Global Insight, Inc. ("GII") of Lexington, Massachusetts. GII furnishes a monthly report which forecasts trends in economic growth and individual incomes across all segments of the national economy.

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

Forecasts of individual income tax receipts are based on GII forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The GII forecasts are then entered into an economic model of Minnesota developed by GII and the Minnesota Department of Finance. State forecasts of employment by major industry sector as well as wage and aggregate earnings are then derived by the Department of Finance. Aggregate annual earnings are used, in turn, to forecast calendar year tax liabilities by application of a simulation of the State's individual income tax structure. 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 important share of Minnesota's income tax base. Net capital gains realizations by Minnesota resident taxpayers are estimated to have totaled $9.2 billion in tax year 2000, 7.8 percent of resident's adjusted gross income, the last year for which actual data exists. In tax year 1995 net capital gains realizations by Minnesota residents were estimated to total $2.7 billion.

Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth, and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium level rather than adjust instantaneously to a shock to model variables. Based on current estimates of tax year 2002 liability, the Finance Department now believes that capital gains realizations declined by 57 percent in tax year 2001. The Finance Department's model forecast a decline of 19 percent for tax year 2002 and a gain of 8 percent in tax year 2003. For tax years 2004 and 2005 the forecast is for realizations to increase 20 percent per year.

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

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

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

The February 2003 baseline forecast from Global Insight, the scenario which GII considered to be the most likely at the time it was made, was the baseline for the February 2003 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. GII estimated potential GDP growth at 3.3 percent over the 2002 to 2005 period. Forecast growth rates for 2003 through 2005 are more or less consistent with the potential rate of growth. Inflation, as measured by the implicit price deflator for GDP, was expected to remain moderate.

GII FEBRUARY 2003
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2001 Actual %	Calendar Year 2002 Actual %	Calendar Year 2003 Forecast %	Calendar Year 2004 Forecast %	Calendar Year 2005 Forecast %
REAL GDP Growth Rate	.3	2.4	3.0	4.6	3.8
GDP DEFLATOR (Inflation)	2.4	1.1	1.8	2.0	2.0
NOMINAL GDP Growth Rate	2.6	3.6	4.8	6.6	5.9

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2003 revenue and expenditure forecast is scheduled for release in early December 2003.

The November 2003 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

Economic Update

Accounting General Fund tax receipts for the Previous Biennium are now estimated to be $10 million below the end of 2003 Legislative Sessions Forecast.

Individual income tax receipts were estimated to be $133 million below the end of 2003 Legislative Sessions Forecast. Final payments and refunds for income tax year 2002 accounted for $96 million of the shortfall. Sales tax receipts were $5.2 million above forecast, corporate income tax receipts were $58 million above forecast due to lower than forecast corporate tax refund payments and motor vehicle receipts were $3.3 million below forecast. All other tax receipts were $62.6 million above forecast.

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the State's Accounting General Fund revenues and expenditures for the Fiscal Years ending June 30, 2000 through 2002, and for the additional time periods shown. For the Fiscal Years ended June 30, 2000 through 2002 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2002 and June 30, 2003, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2002 and 2003, respectively. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the second table are presented by object of expenditure, the State's historical method of presentation, whereas forecasts of expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

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

	Fiscal Year Ended June 30 (1)			July 1,2001 through June 30 2002 (1)	July 1,2002 through June 30 2003 (1)
	2000	2001	2002		
UNRESTRICTED REVENUES:					
Income Tax - Individual	$6,458,103	$6,735,631	$6,259,345	$6,334,144	$6,353,096
Income Tax - Corporation..........................	938,396	868,511	$631,826	$723,738	$752,120
Sales Tax	3,307,708	3,225,935	$3,996,652	$3,996,427	$4,087,685
Statewide Property Tax (2)…………………	0	0	$305,573	$256,444	$561,460
Inheritance and Gift Tax..........................	82,509	53,727	$63,990	$68,134	$129,081
Liquor, Wine and Malt Beverage Tax.......	60,356	61,724	$53,922	$58,066	$63,241
Cigarette and Tobacco Tax	175,089	179,771	$157,021	$169,454	$173,957
Mining Taxes...	2,292	2,190	$165	$165	$2,019
Gross Earnings Taxes.............................	171,130	192,000	$163,749	$175,146	$237,454
Motor Vehicle Excise Tax (3).......................	521,547	545,979	$405,072	$438,231	$280,293
Income Reciprocity Tax...........................	45,584	42,991	$44,791	$47,899	$49,010
Department Earnings (4)	120,752	124,731	$344,660	$352,949	$366,023
Investment Income.................................	190,573	197,781	$82,777	$78,954	$20,047
Tobacco Settlement…………………………	104,926	130,254	$178,565	$154,767	$152,566
All Other Revenues (5)	364,309	568,746	$679,944	$706,883	$721,797
TOTAL UNRESTRICTED REVENUES…	$12,543,274	$12,929,971	$13,368,052	$ 13,561,401	$ 13,949,849
RESTRICTED REVENUES (6)...........................	595,068	537,407	54,941	54,941	76,148
LESS REVENUE REFUNDS:					
Income Tax - Individual	866,777	810,653	820,159	820,159	980,831
Income Tax - Corporation......................	104,153	158,809	177,508	177,508	127,532
Sales Tax..	195,335	236,056	224,079	224,079	162,808
All Other..	16,195	16,687	22,763	22,763	28,856
TOTAL REFUNDS.................................	$1,182,460	$1,222,205	$1,244,508	$ 1,244,508	$ 1,300,028
NET REVENUES...............................	$11,955,882	$12,245,173	$12,178,485	$ 12,371,834	$ 12,725,969

(1) For Fiscal Years 2000, 2001 and 2002, the schedule of revenues includes all revenues for the fiscal year, including revenue accurals at June 30. For the twelve-month periods ended June 30, 2002 and 2003, only current receipts have been included.

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

(3) Motor Vehicle Excise Tax decreased from Fiscal Year 2001 to Fiscal Year 2002 due to 2001 Legislative action which changed the allocation of these taxes from 100% to the Accounting General Fund to 69% to the Accounting General Fund and 31% to the Highway User Distribution Tax Fund.

(4) Departmental Earnings Revenue increased from Fiscal Year 2001 to Fiscal Year 2002 due to outstanding revenue bonds being retired. All non-dedicated Departmental Earnings previously recorded in a separate fund are now being recorded in the Accounting General Fund.

(5) Other Revenue increased from Fiscal Year 2000 to Fiscal Year 2001 due to Legislative action which transferred $125 milion of excess balance from the Workers' Compensation Assigned Risk Plan to the Accounting General Fund. Other Revenues increased from Fiscal Year 2001 to Fiscal Year 2002 due to the outstanding revenue bonds being retired and the lottery proceeds and a portion of Regional Treatment Center revenues previously recorded in a separate fund are now being recorded in the Accounting General Fund.

(6) Restricted Revenues decreased from Fiscal Year 2001 to Fiscal Year 2002 due to removing the Minnesota Colleges and Universities Fund from the Accounting General Fund as a result of implementing a new accounting principle.

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

	Fiscal Year Ended June 30 (1)			July 1,2001 through June 30 2002 (1)	July 1,2002 through June 30 2003 (1)
	2000	2001	2002		
EXPENDITURES:					
Personal Services (2).....................	$1,572,572	$1,624,757	$1,002,723	$929,774	$ 957,576
Purchased Services (2)....................	483,177	543,563	377,895	357,052	284,850
Materials and Supplies (2)..............	106,532	116,170	49,748	44,538	47,461
Capital Outlay:					
Equipment (2)................................	52,360	63,981	16,991	16,991	22,145
Real Property................................	6,241	8,418	38,723	38,723	57,682
Grants and Subsidies:					
Individuals...................................	2,450,527	2,571,957	2,942,472	2,827,837	3,240,161
Municipalities and Towns	814,144	794,997	775,956	739,481	774,874
Counties	773,891	727,640	744,154	707,679	808,026
School Districts (3)...........................	4,402,847	4,715,898	4,949,922	4,751,917	5,535,364
Private Organizations.......................	191,224	207,061	194,628	184,206	161,036
University of Minnesota	436,853	503,652	544,626	523,783	519,061
Other...	171,820	185,945	176,750	171,540	149,711
TOTAL EXPENDITURES........................	$ 11,462,188	$ 12,064,039	$ 11,814,588	$ 11,293,522	$ 12,557,948
NET TRANSFERS OUT	593,660	807,844	852,123	440,809	82,459
TOTAL EXPENDITURES and NET TRANSFERS OUT............................	$ 12,055,848	$ 12,871,883	$ 12,666,711	$ 11,734,331	$ 12,640,407

(1) For Fiscal Years 2000, 2001 and 2002, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For the twelve-month periods ended June 30, 2002 and 2003, only current year expenditures have been included.

(2) The expenditures decreased from Fiscal Year 2001 to Fiscal Year 2002 due to removing the Minnesota Colleges and Universities Fund from the Accounting General Fund as a result of implementing a new accounting principle.

(3) Grants and subsidies to School Districts increased from the twelve-month period ended June 30, 2002 to June 30, 2003 due to the Legislature increasing appropriations. See page S-7 footnote 2.

BUDGET — PREVIOUS BIENNIUM

November 2000 Forecast — Current Law

The Department of Finance prepared a forecast of Accounting General Fund revenues and expenditures for the Previous Biennium in November 2000. The November 2000 forecast of Previous Biennium resources, expenditures, and fund balances is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
NOVEMBER 2000 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 2,032
Non-dedicated Revenues	27,848
Dedicated Revenues, Transfers In and Other	363
Total Resources	$30,243
Expenditures	26,125
Projected Unreserved Balance at June 30, 2003	$ 4,118
Cash Flow Account	350
Budget Reserve Account	622
Dedicated Reserves	111
Projected Unrestricted Balance at June 30, 2003	$ 3,035

Net non-dedicated revenues for the Previous Biennium were forecast to total $27.848 billion, up 16.5 percent from levels projected in the November 2000 forecast for the FY 2000-2001 Biennium. Receipts from individual income taxes were forecast to total $13.293 billion. Sales tax receipts were forecast to be $8.600 billion. Corporate income taxes were forecast at $1.735 billion. Motor Vehicle Sales Tax receipts were projected to total $953 million. Revenues from tobacco settlements were projected to be $639 million. Other non-dedicated revenues were projected to total $2.628 billion.

The November 2000 forecast used planning estimates based on the assumption that current laws and policies for the FY 2000-2001 Biennium would continue unchanged, and that inflationary costs would increase state spending by 2.0 percent per year. The estimates did not assume any Governor's recommendations or subsequent legislative action. Expenditures for the Previous Biennium were estimated to total $26.125 billion, or $1.526 billion more than the November 2000 estimate for the FY 2000-2001 Biennium. Estimated inflation accounted for $736 million of the forecast growth in spending over the FY 2000-2001 Biennium.

COMPARISON OF PREVIOUS BIENNIUM
TO FY2000-2001 BIENNIUM
NOVEMBER 2000 FORECAST

	Percent Change
Receipts:	
Individual Income Tax	16.2%
Sales Tax	21.8%
Corporate Income Tax	4.4%
Motor Vehicle Sales Tax	(11.6)%
Other Non-Dedicated Revenues	7.8%
Total Net Non-Dedicated Revenues	16.5%
Expenditures	6.2%

January 2001 Governor's Budget Recommendation

In January 2001 the Governor submitted a proposed budget to the Legislature for the Previous Biennium that was based on the November 2000 forecast of Accounting General Fund revenues and expenditures. The January 2001 Governor's recommendation is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
JANUARY 2001 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,108
Non-dedicated Revenues	27,036
Dedicated Revenues, Transfers In and Other	387
Total Resources	$28,531
Expenditures	27,324
Projected Unreserved Balance at June 30, 2003	$ 1,207
Cash Flow Account	350
Budget Reserve Account	700
Dedicated Reserves	110
Projected Unrestricted Balance at June 30, 2003	$ 47

Revenue Changes Proposed in the Governor's Budget:

The January 2001 Governor's recommendation reflected a net reduction in Accounting General Fund resources of $787 million from the November 2000 forecast for the Previous Biennium. Current resources, total resources less the balance from the FY 2000-2001 Biennium, in the January 2001 Governor's recommendation would have increased by $3.629 billion (15.3 percent) over the FY 2000-2001 Biennium.

Expenditure Changes Proposed in the Governor's Budget:

The January 2001 Governor's recommendation for the Previous Biennium increased Accounting General Fund spending by $1.936 billion over the November 2000 forecast base (excluding inflation). This amounted to a $2.717 billion (11.0 percent) increase over the January 2001 Governor's recommendation for the FY 2000-2001 Biennium.

Current Biennium:

Based upon the Governor's budget recommendations, the planning estimates for the Current Biennium indicated that there would have been structural balance, meaning that total revenues would have exceeded total expenditures.

February 2001 Forecast — Current Law

The Department of Finance prepared a forecast of Accounting General Fund revenues and expenditures for the Previous Biennium in February 2001. The February 2001 Previous Biennium forecast of resources, expenditures, and fund balances, without regard to the Governor's January 2001 recommendation, is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2001 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,966
Non-dedicated Revenues	27,253
Dedicated Revenues, Transfers In and Other	363
Total Resources	$29,582
Expenditures	26,055
Projected Unreserved Balance at June 30, 2003	$ 3,527
Cash Flow Account	350
Budget Reserve Account	622
Dedicated Reserves	137
Projected Unrestricted Balance at June 30, 2003	$ 2,418

The February 2001 forecast reflected a decrease of $66 million in the Unreserved Balance brought forward from the FY 2000-2001 Biennium. Forecast revenues for the Previous Biennium decreased by $594 million and revisions to expenditure projections lowered forecast spending by $69 million. Dedicated reserves increased by $27 million. The net effect of the February 2001 forecast was a decrease in the Previous Biennium Unrestricted Accounting General Fund balance of $618 million.

March 2001 Governor's Budget Recommendation Revisions

Based upon the February 2001 forecast of Accounting General Fund revenues and expenditures the Governor submitted supplemental budget recommendations to the Legislature in March 2001. The Previous Biennium resources, expenditures, and fund balances based on the March 2001 Governor's Budget Recommendation is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
MARCH 2001 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,109
Non-dedicated Revenues	26,768
Dedicated Revenues, Transfers In and Other	387
Total Resources	$28,264
Expenditures	27,013
Projected Unreserved Balance at June 30, 2003	$ 1,251
Cash Flow Account	350
Budget Reserve Account	719
Dedicated Reserves	137
Projected Unrestricted Balance at June 30, 2003	$ 45

2001 Legislative Sessions

The 2001 legislative session ended on the constitutional deadline of May 21, 2001. However, the Legislature was unable to agree on the tax and appropriation bills by that date. A special legislative session took place from June 11 to June 30, 2001. A compromise was reached on the tax and spending measures and the related bills were passed by the Legislature and signed by the Governor.

The end of the 2001 legislative sessions' estimates of revenues, expenditures and fund balances is detailed below.

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2001 LEGISLATIVE SESSIONS
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,109
Non-dedicated Revenues	27,490
Dedicated Revenues, Transfers In and Other	394
Total Resources	$28,993
Expenditures	27,604
Projected Unreserved Balance at June 30, 2003	$ 1,389
Cash Flow Account	350
Budget Reserve Account	653
Dedicated Reserves	151
Projected Unrestricted Balance at June 30, 2003	$ 235

Resources:

The Legislature adopted and the Governor approved major property tax reform and large tax reductions. The tax changes passed in the 2001 special legislative session provided for comprehensive property tax reform and relief changes beginning in Fiscal Year 2003. The major component of the enacted reform eliminated the local property tax component of the K-12 general education levy with the State assuming the full share of general education costs beginning in Fiscal Year 2003. A corresponding change created a new statewide property tax on businesses and cabins beginning with property taxes payable in 2003. This change increased Accounting General Fund revenues $296 million in Fiscal Year 2002 and $592 million in Fiscal Year 2003. The Legislature also approved a $791 million sales tax rebate for the FY 2000-2001 Biennium.

Expenditures:

The adopted budget included Accounting General Fund spending of $27.604 billion. This amount was $3.013 billion (12.3 percent) greater than estimated spending for the FY 2000-2001 Biennium. The largest single change in projected Accounting General Fund spending occurred as a result of the actions to reform and reduce property taxes and the corresponding increase in spending related to the state assumption of general education costs and local aid program reforms. Over one-half of the spending increase was attributable to the impact of spending increases related to property tax reform and relief. Excluding the cost of property tax reform and relief, spending would increase $1.463 billion or 6.9 percent over the FY 2000-2001 Biennium.

2001 Legislative Sessions (MnSCU Adjustment)

Minnesota Statutes, Section 16A.532 was enacted by the 2001 legislature to establish a separate enterprise fund for Minnesota State Colleges and Universities (MnSCU). The November 2001 forecast included this change in the accounting and reporting of MnSCU financial data. This change parallels similar changes being implemented in the Comprehensive Annual Financial Report ("CAFR"). All MnSCU activity will now be reported in a separate enterprise fund statement. MnSCU's dedicated revenues and reserve amounts have been removed from the Accounting General Fund. The direct state appropriation to MnSCU will continue to be reflected in the Accounting General Fund, similar to the appropriation for the University of Minnesota. However, other MnSCU activity formerly reported in the Accounting General Fund will now be excluded.

As a result of this change in accounting and reporting, a one-time adjustment was made to Fiscal Year 2002 to remove $137 million in Accounting General Fund resources equal to MnSCU's dedicated reserves. This change in accounting and reporting has no effect on the Accounting General Fund balance, and end of the 2001 legislative sessions estimates have been restated to reflect this change. A separate MnSCU enterprise fund statement reporting MnSCU revenue and expenditure activity will be prepared.

The forecast of Previous Biennium resources, expenditures, and fund balances restated for the end of the 2001 legislative sessions is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2001 LEGISLATIVE SESSIONS (MnSCU Adjusted)
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,109
Non-dedicated Revenues	27,514
Dedicated Revenues, Transfers In and Other	36
Total Resources	$28,659
Expenditures	27,407
Projected Unreserved Balance at June 30, 2003	$ 1,252
Cash Flow Account	350
Budget Reserve Account	653
Dedicated Reserves	14
Projected Unrestricted Balance at June 30, 2003	$ 235

November 2001 Forecast — Current Law

The Department of Finance prepared a forecast of Accounting General Fund revenues and expenditures for the Previous Biennium in November 2001.

The November 2001 forecast of Previous Biennium resources, expenditures, and fund balances is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
NOVEMBER 2001 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	25,413
Dedicated Revenues, Transfers In and Other	42
Total Resources	$27,029
Expenditures	27,807
Projected Unreserved Balance at June 30, 2003	($ 778)
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	158
Dedicated Reserves	14
Projected Unrestricted Balance at June 30, 2003	($ 1,953)

The November 2001 forecast of Accounting General Fund revenues and expenditures resulted in a net decrease of $2.188 billion in the Projected Unrestricted Balance when compared to the end of the 2001 legislative sessions estimates, and the forecast assumed the U.S. and Minnesota economies were officially in a recession. Total resources for the Previous Biennium decreased by $1.630 billion, expenditures increased by $400 million and the Tax Relief Account increased by $158 million resulting in a projected Unrestricted Accounting General Fund deficit of $1.953 billion.

The balance brought forward from the FY 2000-2001 Biennium increased by $465 million. Of that amount, $315 million was appropriated for expenditures authorized to be carried forward from the FY 2000-2001 Biennium to the Previous Biennium. An additional $158 million was allocated to establish a new Tax Relief Account under current law.

January 2002 Governor's Budget Recommendations

In January 2002 the Governor submitted a proposed supplemental budget to the Legislature for the Previous Biennium, that was based on the November 2001 forecast of Accounting General Fund revenues and expenditures. The Governor's January 2002 recommendation is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
JANUARY 2002 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	25,945
Dedicated Revenues, Transfers In and Other	48
Total Resources	$27,567
Expenditures	27,056
Projected Unreserved Balance at June 30, 2003	$ 511
Cash Flow Account	350
Tax Relief Account	158
Projected Unrestricted Balance at June 30, 2003	$ 3

Revenue Changes Proposed in the Governor's Budget:

The January 2002 Governor's recommendation proposed a net increase of $539 million in Accounting General Fund resources from the November 2001 forecast for the Previous Biennium. The proposed increase in Accounting General Fund resources included $397 million in proposed tax increases and $142 million from non-tax revenues and selective one-time transfers from other State funds.

Expenditure Changes Proposed in the Governor's Budget:

The January 2002 Governor's recommendation for the Previous Biennium reduced Accounting General Fund spending by $700 million from the November 2001 forecast. This amounted to a 2.5 percent reduction in authorized spending for the Previous Biennium.

Budget Reserves Recommendations:

The Governor recommended using the existing $653 million balance in the Budget Reserve Account to reduce the forecast deficit. Additionally, the Governor's Recommendation included eliminating a $14 million reserve designated for local government aid reform. The Governor recommended retaining the existing $350 million Cash Flow Account, as well as the $158 million tax relief account created by a year-end surplus for Fiscal Year 2001. The Governor's recommendation included provisions restoring $389 million to the budget reserve account at the beginning of the Current Biennium.

February 2002 Forecast — Current Law

The Department of Finance prepared a forecast of Accounting General Fund revenues and expenditures for the Previous Biennium in February 2002.

The February 2002 forecast of Previous Biennium resources, expenditures, and fund balances is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2002 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	25,106
Dedicated Revenues, Transfers In and Other	48
Total Resources	$26,728
Expenditures	27,842
Projected Unreserved Balance at June 30, 2003	($ 1,114)
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	158
Dedicated Reserves	14
Projected Unrestricted Balance at June 30, 2003	($ 2,289)

The Projected Unrestricted Balance at June 30, 2003 in the Accounting General Fund was a deficit of $2.289 billion which was $336 million greater than the deficit forecast in November 2001. Revenues were forecast to be $301 million lower than the November 2001 forecast, and expenditures were forecast to be $35 million higher.

February 2002 Governor's Budget Recommendation Revisions

Based upon the February 2002 forecast of Accounting General Fund revenues and expenditures the Governor submitted supplemental budget recommendations to the Legislature for the Previous Biennium. The February 2002 revised Governor's budget recommendation for the Previous Biennium is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2002 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	25,638
Dedicated Revenues, Transfers In and Other	54
Total Resources	$27,266
Expenditures	26,914
Projected Unreserved Balance at June 30, 2003	$ 352
Cash Flow Account	350
Projected Unrestricted Balance at June 30, 2003	$ 2

2002 Legislative Session

During the 2002 legislative session that ended on May 20, 2002, the Legislature enacted revenue measures and expenditures to balance the budget for the Previous Biennium.

The end of 2002 legislative session estimates of resources, expenditures, and fund balances is detailed below.

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2002 LEGISLATION SESSION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	25,317
Dedicated Revenues, Transfers In and Other	345
Total Resources	$27,236
Expenditures	26,917
Projected Unreserved Balance at June 30, 2003	$ 319
Cash Flow Account	0
Budget Reserve Account	319
Dedicated Reserves	0
Projected Unrestricted Balance at June 30, 2003	$ 0

The 2002 legislature passed two budget bills for the purpose of balancing the Accounting General Fund for the Previous Biennium. The first budget bill was passed on February 21, 2002. This legislation made revenue and expenditure changes to address the $1.953 billion projected shortfall from the November 2002 forecast. The second budget bill was passed May 14, 2002. This legislation adopted additional revenue and expenditure changes to eliminate the additional shortfall projected in the February 2002 revenue and expenditure forecast.

The Governor vetoed both budget bills. Both vetoes were overridden by the Legislature and enacted into law. The Governor vetoed the bills because he did not believe either made permanent revenue and expenditure changes sufficient to reduce projected budget shortfalls in the Current Biennium.

The legislation balanced projected revenues and expenditures for the Previous Biennium by $223 million in spending cuts; $856 million in transfers from Accounting General Fund reserves; $605 million in transfers from other funds; cancellation of one-time projects and authorized bonds to finance previously authorized cash capital projects; and $509 million in changes to selective payment and collection schedules. The primary items within each of these components are discussed below.

Resources:

The 2002 legislative session produced no significant tax law changes. Minor revisions were made to incorporate conformity with several federal tax law changes. Accounting General Fund resources were increased by a total $507 million, attributable primarily to one-time transfers that were authorized from other state funds.

Expenditures:

Total expenditures were reduced by $925 million for the Previous Biennium. Spending reductions totaling $223 million were enacted. The balance of the net reduction in spending is attributable to $483 million in payment scheduling changes and $219 million in one-time spending reductions and financing of previously authorized cash projects.

Payment and Collection Schedules Adjusted:

The Legislature enacted changes to statutory payment schedules and required tax remittance dates that will result in a total of $483 million in reduced expenditures and $26 million of increased revenue in the Previous Biennium. Certain state entitlement programs are funded in a manner that requires a final payment, or settle-up, to be paid in the following State fiscal year.

Accounting General Fund Reserves Reduced:

The Legislature used $856 million from existing reserves to reduce the forecast deficit. The $350 million balance in the Cash Flow Account, the $158 million balance in the Tax Relief Account, and the $14 million balance in the Local Government Aid Reform Account were used in their entirety. The balance in the Budget Reserve Account was reduced from $653 million to $319 million. Existing statutes require that any future forecast surpluses be first allocated to restore the Budget Reserve Account to $653 million.

End of 2002 Legislature Sessions

The Minnesota Legislature met in a one-day special session on September 19, 2002. The session enacted a flood relief package designed to provide assistance to northern Minnesota communities that incurred damage from summer flooding. The Legislature authorized new spending totaling $29,400,000 for the purpose of providing matching funding for federal emergency funds, agricultural, business, and housing assistance, property tax relief, and public infrastructure repair funding.

Of the total authorized new spending, $10,718,000 was from the Accounting General Fund. Previously authorized Accounting General Fund cash appropriations for trunk highway road projects totaling $10,100,000 were cancelled and the Legislature authorized $10,115,000 of trunk highway bonds for the same purpose. The debt service appropriation was increased by $738,000 and there were reductions to the Accounting General Fund of $60,000. After giving effect to this change, total Accounting General Fund expenditures increased by $678,000.

These actions had the effect of reducing the expected balance in the Budget Reserve Account for June 30, 2003 from $319 million to $318 million. The estimate of resources, expenditures and fund balance after the 2002 First Special Session is detailed below.

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2002 LEGISLATIVE SESSIONS
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	$25,317
Dedicated Revenues, Transfers In and Other	$ 345
Total Resources	$27,236
Expenditures	26,918
Projected Unreserved Balance at June 30, 2003	$ 318
Budget Reserve Account	$ 318
Projected Unrestricted Balance at June 30, 2003	$ 0

Current Biennium:

The planning estimates for the Current Biennium, based upon the 2002 end of legislative session, indicate that there will not be structural balance, meaning that total current expenditures are in excess of total current revenues.

November 2002 Forecast — Current Law

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

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

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,649
Dedicated Revenues, Transfers In and Other	545
Total Resources	$26,768
Expenditures	27,100
Projected Unreserved Balance at June 30, 2003	$ (332)
Budget Reserve Account	24
Projected Unrestricted Balance at June 30, 2003	$ (356)

Net non-dedicated revenues for the Previous Biennium were forecast to total $24.649 billion, down 2.7 percent from levels projected at the end of the 2002 legislative session. Receipts from individual income taxes were forecast to total $11.014 billion, $769 million lower than previously estimated. The forecast for other major revenue sources did not change significantly.

Forecast expenditures were $76 million (0.3 percent) higher than end-of-session estimates. Spending for health care programs increased by $107 million due to higher caseloads in General Assistance Medical Care and increasing cost of services resulting from changes in case mix and acuity of care. This increase in health care spending was partially offset by savings in forecast debt service and other programs.

The Budget Reserve Account was reduced from $318 million to $24 million. The $318 million Budget Reserve Account in end-of-session estimates conformed to current law requiring that any balance at the close of the Previous Biennium be allocated to the Budget Reserve Account. The November 2002 forecast automatically drew down this amount, leaving $24 million in the Budget Reserve Account that reflected two current law provisions directing funds to the Budget Reserve Account.

As a result, the November 2002 forecast indicated a projected Accounting General Fund budget deficit of $356 million. Up to $24 million of the forecast deficit could be offset by use of the Budget Reserve Account.

January 2003 Governor's Budget Recommendations

In mid-January 2003 the Governor submitted an emergency supplemental budget recommendation to the Legislature for the Previous Biennium to eliminate the $356 million projected deficit for state Fiscal Year 2003 that was based on the November 2002 forecast of Accounting General Fund revenues and expenditures. The Governor's recommendations provided for budget changes totaling $468 million to offset this shortfall and provided an unreserved Accounting General Fund balance of $137 million by June 30, 2003. The Governor's January 2003 recommendation is detailed below:

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
JANUARY 2003 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,721
Dedicated Revenues, Transfers In and Other	668
Total Resources	$26,963
Expenditures	26,826
Projected Unreserved Balance at June 30, 2003	$ 137
Budget Reserve	24
Projected Unrestricted Balance at June 30, 2003	$ 113

Revenue Changes Proposed in the Governor's Budget:

The January 2003 Governor's recommendation proposed a net increase of $195 million in Accounting General Fund resources from the November 2002 forecast for the Previous Biennium. This increase in resources included $50 million from an administrative change in the schedule for payment of sales tax refunds on capital equipment; $110 million in one-time transfers from existing balances in the 21st Century Minerals Fund, the Workers Compensation Special Fund, the Solid Waste Fund, the State Airports Fund and from excess reserves in the Higher Education Services SELF Loan program; and $35 million from miscellaneous revenue changes.

Expenditure Changes Proposed in the Governor's Budget:

The January 2003 Governor's recommendation for the Previous Biennium reduced Accounting General Fund spending by $273 million from the November 2002 forecast. The largest item was a one-time $130 million reduction in previously authorized Accounting General Fund spending for transportation projects. The Governor proposed that an equivalent amount of Trunk Highway fund bonds be issued to fund these projects. Additional expenditure reductions proposed by the Governor varied by major spending category. Proposed reductions to state agency operations amounted to $44 million or an average 4.0 percent reduction. Reductions to state agency specific grants and programs totaled $77 million. Higher education was reduced $50 million or 4.0 percent. Early Childhood Education through Grade 12 ("E-12") Education and Local Government Aids were largely unaffected by the reductions.

Budget Reserves Recommendations:

The Governor recommended leaving $24 million balance in the Budget Reserve Account. This amount in the Budget Reserve Account was supplemented by $113 million left as unrestricted Accounting General Fund balance for the purpose of managing potential forecast risk through the remaining months of the Previous Biennium.

February 2003 Unallotments

The Legislature did not act immediately on the Governor's recommendations. On February 7, 2003, the Commissioner of Finance, with the approval of the Governor, acted to reduce state spending under the provisions of Minnesota Statutes 16A.152 (unallotment).

With the approval of the Governor, $24 million was released from the Budget Reserve Account, reducing the forecast deficit to $332 million. Further, a reduction of $274 million was made to unexpended allotments of appropriations and prior transfers from the Accounting General Fund. The amount of the reduction was based on the Governor's January 2003 recommendations. These reductions, along with $50 million in savings from administrative action that delayed for 90 days payments of refunds of sales taxes on capital equipment, and the voluntary reduction of $8 million by the courts and Legislature, acted to balance revenues and expenditures for the Previous Biennium based on the November 2002 forecast. The statement of Accounting General Fund revenues, expenditures and fund balances after the unallotments is detailed below.

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2003 AFTER UNALLOTMENTS
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,699
Dedicated Revenues, Transfers In and Other	618
Total Resources	$26,891
Expenditures	26,891
Projected Unreserved Balance at June 30, 2003	$ 0
Budget Reserve	0
Projected Unrestricted Balance at June 30, 2003	$ 0

February 2003 Forecast — Current Law

The Department of Finance prepared an updated forecast of Accounting General Fund revenues and expenditures for the Previous Biennium at the end of February 2003. This forecast recognized actions by the Governor in early February that eliminated the projected $356 million Fiscal Year 2003 deficit. After recognizing spending reductions made by the Governor under the unallotment authority and changes in the economic outlook, the forecast indicated that expenditures would exceed available resources by $11 million.

The February 2003 forecast of Previous Biennium resources, expenditures, and fund balances is detailed below:

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

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,685
Dedicated Revenues, Transfers In and Other	602
Total Resources	$26,861
Expenditures	26,872
Projected Unreserved Balance at June 30, 2003	$ (11)
Budget Reserve Account	0
Projected Unrestricted Balance at June 30, 2003	$ (11)

There was little change in the revenue and expenditure forecast. Total forecast revenues were reduced by $20 million. A $63 million reduction in forecast individual income taxes was largely offset by an increase is sales tax and other revenue estimates. A modest decline in Minnesota's employment outlook and a reduction in projected first quarter 2003 wages accounted for the forecast reduction in expected income tax receipts.

Forecast spending, adjusted for unallotments, was $19 million below November 2002 estimates. This change reflected a slight reduction in spending for E-12 education, human services and other programs. The expenditure savings acted to partially offset the revenue loss, leaving a projected deficit of $11 million for the Previous Biennium.

February 2003 Governor's Budget Recommendation Revisions

Based upon the February 2003 forecast of Accounting General Fund revenues and expenditures the Governor requested again that the Legislature act on components of his initial January 2003 recommendations affecting State Fiscal Year 2003. The final revised Governor's budget recommendation for the Previous Biennium is detailed below:

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

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,683
Dedicated Revenues, Transfers In and Other	673
Total Resources	$26,930
Expenditures	26,751
Projected Unreserved Balance at June 30, 2003	$ 179
Budget Reserve	0
Projected Unrestricted Balance at June 30, 2003	$ 179

The final Governor's recommendations were substantially unchanged from his January 2003 recommendations. Proposed actions totaled $190 million eliminated the forecasted $11 million deficit and provided an unrestricted Accounting General Fund balance of $179 million.

The recommendation, if implemented, would increase projected resources by $76 million. This increase would result from proposed transfers of funds from the Workers Compensation Special Fund, State Airports Fund, Solid Waste Fund, State Operated Services Special Revenue Account, and reserves in the Higher Education Services SELF Loan program.

Projected spending would be reduced $114 million. Of this amount, $110 million reflected the proposed re-financing of previously authorized transportation projects with an equal amount of Trunk Highway funded bonds. The remaining $4 million proposed reduction occurred in E-12 education grant programs.

2003 Legislative Session, First Special Session

The Legislature adjourned on May 19, 2003, the constitutional deadline, without enacting recommended measures affecting the Previous Biennium. During the 2003 legislative first special session that ended on May 29, 2003, the Legislature enacted revenue measures and expenditures to balance the budget for the Current Biennium.

The end of 2003 legislative sessions estimate of resources, expenditures, and fund balances for the Previous Biennium is detailed below.

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

Resources	
Unreserved Balance at June 30, 2001	$ 1,574
Non-dedicated Revenues	24,711
Dedicated Revenues, Transfers In and Other	649
Total Resources	$26,934
Expenditures	26,754
Projected Unreserved Balance at June 30, 2003	$ 180
Budget Reserve Account	0
Projected Unrestricted Balance at June 30, 2003	$ 180

The 2003 Legislature in the first special session passed one budget bill for the purpose of balancing the Accounting General Fund for the Previous Biennium. This legislation made revenue and expenditure changes to address the $11 million projected shortfall from the February 2003 forecast.

The Legislature enacted resource and expenditure changes consistent with the Governor's recommendations. The effect of enacted changes increased Accounting General Fund resources by $73 million through transfers and cancellations from other funds. Authorized spending was reduced $118 million. Refinancing $110 million in transportation projects with Trunk Highway Fund bonds was the largest component of that change.

Previous Biennium Estimates — Revenues and Expenditures

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the Accounting General Fund for the Previous Biennium based on end of 2003 legislative sessions estimate. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2003 LEGISLATIVE SESSIONS
($ in Thousands)

	Fiscal Year 2002	Fiscal Year 2003	Previous Biennium
Forecast Resources			
Prior Year Ending Balance[1]	1,574,200	1,130,269	1,574,200
Net Non-dedicated Revenues	12,177,350	12,533,959	24,711,309
Dedicated Revenues	34,599	59,254	93,853
Transfers From Other Funds	67,585	407,681	475,266
Prior Year Adjustments	30,491	48,721	79,212
Subtotal Current Resources	12,310,025	13,049,615	25,359,640
Total Revenues Plus Prior Year Ending Balance	13,884,225	14,179,884	26,933,840
Authorized Expenditures & Transfers			
E-12 Education	4,415,414	5,562,138	9,977,552
Property Tax Aids & Credits	1,779,747	1,598,932	3,378,679
Higher Education	1,394,932	1,361,701	2,756,633
Health & Human Services	3,172,182	3,582,060	6,754,242
Environment, Agriculture & Economic Dev	430,287	368,902	799,189
Transportation	209,526	108,487	318,013
Criminal Justice	640,526	710,751	1,351,277
State Government	378,866	355,991	734,857
Debt Service	285,553	295,494	581,047
Capital Projects	2,146	0	2,146
Deficiencies/Other	14,982	747	15,729
Cancellation Adjustment	0	(5,000)	(5,000)
Subtotal Expenditures & Transfers	12,724,161	13,940,203	26,664,364
Dedicated Revenue Expenditures	29,795	59,254	89,049
Total Expenditures and Transfers	12,753,956	13,999,457	26,753,413
Unreserved Balance	1,130,269	180,427	180,427
Tax Relief Account	158,148	0	0
Appropriations Carried Forward	316,393	0	0
Unrestricted Balance	655,728	180,427	180,427

(1) Fiscal Year 2001 ended with an Unrestricted Accounting General Fund balance of zero and an Unreserved Accounting General Fund Balance of $1.574 billion.

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

PREVIOUS BIENNIUM
ACCOUNTING GENERAL FUND
ESTIMATES OF NON-DEDICATED REVENUES
END OF 2003 LEGISLATIVE SESSIONS
($ in Thousands)

	Fiscal Year 2002	Fiscal Year 2003	Previous Biennium
Net Non-dedicated Revenues:			
Income Tax – Individual	5,443,342	5,500,400	10,943,742
Income Tax – Corporate	529,458	529,800	1,059,258
Sales Tax	3,784,523	3,933,600	7,718,123
Motor Vehicle Sales Tax	424,711	283,328	708,039
Statewide Property Tax	305,573	583,975	889,548
Estate Tax	68,174	134,000	202,174
Liquor, Wine & Beer	58,067	63,211	121,278
Cigarette & Tobacco	168,237	178,298	346,535
Mining	165	794	959
Mortgage Registry Tax	143,195	161,409	304,604
Deed Transfer Tax	86,065	92,676	178,741
Gross Earnings Taxes	176,713	204,155	380,868
Lawful Gambling Taxes	59,314	59,316	118,630
Medical Assistance Surcharges	152,521	178,900	331,421
Income Tax Reciprocity	47,899	49,010	96,909
Tobacco Settlements	156,646	152,905	309,551
Investment Income	82,808	24,400	107,208
DHS RTC Collections	75,368	62,175	137,543
Lottery Revenue	31,057	33,681	64,738
Departmental Earnings	186,264	185,000	371,264
All Other Non-dedicated Revenue	235,545	158,051	393,596
Tax and Non-Tax Refunds	(38,295)	(35,125)	(73,420)
Total Net Non-dedicated Revenues	12,177,350	12,533,959	24,711,309

BUDGET — CURRENT BIENNIUM

November 2002 Forecast — Current Law

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

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
NOVEMBER 2002 FORECAST
($ in Millions)

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

Net non-dedicated revenues for the Current Biennium were forecast to total $26.562 billion, an increase of $1.913 billion or 7.8 percent from levels projected in the November 2002 forecast for the Previous Biennium. Receipts from individual income taxes were forecast to total $12.173 billion. Sales tax receipts were forecast to be $8.188 billion. Corporate income taxes were forecast at $1.348 billion. Motor Vehicle Sales Tax receipts were projected to total $536 million. Statewide property tax receipts were expected to be $1.207 billion. Revenues from tobacco settlements were projected to be $392 million. Other non-dedicated revenues were projected to total $2.718 billion.

The November 2002 forecast indicated a projected Accounting General Fund budget shortfall of $4.560 billion. The November 2002 forecast used planning estimates based on the assumption that current laws and policies for the Previous Biennium would continue unchanged. Expenditure projections assumed the extension of current programs, adjusted only for projected changes in caseload and enrollment. Based on statutory direction by the Legislature, no adjustments for inflation were made in future spending except for those in statute.

The current law forecast shortfall for the Current Biennium included an unresolved $332 million forecast deficit from the Previous Biennium because no action had occurred to eliminate that deficit.

Expenditures for the Current Biennium were estimated to total $30.975 billion, an increase of $3.876 billion or 14.3 percent more than the November 2002 estimate for the Previous Biennium. Of this increase in biennial spending, $2.112 billion occurred in education finance. More than one-half of this increase resulted from significant school finance and property tax reform begun in the second year of the Previous Biennium. Under this reform the state assumed the full cost of the general education program. Health care programs accounted for $1.119 billion of the total increase in Accounting General Fund spending, a 23 percent increase over the Previous Biennium. Increases in projected health care spending were primarily the result of growing costs in medical assistance health care services and higher General Assistance Medical Care caseloads. Net spending in all other budget areas was forecast to decline from the Previous Biennium due to significant one-time spending in the previous period for Accounting General Fund financed capital projects and transportation projects.

**COMPARISON OF CURRENT BIENNIUM
TO PREVIOUS BIENNIUM
NOVEMBER 2002 FORECAST**

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

February 2003 Governor's Budget Recommendation

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

**CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2003 GOVERNOR'S RECOMMENDATION
($ in Millions)**

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

Revenues Proposed in the Governor's Budget:

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

The Governor included no general tax increases in his February 2003 recommendations. However, proposed one-time revenue changes totaled $1.384 billion. The Governor proposed transferring the balance of the tobacco endowment funds to the Accounting General Fund, representing a one-time estimated transfer of $1.029 billion. Additional revenue was to be derived from a repeal of a buyback of certain sales tax acceleration, a proposed merger of the Health Care Access Fund into the Accounting General Fund, and transfers from other State funds.

Permanent non-dedicated revenue changes were recommended that totaled $197 million. Of this amount, $134 million was proposed from an increase in the State's Medical Assistance surcharge. The balance reflected various increases in State agencies' fees and other charges as well as an increase in revenues expected from enhanced tax compliance initiatives.

Expenditures Proposed in the Governor's Budget:

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

E-12 education accounted for $12.582 billion of total recommended spending – over 44 percent of total Accounting General Fund spending. This represented a $1.857 billion or 17.3 percent increase over the Previous Biennium. The largest single change in E-12 education spending occurred as a result of the 2001 actions to reform and reduce property taxes and the corresponding increase in spending related to the State assumption of general education costs and local aid program reforms. Over one-half of the spending increase was attributable to the impact of spending increases related to property tax reform and relief. Recommended E-12 funding was $295 million less than the November 2002 forecast of current law. Additionally a proposed change in the payment schedule to school districts produced a one-time savings of $357 million.

Proposed health and human services spending accounted for $7.022 billion – 25 percent of recommended spending. This represented a $510 million or 8.0 percent increase over the Previous Biennium, but a reduction of $819 million from the November 2002 current law forecast. The budget proposed reducing the growth in human service program costs through a combination of changes in eligibility, utilization and provider payments. Proposals also included creating a single State program for adults without children by merging General Assistance Medicare care programs with MinnesotaCare. Any balances, revenues and spending for State's Heath Care Access Fund would be merged into the Accounting General Fund at the beginning of the Current Biennium.

Proposed appropriations for higher education totaled $2.552 billion, 9 percent of the budget. This represented a 7.4 percent decrease from the Previous Biennium and a $358 million decrease from the November 2002 current law forecast. The Governor proposed significant increases to student financial aid programs to offset possible tuition increases. Property tax aids and credit programs totaled $2.633 billion, 9.4 percent of the budget. This represented a 22.3 percent reduction from the Previous Biennium and a $638 million reduction from current law forecast.

All other spending areas accounted for $3.692 billion, or 13 percent of the proposed budget. This funding level represented a 5.0 percent decrease from the Previous Biennium and a reduction of $388 million from the November 2002 forecast base levels. An average 15 percent reduction from forecast current law levels was recommended for operating agencies, programs and grants. The Governor proposed a two-year public employee pay freeze to minimize job losses and service impacts of reduced funding levels proposed for the two-year budget period.

Payment and Collection Schedules Adjusted:

The Governor proposed changes to statutory payment schedules and required tax remittance dates that would result in a total of $411 million in reduced expenditures and $209 million of increased revenues on the Current Biennium. Education aid payments would be changed from a payment schedule with a 17 percent final payment to a schedule with a 20 percent final payment, reducing Current Biennium costs by $357 million. Changes were also recommended in payment schedules of human services' payments to counties, saving $54 million in the Current Biennium. The Governor also recommended eliminating repeal of the June sales tax acceleration that requires remitters to advance a portion of their July tax payment to June. Along with an increase in the percentage payment required and advancing payment of deed and mortgage tax collections from counties, these changes were expected to increase Current Biennium revenues by $209 million.

Reserves:

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

Next Biennium:

Based upon the Governor's budget recommendations, the planning estimates for the Next Biennium indicated that there would be structural balance, meaning that total revenues would exceed total expenditures.

February 2003 Forecast — Current Law

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

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
FEBRUARY 2003 FORECAST
($ in Millions)

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

The February 2003 forecast reflected unallotment actions taken in the Previous Biennium and a negative $11 million Unreserved Balance from the Previous Biennium (see page S-22 under "Budget – Previous Biennium"). A slightly weaker outlook for Minnesota's economy reduced projected revenues modestly for the Current Biennium. Minor changes in the expenditure forecast almost completely offset the revenue losses leaving no material change in the state's financial situation.

Forecast revenues were expected to total $26.707 billion, $150 million, or 0.6 percent less than forecast in November 2002. Nearly all of this decrease, $124 million, was attributed to a reduction in forecast income tax receipts. A modest decline in Minnesota's employment outlook for 2003 and 2004 and lower projected wage growth were the source of much of the forecast reduction.

Projected current law spending was reduced to $30.828 billion, $147 million less than forecast in November 2002. Two areas accounted for the majority of this reduction. E-12 education estimates were reduced $80 million due to a reduction in forecast pupil units. Health and human services estimates were reduced $40 million due largely to the reduction in projected spending for General Assistance Medical Care and Medical Assistance Long-term Care Waivers.

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

April 2003 Governor's Budget Recommendation Revisions

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

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
APRIL 2003 GOVERNOR'S RECOMMENDATION
($ in Millions)

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

Additional Resource Changes Proposed by the Governor:

The April 2003 Governor's recommendation made a number of changes to his revenue proposals based on the lower forecast. These changes added $89 million in projected resources. No general tax increases were proposed. Changes included expanded accelerations of certain sales tax payments and acceleration of deed and mortgage payments from counties to the State. These changes were expected to yield $60 million over the Current Biennium. Additional tax compliance, miscellaneous non-tax revenue enhancements, and additional transfers from other funds comprised the balance of the recommended resource increases.

Additional Expenditure Changes Proposed by the Governor:

The April 2003 final Governor's recommendation included additional spending reductions and corrections totaling $73 million. Of these reductions nearly $32 million were applied to State government agencies and $22 million to human services program, and nearly $14 million in savings resulted from minor technical corrections.

Budget Reserves:

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

Next Biennium:

The planning estimates for the Next Biennium, based upon the Governor's budget recommendations, indicate that there would be structural balance, meaning that total revenues would exceed total expenditures.

2003 Regular and First Special Legislative Sessions

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

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

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2003 LEGISLATIVE SESSIONS
($ in Millions)

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

Enacted Budget Summary:

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

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

Resources:

The 2003 legislative sessions produced no significant tax law changes. Accounting General Fund resources are forecast to be $28.822 billion. This is an increase of $1.959 billion over the amount forecast in the February 2003 forecast. This increase in resources is attributable primarily to a $1.029 billion one-time transfer of funds previously set-aside in tobacco endowment accounts, $738 million resulting from changes in tax collection schedules and one-time transfers from other funds, and increased fees and other non-tax revenues that are deposited to the Accounting General Fund.

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

	Previous Biennium	Current Biennium	Percent Change
	($ in billions)		
Receipts:			
Individual Income Tax	$10.944	$12.034	10.0%
Sales Tax	7.718	8.384	8.6%
Corporate Income Tax	1.059	1.304	23.1%
Motor Vehicle Sales Tax	.549	.574	4.6%
Statewide Property Tax	1.208	1.221	1.1%
All Other Taxes	1.873	2.242	19.7%
Non-Tax Revenues	1.360	1.347	(1.0%)
Subtotal	24.711	27.106	9.7%
Transfers, Dedicated, Other Resources	.648	1.536	137.0%
Total Revenues	**$25.360**	**$28.642**	**12.9%**

Expenditures:

Authorized Accounting General Fund spending for the Current Biennium is estimated at $28.300 billion. Compared to Previous Biennium expenditures, this represents a biennial expenditure growth of $1.547 billion, or 5.8 percent.

Compared to the February 2003 forecast of Accounting General Fund spending, authorized spending will be $2.509 billion less than forecast. Of this amount $2.006 represents permanent expenditure reductions made across major program areas, and $503 million represents expenditure savings resulting from one-time payment changes in payment schedules to school districts and counties.

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

	Previous Biennium	Current Biennium	Percent Change
	($ in billions)		
Expenditures:			
E-12 Education	$ 9.978	$11.883	19.1%
Property Tax Aids & Credits	3.379	2.737	(19.0%)
Higher Education	2.757	2.560	(7.2%)
Health & Human Services	6.754	7.428	10.0%
Criminal Justice	1.351	1.434	6.1%
Debt Service	.581	.674	16.1%
All Other Spending	1.953	1.584	(18.9%)
Total Expenditures	**$26.753**	**$28.300**	**5.8%**

E-12 education accounts for $11.883 billion — 42 percent of the Accounting General Fund spending. This represents a $1.905 billion or 19.1 percent increase over the Previous Biennium. The enacted budget does not significantly change general education funding from prior levels on a per pupil basis. Rather, changes in E-12 education spending occur primarily as a result of the 2001 actions to reform and reduce property taxes and the corresponding increase in spending related to the state assumption of general education costs and local aid program reforms.

Health and human services spending is forecast to be $7.428 billion — 26 percent of the total budget. While this is a $674 million or 10.0 percent increase over the Previous Biennium, it is a reduction of $661 million from the February 2003 forecast. The budget reduces the growth in human service program costs through a combination of changes in eligibility, utilization and provider payments. Resulting balances in the State's Heath Care Access Fund that result from program changes are also transferred into the Accounting General Fund.

The State share for higher education will be $2.560 billion — 9 percent of the budget. This represents a 7.2 percent decrease from the Previous Biennium and a $196 million decrease from the February 2003 forecast. Student financial aid programs are increased to partially offset projected tuition increases.

Property tax aids and credit programs total $2.737 billion, nearly 10 percent of the budget. Funding for local aids represents a 19 percent reduction from the Previous Biennium spending and a $641 million reduction from current law forecast estimates. Cities and counties will be permitted to increase levies to recover up to 60 percent of the state aid reductions. If they choose to do so, the net effect of State aid reductions will be approximately 3 percent of the total cities and counties revenue.

All other spending areas accounted for $3.692 billion, or 13 percent of the proposed budget. This funding level represents a 5.0 percent decrease from the Previous Biennium and a reduction of $339 million from the February 2003 forecast base levels. Reductions vary by specific area, ranging from 3 percent for state courts to an average 15 percent for most state agencies operations.

Payment and Collection Schedules Adjusted:

Enacted revenue and spending measures included changes to required tax remittance dates and statutory payment schedules totalled $712 million. Revenue collection changes will increase Current Biennium revenues by $209 million. These changes include eliminating repeal of the June sales tax acceleration that requires remitters to advance a portion of their July tax payment to June. Along with an increase in the percentage payment required, similar advancing payments were required for deed and mortgage tax collections from counties, as well as excise tax collections for cigarette and alcohol products. Changes in the education entitlement and settle-up payments schedule and property tax recognition reduces Current Biennium costs by $437 million. Changes were incorporated in payment schedules of human services' payments to counties and providers that reduce spending $66 million.

Reserves, Future Forecast Contingencies:

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

Next Biennium:

The planning estimates for the following biennium, Next Biennium, based on the enacted budget, indicate there will be a structural balance, meaning that projected total revenues, excluding any balances carried forward, will exceed total expenditures.

Federal 2003 Jobs and Growth Reconciliation Act

The President signed the Jobs and Growth Reconciliation Act, which included federal tax reductions and state fiscal relief on May 28, 2003. The enacted budget contains contingent provisions that allocate additional one-time federal funds that will be received by Minnesota during the Previous Biennium. These contingent provisions are not included in enacted budget financial statements.

Minnesota's share of flexible assistance grants will be $167 million. These grants will be deposited in the Accounting General Fund as non-dedicated receipts. Contingent current law provisions will have the effect of conforming Minnesota's tax law to federal tax changes enacted in 2003. This conformity will reduce forecast tax revenues expected for the Current Biennium by $103 million. The remaining $64 million would be unallocated Accounting General Fund revenue that would, in the absence of other actions, add to the unrestricted Accounting General Fund budgetary balance.

Minnesota is also expected to receive $195 million in temporary assistance through an enhanced federal medical assistance percentage. These federal funds do not affect Accounting General Fund revenues or expenditures. Current law provisions, contingent upon receipts of these federal monies, will delay some of the eligibility and financial participation changes in the enacted budget for the Medical Assistance and Minnesota Care programs.

Current Biennium Estimates — Revenues and Expenditures

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the Accounting General Fund for the Current Biennium based on end of 2003 legislative sessions estimate. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2003 LEGISLATIVE SESSIONS
($ in Thousands)

	Fiscal Year 2004	Fiscal Year 2005	Current Biennium
Forecast Resources			
Prior Year Ending Balance[1]	180,427	547,248	180,427
Net Non-dedicated Revenues	13,150,985	13,954,775	27,105,760
Dedicated Revenues	61,080	65,425	126,505
Transfers From Other Funds	1,139,730	249,772	1,389,502
Prior Year Adjustments	10,100	10,100	20,200
Subtotal Current Resources	14,361,895	14,280,072	28,641,967
Total Revenues Plus Prior Year Ending Balance	14,542,322	14,827,320	28,822,394
Authorized Expenditures & Transfers			
E-12 Education	5,766,327	6,117,042	11,883,369
Property Tax Aids & Credits	1,407,322	1,329,704	2,737,026
Higher Education	1,285,618	1,274,578	2,560,196
Health & Human Services	3,730,801	3,697,617	7,428,418
Environment, Agriculture & Economic Dev	352,131	344,489	696,620
Transportation	80,066	81,142	161,208
Criminal Justice	710,038	724,220	1,434,258
State Government	291,616	312,796	604,412
Debt Service	310,075	363,550	673,625
Cancellation Adjustment	0	(5,000)	(5,000)
Subtotal Expenditures & Transfers	13,933,994	14,240,138	28,174,132
Dedicated Revenue Expenditures	61,080	65,425	126,505
Total Expenditures and Transfers	13,995,074	14,305,563	28,300,637
Unreserved Balance	547,248	521,757	521,757
Budget Reserve	300,000	521,757	521,757
Unrestricted Balance	247,248	0	0

(1) Fiscal Year 2003 is forecast to end with an Unrestricted Accounting General Fund balance of zero and an Unreserved Accounting General Fund Balance of $180.4 million.

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

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
ESTIMATES OF NON-DEDICATED REVENUES
END OF 2003 LEGISLATIVE SESSIONS
($ in Thousands)

	Fiscal Year 2004	Fiscal Year 2005	Current Biennium
Net Non-dedicated Revenues:			
Income Tax – Individual	5,797,788	6,236,369	12,034,157
Income Tax – Corporate	625,200	679,290	1,304,490
Sales Tax	4,074,989	4,308,621	8,383,610
Motor Vehicle Sales Tax	285,770	288,406	574,176
Statewide Property Tax	603,103	617,425	1,220,528
Estate Tax	70,000	71,000	141,000
Liquor, Wine & Beer	68,323	64,954	133,277
Cigarette & Tobacco	168,262	155,572	323,834
Mining	2,175	1,670	3,845
Mortgage Registry Tax	127,830	93,066	220,896
Deed Transfer Tax	86,349	84,643	170,992
Gross Earnings Taxes	216,855	230,355	447,210
Lawful Gambling Taxes	59,896	59,911	119,807
Medical Assistance Surcharges	268,172	301,298	569,470
Income Tax Reciprocity	48,213	50,332	98,545
Tobacco Settlements	189,041	191,046	380,087
Investment Income	17,300	27,900	45,200
DHS RTC Collections	59,205	75,714	134,919
Lottery Revenue	36,144	36,144	72,288
Departmental Earnings	245,929	252,479	498,408
All Other Non-dedicated Revenue	135,767	164,222	299,989
Tax and Non-Tax Refunds	(35,326)	(35,642)	(70,968)
Total Net Non-dedicated Revenues	13,150,985	13,954,775	27,105,760

ACCOUNTING GENERAL FUND REVENUE SOURCES

Tax Sources

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

Income Tax: The income tax rate schedules for 2003 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 $290. 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 $19,010	5.35 percent
on all over $19,010, but not over $62,440	7.05 percent
on all over $62,440	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $27,780	5.35 percent
on all over $27,780, but not over $110,390	7.05 percent
on all over $110,390	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 $23,400	5.35 percent
on all over $23,400, but not over $94,030	7.05 percent
on all over $94,030	7.85 percent

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

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

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income on the basis of a three factor formula that gives a 75% weight to sales, a 12.5% weight to payroll and a 12.5% weight to property. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

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

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

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:

2.0%	Domestic and foreign company premiums.
1.0%	Mutual property and casualty companies with assets of 5 million or less on 12/31/89
1.26%	Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89
3.0%	Surplus line agents.
0.5%	Fire Marshal tax on fire premiums.
2.0%	Surcharge on fire premiums for property located in cities of the first class.

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

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

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

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

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.

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 Accounting General Fund and three percent to the county in which the property is located.

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

Legalized Gambling Taxes:

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

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

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

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

In order to comply with the multistate agreement on a "streamlined" sales tax, this tax is repealed effective December 31, 2005.

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

Health Care Provider Surcharge: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $625 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 Accounting General Fund receives no unrestricted federal grants. The only federal funds deposited into the Accounting General Fund are to reimburse the State for expenditures on behalf of federal programs.

Tobacco Settlement

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

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 Accounting 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 expenditures are limited to resources available in the Health Care Access Fund. 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 HMO's. For calendar years 2002 and 2003, these permanent taxes have been temporarily lowered to 1.5 percent and to zero, respectively. The provider tax will continue at 1.5% and the gross premium tax will remain at zero percent until calendar year 2004. The 2003 Legislature directs the balance in the Health Care Access Fund to be transferred to the Accounting General Fund on June 30, 2005.

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

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

Resources	
Unreserved Balance at June 30, 2003	$158
Revenues	684
Total Resources	842
Expenditures	648
Projected Unreserved Balance at June 30, 2005	$194
Premium and IBNR Reserve Account	0
Federal Reserves	0
Projected Unrestricted Balance at June 30, 2005	$194*

*This balance will be transferred from the Health Care Access Fund to the Accounting General Fund at the end of Fiscal Year 2005. The number varies slightly from other Department of Finance documents due to rounding.

SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

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

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

Under State law school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of July 21, 2003, there were approximately $601 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

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

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

School districts are authorized to issue general obligation bonds only when authorized by school district electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district for the years and in amounts sufficient to produce sums not less than 5 percent in excess of the principal of and interest on the bonds when due. As of July 21, 2003 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 2031, is approximately $9.8 billion. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the amount of certificates of indebtedness and capital notes for equipment, certificates of participation and bonds now enrolled in the program, during the Current Biennium the total amount of principal and interest coming due as of July 21, 2003 is about $1.7 billion, with the maximum amount of principal and interest payable in any one month being $372 million.

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

COUNTY CREDIT ENHANCEMENT PROGRAM

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

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

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

The program enrolls county general obligation bonds issued for the following purposes: (1) jails, (2) correctional facilities, (3) law enforcement facilities, (4) social services and human services facilities, and (5) solid waste facilities.

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

As of July 1, 2003, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2023, is approximately $29.7 million. More Bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the bonds enrolled in the program, during the Current Biennium the total amount of principal and interest coming due as July 1, 2003 is $5,820,905 with the maximum amount of principal and interest payable in any one month being $1,380,228. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the counties.

APPENDIX A

State Financial Statements
For the Fiscal Year
Ended June 30, 2002

APPENDIX A
Table of Contents

BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

Members of the Legislature

The Honorable Jesse Ventura, Governor

Ms. Anne Barry, Acting Commissioner of Finance

We have audited the accompanying basic financial statements of the State of Minnesota as of and for the year ended June 30, 2002, as listed in the Appendix A Table of Contents. These basic financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU) , a business-type activity. The MnSCU financial statements represent 73 percent of the assets and 38 percent of the operating revenues of the primary government's total business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent of the assets and 99 percent of the 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 MnSCU fund and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. The financial statements of the Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, and Minnesota Partnership for Action Against Tobacco, which are discretely presented component units, were not audited in accordance with *Government Auditing Standards*. 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 provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State of Minnesota as of June 30, 2002, and the results of its operations and the cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

As discussed in Note 1 to the basic financial statements, for the year ended June 30, 2002, the State of Minnesota adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities;* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and paragraphs 6 through 11 of Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish new financial reporting requirements for state and local governments throughout the United States.

Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the State of Minnesota's basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 6, 2002

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, 2002, and identities changes in the financial position of the state, which occurred during the fiscal year. Please read this overview in conjunction with the letter of transmittal, which can be found preceding this narrative, and with the state's financial statements and notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No, 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", and GASB Statement No. 35, "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment of GASB Statement No. 34", establish new reporting requirements for state and local governments throughout the United States. The new requirements not only restructure the format of information presented in previous fiscal years, but also create new information which must be presented. The intention of the new reporting model is to make annual reports more comprehensive while being easier to use and understand.

Because the fiscal year ended June 30, 2002 is the first year in which the state implemented the provisions of GASB Statements Nos. 34 and 35, the statements do not require the presentation of comparative data. Comparative data is presented in this discussion when available. Beginning with fiscal year 2003, comparative data will be provided as required by both statements.

Overview of the Financial Statements

Minnesota's financial reporting for fiscal year 2002 uses a substantially revised format compared to previous annual financial reports. Under the new reporting model, the focus is on the state as a whole, and on the individual funds that are considered to be major. The new reporting focus is to present a more comprehensive view of Minnesota's financial activities and financial position, and to make the comparison of Minnesota's government to other governments easier.

This annual financial 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 are designed to 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*, 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 related cash has been received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as 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 can be found 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 and shows how the state's net assets changed during the most recent fiscal year. *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* 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 expenditures.

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

Governmental Activities

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

Business-type Activities

The business-type activities 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 units' 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 twelve 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:

- University of Minnesota
- Metropolitan Council
- Housing Finance Agency

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

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

State Funds and Component Units Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains twenty-eight 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 balance* for the General and Federal funds, both of which are reported as major funds. Information from the remaining twenty-six 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 elsewhere in this report.

The state adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

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

Enterprise funds, a component of proprietary funds, are used to report activities that provide goods and services to outside (non-government) customers, including the general public. Internal service funds are an accounting device used to accumulate and allocate costs internally for goods and/or 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 seventeen individual proprietary funds. State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the other fifteen funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere 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's fiduciary funds are the pension trust funds, the Investment Trust Fund (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pool), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements elsewhere in this report.

Component Units

As mentioned above, component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units statements of net assets and the component units statement of changes in net assets provide detail for each major component unit and aggregate the detail for nonmajor component units. Individual nonmajor component unit detail can be found in the combining financial statements elsewhere 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 units' financial statements.

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2002 by $9.5 billion (presented as *net* assets). Of this amount, $2.5 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.

- The state's total net assets decreased by $558.8 million (5.5%) during fiscal year 2002. Net assets of governmental activities decreased by $397.4 million (4.6%), while net assets of the business-type activities showed a decrease of $161.4 million (10.6%).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $5.7 billion, a decrease of $408.8 million compared to the prior year. Of this total amount, $1.797 billion represents unreserved fund balances mainly in the General Fund and special revenue funds.

- $530.6 million (29.5%) of the unreserved fund balance is available for spending at the government's discretion (undesignated fund balance). Undesignated fund balance represents approximately two and a half percent of the total governmental fund expenditures for the year.

Long-Term Debt

- The state's total long-term debt obligations increased by $397 million (8.3%) during the current fiscal year. The increase is primarily from the issuance of general obligation bonds to finance various state purposes.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled $9.546 billion at the end of 2002, compared to $10.102 billion at the end of the previous year.

Net Assets
Fiscal Year Ended June 30, 2002
(In Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current Assets	$ 9,746,874	$ 941,012	$ 10,687,886
Noncurrent Assets:			
Capital Assets	6,673,700	912,145	7,585,845
Other Assets	340,370	84,407	424,777
Total Assets	$ 16,760,944	$ 1,937,564	$ 18,698,508
Current Liabilities	$ 4,088,695	$ 271,551	$ 4,360,246
Noncurrent Liabilities:	4,491,673	300,682	4,792,355
Total Liabilities	$ 8,580,368	$ 572,233	$ 9,152,601
Net Assets:			
Invested in Capital Assets, Net of Related Debt	$ 3,516,294	$ 776,233	$ 4,292,527
Restricted	2,300,180	431,695	2,731,875
Unrestricted	2,364,102	157,403	2,521,505
Total Net Assets	$ 8,180,576	$ 1,365,331	$ 9,545,907

A large portion of the state's net assets (45%) 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; consequently, these assets are not available to fund the day-to-day activities of the state. Capital assets are not considered to be convertible to cash and cannot be used to pay for the debt related to the capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Twenty-nine percent of the state's net assets ($2.7 billion) represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. The remaining balance of unrestricted net assets, $2.5 billion, may be used to meet the state's ongoing obligations to citizens and creditors. Within this balance, 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.

At the end of the current fiscal year, the state reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets
Fiscal Year Ended June 30, 2002
(In Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues:			
Program Revenues:			
Charges for Services	$ 1,398,808	$ 1,396,840	$ 2,795,648
Operating Grants and Contributions	4,697,961	437,777	5,135,738
Capital Grants	21,508	24,333	45,841
General Revenues:			
Individual Income Taxes	5,419,220	-	5,419,220
Corporate Income Taxes	428,614	-	428,614
Sales Taxes	3,777,259	-	3,777,259
Property Taxes	308,337	-	308,337
Motor Vehicle Taxes	616,616	-	616,616
Fuel Taxes	614,285	-	614,285
Other Taxes	1,862,382	-	1,862,382
Tobacco Settlement	380,024	-	380,024
Investment/Interest Income	83,432	35,853	119,285
Other Revenues	71,621	721	72,342
Total Revenues	$ 19,680,067	$ 1,895,524	$ 21,575,591
Expenses:			
Public Safety and Corrections	$ 702,345	$ -	$ 702,345
Transportation	1,619,806	-	1,619,806
Agricultural and Environmental Resources	609,199	-	609,199
Economic and Workforce Development	731,568	-	731,568
General Education	5,461,074	-	5,461,074
Higher Education	865,729	-	865,729
Health and Human Services	2,468,146	-	2,468,146
Health Care	4,838,987	-	4,838,987
General Government	849,938	-	849,938
Intergovernmental Aid	1,287,768	-	1,287,768
Interest	161,129	-	161,129
State Colleges and Universities	-	1,296,697	1,296,697
Unemployment Insurance	-	946,562	946,562
Lottery	-	296,985	296,985
Other	-	132,479	132,479
Total Expenses	$ 19,595,689	$ 2,672,723	$ 22,268,412
Excess (Deficiency) before Transfers and Special Item	$ 84,378	$ (777,199)	$ (692,821)
Transfers	(615,758)	615,758	-
Special Item	134,000	-	134,000
Change in Net Assets	$ (397,380)	$ (161,441)	$ (558,821)
Net Assets, Beginning, as Restated	$ 8,575,515	$ 1,526,772	$ 10,102,287
Change in Inventory	2,441	-	2,441
Net Assets, Ending	$ 8,180,576	$ 1,365,331	$ 9,545,907

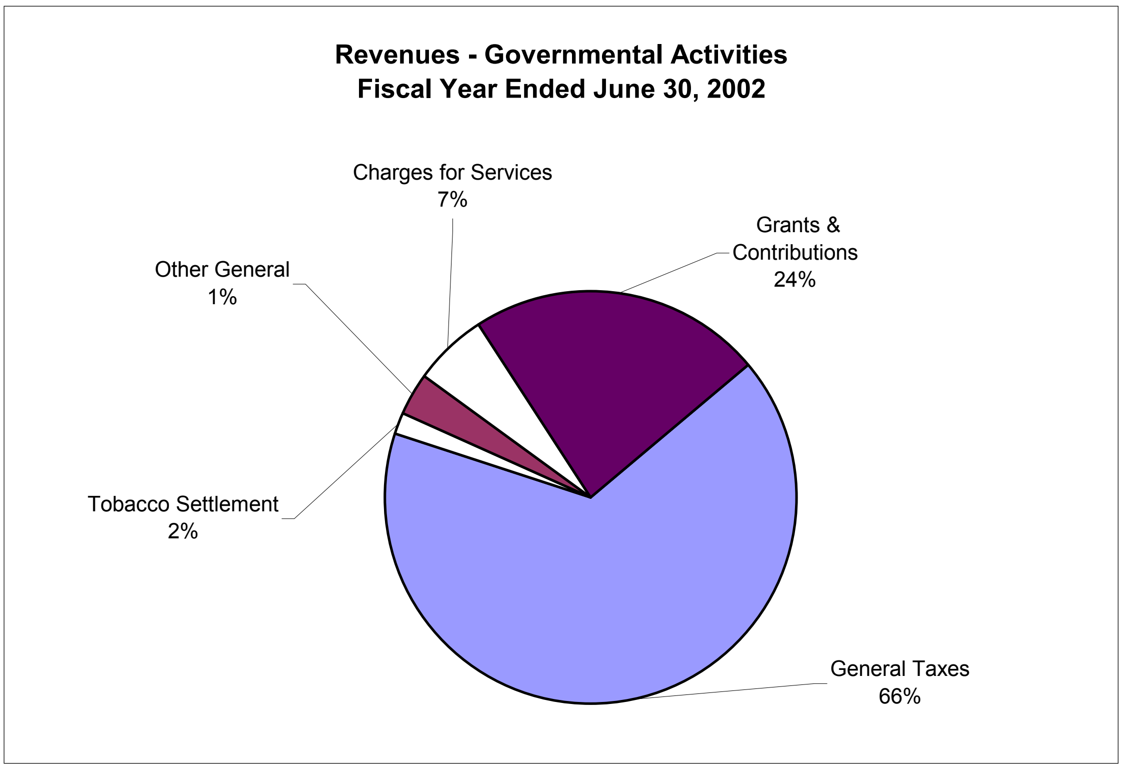
The state's combined net assets for governmental and business-type activities decreased $558.8 million (5.5%) over the course of this fiscal year. This resulted from a $397.4 million (4.6%) decrease in net assets of governmental activities, and a $161.4 million (10.6%) decrease in net assets of business-type activities.

Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 24 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent ($2.8 billion) of the total revenues. The remaining 3 percent came from other general revenues.

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

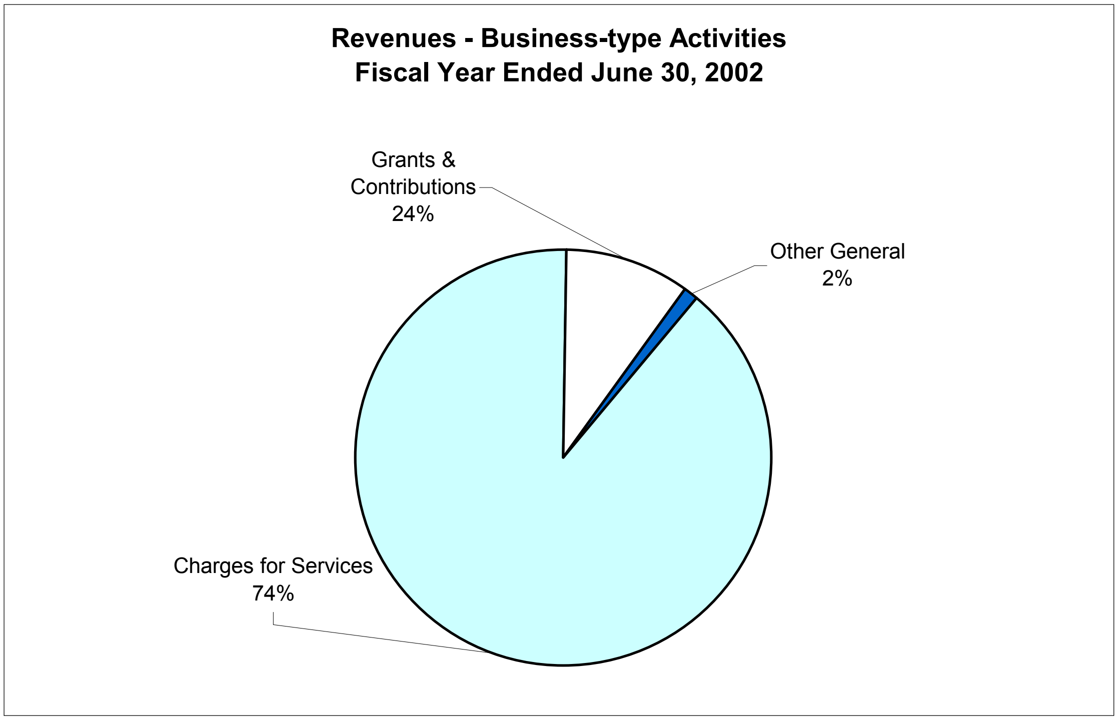
Governmental Activities

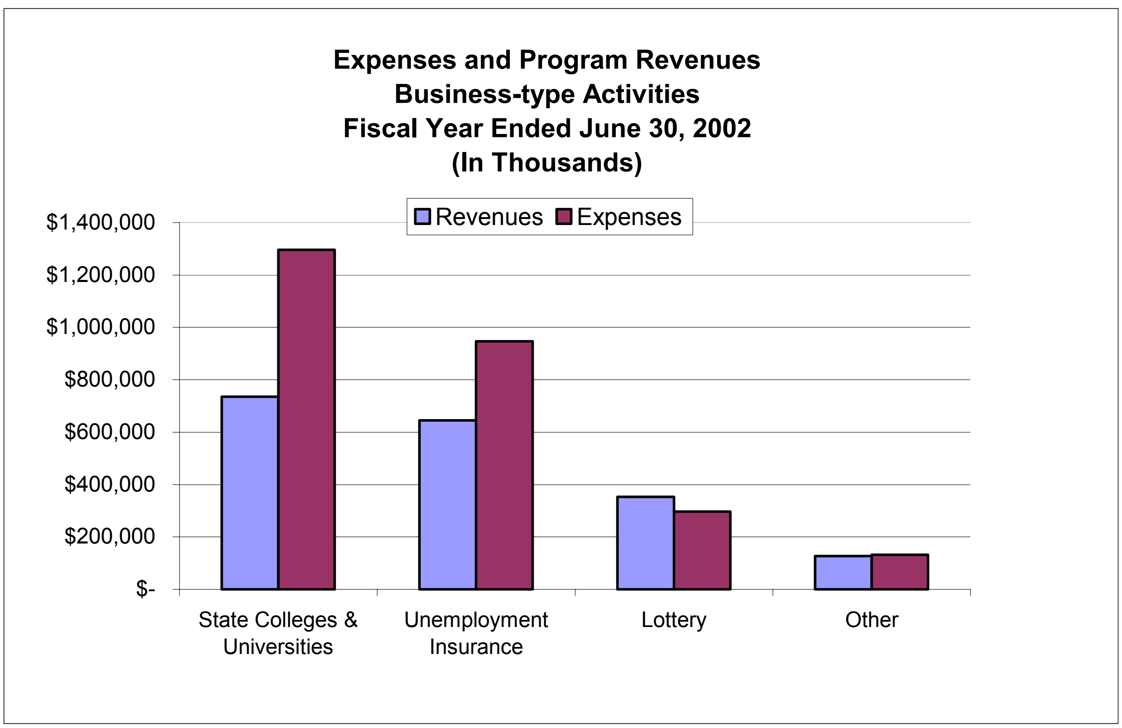
Governmental activities decreased the state's net assets by $397.4 million, which primarily resulted from relatively flat revenues as a result of the economic downturn. The following chart shows the categories of revenue for fiscal year 2002 of $19,680,067.



Business-type Activities

The business-type activities had a decrease in net assets of $161.4 million. This decrease was due primarily to a $279.3 million decrease in net assets in the Unemployment Insurance Fund, which was offset by a $120.1 million increase in net assets of the State Colleges & Universities Fund. The decrease in the Unemployment Insurance Fund net assets resulted from an increase in the unemployment rate corresponding to a downturn in the economy. The increase in the State Colleges & Universities Fund net assets resulted from increases in tuition and fees as well as an increase in a transfer (appropriation) from the General Fund.


Revenues - Business-type Activities
Fiscal Year Ended June 30, 2002
Grants &
Contributions
24%
Other General
2%
Charges for Services
74%


Expenses and Program Revenues
Business-type Activities
Fiscal Year Ended June 30, 2002
(In Thousands)
Revenues
Expenses
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
State Colleges &
Universities
Unemployment
Insurance
Lottery
Other

State Funds Financial Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $5.699 billion, a decrease of $408.8 million in comparison with the prior year. Approximately 31 percent ($1.797 billion) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. However, included in this amount is $1.267 billion that has internally imposed designations, such as state statutory language, which limit resource use. The remaining fund balance of $3.901 billion is reserved to indicate that the money is not available for new spending, but has been dedicated for various commitments.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the General Fund was $539.1 million, while the total fund balance reached $685.5 million.

The fund balance of the state's General Fund decreased by $354.2 million during the current fiscal year. This decrease primarily resulted from relatively flat revenues as a result of the economic downturn, instead of the anticipated inflationary increases in income taxes to correspond with increases in grants and subsidies associated with education.

Proprietary Funds

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

The state's net assets decreased by $161.4 million during the current year as a result of operations in the proprietary funds. This primarily resulted from a $279.3 million decrease in net assets in the Unemployment Insurance Fund due to an increase in the unemployment rate in Minnesota associated with the economic downturn.

General Fund Budgetary Highlights

The state reduced its revenue forecast by $957 million based on the February 2002 forecast when it became apparent the softened national economic conditions were going to have a negative impact on the original projections. Individual income tax, corporate income tax, and sales and use taxes were the largest contributors to the shortfall with forecast reductions of $555, $259, and $332 million respectively.

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

It is anticipated that the General Fund will experience reduced revenues in the next fiscal year. However, both the Minnesota State Constitution (Article XI, section 6) and state statutes (M.S. 16A.152) require that the budget be balanced for the biennium, thus, corresponding reductions in spending and other measures will be made to ensure that the fund balance remains positive.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2002, was $9.3 billion, less accumulated depreciation of $1.7 billion, resulting in a net book value of $7.6 billion. This investment in capital assets includes land, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature and typically are of value only to the state.

Capital Assets
Fiscal Year Ended June 30, 2002
(In Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Capital Assets not Depreciated:			
Land	$ 1,216,599	$ 51,833	$ 1,268,432
Buildings, Structures, Improvements	18,569	-	18,569
Construction in Progress	322,822	77,941	400,763
Infrastructure	4,311,441	-	4,311,441
Art and Historical Treasures	100	-	100
Total Capital Assets not Depreciated	$ 5,869,531	$ 129,774	$ 5,999,305
Capital Assets Depreciated			
Buildings, Structures, Improvements	$ 1,205,374	$ 1,388,802	$ 2,594,176
Infrastructure	31,238	-	31,238
Library Collections	-	42,731	42,731
Equipment, Furniture, Fixtures	346,788	278,855	625,643
Total Capital Assets Depreciated	$ 1,583,400	$ 1,710,388	$ 3,293,788
Less: Accumulated Depreciation	779,231	928,017	1,707,248
Capital Assets net of Depreciation	$ 804,169	$ 782,371	$ 1,586,540
Total	$ 6,673,700	$ 912,145	$ 7,585,845

The most significant change in accounting for capital assets during the current fiscal year was the inclusion of infrastructure assets. The state is also in the process of expanding a correctional facility with costs exceeding $85 million as well as renovating a veteran's home for $35 million.

Under GASB Statement No. 34, the state has adopted an alternative process referred to as the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 2,855 bridges that are maintained by the Minnesota Department of Transportation.

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment indicated that the principal arterial pavement's average PQI was 3.39 and all other pavement's PQI was 3.30. The state has consistently improved the condition of pavement over the past five years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2001, indicated that 96 percent of principal arterial system bridges and 91 percent of all other system bridges were in fair to good condition. The state has consistently improved the condition of bridges over the past several years.

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

Debt Administration

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

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

- Aaa by Moody's
- AAA by Standard & Poors
- AAA by Finch.

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

Outstanding Bonded Debt
Fiscal Year Ended June 30, 2002
(In Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation	$ 2,923,221	$ 108,874	$ 3,032,095
Revenue	-	53,365	53,365
Total	$ 2,923,221	$ 162,239	$ 3,085,460

During fiscal year 2002, the state issued the following bonds:

- $611 million in general obligation state various purpose and state refunding bonds
- $55 million in general obligation state trunk highway bonds
- $36 million in state revenue bonds to finance the construction and remodeling of MnSCU buildings

Additional information on the state's long-term debt obligations is located in note 7 in the notes to the financial statements.

Economic Condition and Outlook

On December 4, 2002, the Department of Finance released its first forecast for the 2004-05 biennium. The forecast projects a deficit of $4.560 billion in the absence of legislative action during the 2003 legislative session. This deficit resulted from a national economic downturn. The forecast includes a projected deficit of $356 million for the current biennium. As noted above, the budget must be balanced for the biennium based on both state statutes and constitution. Borrowing for operating purposes beyond the biennium is not allowed. The fiscal year 2003 budget must be balanced before June 30, 2003.

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.

The information regarding how to contact the Minnesota Department of Finance regarding questions or further information is shown on the back side of the title page of this report.

STATEMENT OF NET ASSETS
JUNE 30, 2002
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,756,568	$ 696,838	$ 5,453,406	$ 1,055,960
Investments	1,849,476	17,627	1,867,103	1,908,629
Accounts Receivable	1,920,205	147,718	2,067,923	410,861
Due from Component Units	12,145	-	12,145	-
Due from Primary Government	-	-	-	126,990
Accrued Investment/Interest Income	38,124	207	38,331	44,954
Federal Aid Receivable	484,257	28,056	512,313	3,570
Inventories	15,619	17,177	32,796	33,792
Deferred Costs	2,578	2,160	4,738	10,162
Loans and Notes Receivable	19,907	58	19,965	92,930
Internal Balances	5,098	(5,098)	-	-
Securities Lending Collateral	642,897	36,269	679,166	103,452
Other Assets	-	-	-	49,718
Total Current Assets	$ 9,746,874	$ 941,012	$ 10,687,886	$ 3,841,018
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 32,861	$ 32,861	$ 491,935
Investments-Restricted	-	12,781	12,781	366,023
Accounts Receivable-Restricted	-	-	-	23,782
Due from Component Units	119,642	-	119,642	-
Loans Receivable-Restricted	-	-	-	902,380
Other Assets-Restricted	-	252	252	80,363
Loans and Notes Receivable	220,728	33,880	254,608	2,135,559
Depreciable Capital Assets (Net)	804,169	782,371	1,586,540	2,706,690
Nondepreciable Capital Assets	1,558,090	129,774	1,687,864	583,032
Infrastructure (Not depreciated)	4,311,441	-	4,311,441	-
Other Assets	-	4,633	4,633	44,336
Total Noncurrent Assets	$ 7,014,070	$ 996,552	$ 8,010,622	$ 7,334,100
Total Assets	$ 16,760,944	$ 1,937,564	$ 18,698,508	$ 11,175,118
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 2,479,979	$ 191,225	$ 2,671,204	$ 162,648
Due to Component Units	126,990	-	126,990	-
Due to Primary Government	-	-	-	14,012
Deferred Revenue	386,145	20,234	406,379	71,471
Accrued Bond Interest Payable	33,445	246	33,691	9,428
General Obligation Bonds Payable	237,262	6,568	243,830	325,181
Bond Premium Payable	2,129	-	2,129	-
Loans and Notes Payable	18,054	1,793	19,847	2,460
Revenue Bonds Payable	-	120	120	406,330
Claims Payable	122,339	-	122,339	68,511
Compensated Absences Payable	20,592	11,582	32,174	53,858
Workers' Compensation Liability	12,285	1,270	13,555	-
Capital Leases Payable	6,578	2,244	8,822	-
Securities Lending Collateral	642,897	36,269	679,166	103,452
Total Current Liabilities	$ 4,088,695	$ 271,551	$ 4,360,246	$ 1,217,351
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ 3,835	$ 3,835	$ 49,825
Deferred Revenue-Restricted	-	-	-	107,658
Accrued Bond Interest Payable-Restricted	-	-	-	67,121
Revenue Bonds Payable-Restricted	-	310	310	35,240
Due to Primary Government	-	-	-	119,642
General Obligation Bonds Payable	2,685,959	102,306	2,788,265	1,055,206
Bond Premium Payable	35,593	-	35,593	-
Loans and Notes Payable	21,564	2,705	24,269	7,437
Revenue Bonds Payable	-	52,935	52,935	2,476,432
Claims Payable	1,422,694	-	1,422,694	320,622
Compensated Absences Payable	211,750	85,787	297,537	16,787
Workers' Compensation Liability	102,664	3,122	105,786	-
Capital Leases Payable	11,449	6,334	17,783	-
Funds Held in Trust	-	9,243	9,243	94,979
Federal Student Loan Financing	-	32,886	32,886	-
Other Liabilities	-	1,219	1,219	255,846
Total Noncurrent Liabilities	$ 4,491,673	$ 300,682	$ 4,792,355	$ 4,606,795
Total Liabilities	$ 8,580,368	$ 572,233	$ 9,152,601	$ 5,824,146

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2002
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	$ 3,516,294	$ 776,233	$ 4,292,527	$ 2,097,723
Restricted for:				
Capital Projects	$ 17,857	$ -	$ 17,857	$ -
Debt Service	587,915	-	587,915	-
Transportation	798,186	-	798,186	-
Environmental and Natural Resources	371,687	-	371,687	-
School Aid-Nonexpendable	524,535	-	524,535	-
Unemployment Benefits	-	353,125	353,125	-
State Colleges and Universities	-	78,570	78,570	-
Component Units	-	-	-	1,337,807
Total Restricted	$ 2,300,180	$ 431,695	$ 2,731,875	$ 1,337,807
Unrestricted	$ 2,364,102	$ 157,403	$ 2,521,505	$ 1,915,442
Total Net Assets	$ 8,180,576	$ 1,365,331	$ 9,545,907	$ 5,350,972

The notes are an integral part of the financial statements.

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STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBU-TIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 702,345	$ 104,577	$ 109,694	$ 21,508
Transportation	1,619,806	3,976	569,644	-
Agricultural and Environmental Resources	609,199	179,838	63,064	-
Economic and Workforce Development	731,568	117,993	338,492	-
General Education	5,461,074	20,822	436,391	-
Higher Education	865,729	-	5	-
Health and Human Services	2,468,146	513,385	951,615	-
Health Care	4,838,987	207,629	2,278,231	-
General Government	849,938	250,588	(49,175)	-
Intergovernment Aid	1,287,768	-	-	-
Interest	161,129	-	-	-
Total Governmental Activities	$ 19,595,689	$ 1,398,808	$ 4,697,961	$ 21,508
Business-type Activities:				
State Colleges and Universities	$ 1,296,697	$ 539,365	$ 171,166	$ 24,333
Unemployment Insurance	946,562	378,531	266,459	-
Lottery	296,985	352,618	-	-
Other	132,479	126,326	152	-
Total Business-type Activities	$ 2,672,723	$ 1,396,840	$ 437,777	$ 24,333
Total Primary Government	$ 22,268,412	$ 2,795,648	$ 5,135,738	$ 45,841
Component Units:				
University of Minnesota	$ 2,028,970	$ 606,121	$ 641,359	$ 105,342
Metropolitan Council	585,594	275,304	138,760	196,873
Housing Finance	375,884	174,115	177,499	-
Others	303,269	140,419	77,053	-
Total Component Units	$ 3,293,717	$ 1,195,959	$ 1,034,671	$ 302,215

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
Special Item
Transfers

Total General Revenues, Transfers and Special Item

Change in Net Assets

Net Assets, Beginning, as Restated
Change in Inventory

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
$ (466,566)		$ (466,566)	
(1,046,186)		(1,046,186)	
(366,297)		(366,297)	
(275,083)		(275,083)	
(5,003,861)		(5,003,861)	
(865,724)		(865,724)	
(1,003,146)		(1,003,146)	
(2,353,127)		(2,353,127)	
(648,525)		(648,525)	
(1,287,768)		(1,287,768)	
(161,129)		(161,129)	
$ (13,477,412)		$ (13,477,412)	
	$ (561,833)	$ (561,833)	
	(301,572)	(301,572)	
	55,633	55,633	
	(6,001)	(6,001)	
	$ (813,773)	$ (813,773)	
$ (13,477,412)	$ (813,773)	$ (14,291,185)	
			$ (676,148)
			25,343
			(24,270)
			(85,797)
			$ (760,872)
$ 5,419,220	$ -	$ 5,419,220	$ -
428,614	-	428,614	-
3,777,259	-	3,777,259	-
308,337	-	308,337	-
616,616	-	616,616	-
614,285	-	614,285	-
1,862,382	-	1,862,382	114,659
380,024	-	380,024	-
83,432	35,853	119,285	(34,930)
71,621	721	72,342	99,410
-	-	-	903,114
134,000	-	134,000	-
(615,758)	615,758	-	-
$ 13,080,032	$ 652,332	$ 13,732,364	$ 1,082,253
$ (397,380)	$ (161,441)	$ (558,821)	$ 321,381
$ 8,575,515	$ 1,526,772	$ 10,102,287	$ 5,029,591
2,441	-	2,441	-
$ 8,180,576	$ 1,365,331	$ 9,545,907	$ 5,350,972

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2002
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,589,427	$ 309	$ 3,034,726	$ 4,624,462
Investments	29,335	-	1,799,055	1,828,390
Accounts Receivable	1,518,389	192,352	168,117	1,878,858
Interfund Receivables	64,437	5,443	85,414	155,294
Due from Component Units	-	-	131,787	131,787
Accrued Investment/Interest Income	25,949	-	11,779	37,728
Federal Aid Receivable	-	451,963	32,294	484,257
Inventories	-	258	14,091	14,349
Loans and Notes Receivable	3,539	754	236,342	240,635
Advances to Other Funds	4,933	-	-	4,933
Securities Lending Collateral	245,859	1,458	381,685	629,002
Investment in Land	-	-	15,423	15,423
Total Assets	$ 3,481,868	$ 652,537	$ 5,910,713	$ 10,045,118
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 1,533,432	$ 557,348	$ 347,716	$ 2,438,496
Interfund Payables	21,208	13,606	114,467	149,281
Due to Component Units	104,914	-	22,076	126,990
Deferred Revenue	890,996	72,960	38,807	1,002,763
Securities Lending Collateral	245,859	1,458	381,685	629,002
Total Liabilities	$ 2,796,409	$ 645,372	$ 904,751	$ 4,346,532
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 137,814	$ -	$ 413,686	$ 551,500
Reserved for Local Governments	-	-	526,386	526,386
Reserved for Trust Principal	-	-	1,732,724	1,732,724
Other Reserved Fund Balances	8,472	7,165	1,075,062	1,090,699
Total Reserved Fund Balances	$ 146,286	$ 7,165	$ 3,747,858	$ 3,901,309
Unreserved Fund Balances:				
Designated for:				
Appropriation Carryover	$ 324,509	$ -	$ 446,317	$ 770,826
General Fund	158,148	-	-	158,148
Special Revenue Funds	-	-	337,659	337,659
Undesignated, reported in:				
General Fund	56,516	-	-	56,516
Capital Project Funds	-	-	1,608	1,608
Special Revenue Funds	-	-	472,520	472,520
Total Unreserved Fund Balance	$ 539,173	$ -	$ 1,258,104	$ 1,797,277
Total Fund Balances	$ 685,459	$ 7,165	$ 5,005,962	$ 5,698,586
Total Liabilities and Fund Balances	$ 3,481,868	$ 652,537	$ 5,910,713	$ 10,045,118

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, 2002
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 5,698,586
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	$ 4,311,441	
Depreciable Capital Assets	1,483,879	
Nondepreciable Capital Assets	1,542,667	
Accumulated Depreciation	(712,428)	
Total Capital Assets		6,625,559
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		656,882
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		114,705
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	$ (2,923,221)	
Bond Premium Payable	(37,722)	
Accrued Interest Payable on Bonds	(33,445)	
Loans and Notes Payable	(14,669)	
Claims Payable	(1,545,033)	
Workers' Compensation Liability	(114,949)	
Capital Leases Payable	(18,027)	
Compensated Absences Payable	(228,090)	
Total Liabilities		(4,915,156)
Net Assets of Governmental Activities		$ 8,180,576

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 5,439,186	$ -	$ -	$ 5,439,186
Corporate Income Taxes	454,318	-	-	454,318
Sales Taxes	3,772,573	-	23,369	3,795,942
Property Taxes	305,573	-	-	305,573
Motor Vehicle Taxes	424,714	-	687,239	1,111,953
Fuel Taxes	-	-	611,886	611,886
Other Taxes	1,014,345	-	343,250	1,357,595
Tobacco Settlement	155,931	-	224,093	380,024
Federal Revenues	49	4,321,800	328,634	4,650,483
Licenses and Fees	176,032	-	189,496	365,528
Departmental Services	39,645	9,792	143,418	192,855
Investment/Interest Income	82,777	573	(43,271)	40,079
Securities Lending Income	11,266	-	14,779	26,045
Other Revenues	302,076	262,471	194,577	759,124
Net Revenues	$ 12,178,485	$ 4,594,636	$ 2,717,470	$ 19,490,591
Expenditures:				
Current:				
Public Safety and Corrections	$ 461,296	$ 95,205	$ 138,804	$ 695,305
Transportation	104,325	212,248	1,294,096	1,610,669
Agricultural and Environmental Resources	243,996	28,720	364,423	637,139
Economic and Workforce Development	193,011	313,534	269,939	776,484
General Education	4,919,268	458,849	82,505	5,460,622
Higher Education	791,256	-	73,139	864,395
Health and Human Services	943,788	995,872	368,999	2,308,659
Health Care	2,234,990	2,397,342	177,322	4,809,654
General Government	540,196	11,395	160,883	712,474
Intergovernment Aid	1,287,612	-	156	1,287,768
Securities Lending Rebates and Fees	10,848	-	14,560	25,408
Total Current Expenditures	$ 11,730,586	$ 4,513,165	$ 2,944,826	$ 19,188,577
Capital Outlay	60,598	23,856	416,004	500,458
Debt Service	23,404	320	360,698	384,422
Total Expenditures	$ 11,814,588	$ 4,537,341	$ 3,721,528	$ 20,073,457
Excess of Revenues Over (Under) Expenditures	$ 363,897	$ 57,295	$ (1,004,058)	$ (582,866)
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ -	$ -	$ 602,613	$ 602,613
Proceeds from Refunding Bonds	-	-	37,405	37,405
Payment of Refunding Bonds	-	-	(37,405)	(37,405)
Bond Issue Premium	-	-	35,476	35,476
Transfers-In	201,602	2,575	1,819,470	2,023,647
Transfers-Out	(1,053,725)	(59,831)	(1,511,410)	(2,624,966)
Capital Leases	-	-	3,326	3,326
Net Other Financing Sources (Uses)	$ (852,123)	$ (57,256)	$ 949,475	$ 40,096
Special Item	$ 134,000	$ -	$ -	$ 134,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (354,226)	$ 39	$ (54,583)	$ (408,770)
Fund Balances, Beginning, as Restated	$ 1,039,685	$ 7,126	$ 5,058,104	$ 6,104,915
Change in Inventory	-	-	2,441	2,441
Fund Balances, Ending	$ 685,459	$ 7,165	$ 5,005,962	$ 5,698,586

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, 2002
(IN THOUSANDS)

Net change in fund balances for governmental funds	$ (408,770)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation in the current period	450,572
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	714
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(22,082)
Bond proceeds provide current financial resources to governmental funds; however issuing debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(675,494)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase	(3,326)
Repayment of long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	261,006
Change in net assets of governmental activities	$ (397,380)

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS
YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 6,288,588	$ 5,733,200	$ 5,443,342
Corporate Income Taxes	788,440	529,540	529,457
Sales Taxes	4,076,115	3,744,470	3,750,174
Property Taxes	296,000	296,000	305,573
Motor Vehicle Taxes	362,080	419,328	424,839
Tobacco Taxes	165,028	161,076	164,438
Other Taxes	575,290	636,255	632,661
Investment/Interest Income	87,000	75,000	82,836
Other Revenues	789,984	876,715	963,948
Net Revenues	$ 13,428,525	$ 12,471,584	$ 12,297,268
Expenditures:			
Public Safety and Corrections	$ 481,220	$ 447,590	$ 447,589
Transportation	206,478	199,850	199,849
Agricultural and Environmental Resources	257,998	239,040	238,745
Economic and Workforce Development	61,049	134,871	134,855
General Education	4,968,946	4,940,257	4,939,859
Higher Education	803,144	793,416	793,348
Health and Human Services	927,364	973,904	966,574
Health Care	2,189,398	2,181,224	2,181,224
General Government	297,183	548,605	548,559
Intergovernment Aid	1,324,376	1,298,247	1,298,247
Total Expenditures	$ 11,517,156	$ 11,757,004	$ 11,748,849
Excess of Revenues Over (Under) Expenditures	$ 1,911,369	$ 714,580	$ 548,419
Other Financing Sources (Uses):			
Transfers-In	$ 60,696	$ 64,100	$ 96,497
Transfers-Out	(1,103,587)	(1,103,603)	(1,103,603)
Net Other Financing Sources (Uses)	$ (1,042,891)	$ (1,039,503)	$ (1,007,106)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 868,478	$ (324,923)	$ (458,687)
Fund Balances, Beginning, as Reported	$ 1,466,088	$ 1,595,418	$ 1,595,418
Prior Period Adjustments	-	-	150,071
Change in Fund Structure	-	(129,330)	(129,330)
Fund Balances, Beginning, as Restated	$ 1,466,088	$ 1,466,088	$ 1,616,159
Budgetary Fund Balances, Ending	$ 2,334,566	$ 1,141,165	$ 1,157,472
Less: Appropriation Carryover	-	-	324,509
Less: Budgetary Reserve	653,000	158,148	158,148
Undesignated Fund Balances, Ending	$ 1,681,566	$ 983,017	$ 674,815

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2002
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 361,854	$ 270,988	$ 63,996	$ 696,838	$ 132,106
Investments	17,627	-	-	17,627	21,086
Accounts Receivable	27,941	108,440	11,337	147,718	41,347
Interfund Receivables	11,270	-	240	11,510	-
Accrued Investment/Interest Income	117	-	90	207	396
Federal Aid Receivable	11,248	16,808	-	28,056	-
Inventories	7,892	-	9,285	17,177	1,270
Deferred Costs	1,619	-	541	2,160	2,578
Loans and Notes Receivable	58	-	-	58	-
Securities Lending Collateral	30,162	-	6,107	36,269	13,895
Total Current Assets	$ 469,788	$ 396,236	$ 91,596	$ 957,620	$ 212,678
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 26,132	$ -	$ 6,729	$ 32,861	$ -
Investments-Restricted	9,695	-	3,086	12,781	-
Other Assets-Restricted	252	-	-	252	-
Loans and Notes Receivable	33,880	-	-	33,880	-
Depreciable Capital Assets (Net)	755,861	-	26,510	782,371	32,718
Nondepreciable Capital Assets	121,445	-	8,329	129,774	-
Other Assets	1,352	-	3,281	4,633	-
Total Noncurrent Assets	$ 948,617	$ -	$ 47,935	$ 996,552	$ 32,718
Total Assets	$ 1,418,405	$ 396,236	$ 139,531	$ 1,954,172	$ 245,396
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 130,933	$ 36,670	$ 23,622	$ 191,225	$ 78,888
Interfund Payables	-	5,149	11,459	16,608	915
Deferred Revenue	17,763	1,292	1,179	20,234	2,859
Accrued Bond Interest Payable	-	-	246	246	-
General Obligation Bonds Payable	6,370	-	198	6,568	-
Loans and Notes Payable	1,793	-	-	1,793	13,558
Revenue Bonds Payable	120	-	-	120	-
Workers' Compensation Liability	1,270	-	-	1,270	-
Capital Leases	1,844	-	400	2,244	-
Compensated Absences Payable	8,790	-	2,792	11,582	905
Securities Lending Collateral	30,162	-	6,107	36,269	13,895
Total Current Liabilities	$ 199,045	$ 43,111	$ 46,003	$ 288,159	$ 111,020
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ -	$ 3,835	$ 3,835	$ -
Revenue Bonds Payable-Restricted	-	-	310	310	-
General Obligation Bonds Payable	98,252	-	4,054	102,306	-
Loans and Notes Payable	2,705	-	-	2,705	11,391
Revenue Bonds Payable	37,445	-	15,490	52,935	-
Workers' Compensation Liability	3,122	-	-	3,122	-
Capital Leases	4,837	-	1,497	6,334	-
Compensated Absences Payable	80,105	-	5,682	85,787	3,347
Advances from Other Funds	-	-	-	-	4,933
Funds Held in Trust	9,243	-	-	9,243	-
Federal Student Loan Financing	32,886	-	-	32,886	-
Other Liabilities	959	-	260	1,219	-
Total Noncurrent Liabilities	$ 269,554	$ -	$ 31,128	$ 300,682	$ 19,671
Total Liabilities	$ 468,599	$ 43,111	$ 77,131	$ 588,841	$ 130,691
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 758,340	$ -	$ 17,893	$ 776,233	$ 5,513
Restricted for:					
Unemployment Benefits	$ -	$ 353,125	$ -	$ 353,125	$ -
Donations	6,244	-	-	6,244	-
Perkins Loans	4,441	-	-	4,441	-
Bond Covenants	13,241	-	-	13,241	-
Debt Service	12,901	-	-	12,901	-
Capital Projects	32,624	-	-	32,624	-
Faculty Contracts	6,755	-	-	6,755	-
Legislatively Mandated Purposes	2,364	-	-	2,364	-
Total Restricted	$ 78,570	$ 353,125	$ -	$ 431,695	$ -
Unrestricted	$ 112,896	$ -	$ 44,507	$ 157,403	$ 109,192
Total Net Assets	$ 949,806	$ 353,125	$ 62,400	$ 1,365,331	$ 114,705

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, 2002
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition	$ 313,611	$ -	$ -	$ 313,611	$ -
Room and Board	40,001	-	-	40,001	-
Net Sales	40,328	-	380,635	420,963	15,350
Loan Interest	1,068	-	-	1,068	-
Rental and Service Fees	52,112	-	73,962	126,074	132,576
Insurance Premiums	-	378,531	21,743	400,274	456,832
Federal Revenues	142,866	266,459	-	409,325	-
State Grants	68,547	-	-	68,547	-
Private Grants	28,300	-	-	28,300	-
Other Income	23,698	-	2,604	26,302	5,826
Total Operating Revenues	$ 710,531	$ 644,990	$ 478,944	$ 1,834,465	$ 610,584
Less: Cost of Goods Sold	-	-	268,561	268,561	11,231
Gross Margin	$ 710,531	$ 644,990	$ 210,383	$ 1,565,904	$ 599,353
Operating Expenses:					
Purchased Services	$ 129,775	$ -	$ 47,343	$ 177,118	$ 135,004
Salaries and Fringe Benefits	838,815	-	76,782	915,597	39,697
Student Financial Aid	80,220	-	-	80,220	-
Unemployment Benefits	-	946,562	-	946,562	-
Claims	-	-	18,971	18,971	388,190
Depreciation	66,050	-	3,405	69,455	11,845
Amortization	-	-	50	50	208
Supplies and Materials	63,878	-	4,248	68,126	5,255
Repairs and Maintenance	45,501	-	-	45,501	-
Indirect Costs	-	-	2,460	2,460	2,932
Other Expenses	59,362	-	3,685	63,047	4,588
Total Operating Expenses	$ 1,283,601	$ 946,562	$ 156,944	$ 2,387,107	$ 587,719
Operating Income (Loss)	$ (573,070)	$ (301,572)	$ 53,439	$ (821,203)	$ 11,634
Nonoperating Revenues (Expenses):					
Investment Income	$ 5,624	$ 27,406	$ 2,806	$ 35,836	$ 6,880
Grants and Subsidies	24,333	-	152	24,485	-
Securities Lending Income	435	-	267	702	596
Other Nonoperating Revenues	-	-	726	726	-
Interest and Financing Costs	(4,793)	-	(676)	(5,469)	(1,513)
Grants, Aids and Subsidies	(7,391)	-	-	(7,391)	-
Securities Lending Rebates and Fees	(418)	-	(257)	(675)	(575)
Other Nonoperating Expenses	(912)	-	(3,275)	(4,187)	(1,919)
Gain (Loss) on Disposal of Capital Assets	-	-	(23)	(23)	50
Total Nonoperating Revenues (Expenses)	$ 16,878	$ 27,406	$ (280)	$ 44,004	$ 3,519
Income (Loss) Before Transfers	$ (556,192)	$ (274,166)	$ 53,159	$ (777,199)	$ 15,153
Transfers-In	676,297	-	2,025	678,322	-
Transfers-Out	-	(5,163)	(57,401)	(62,564)	(14,439)
Net Income (Loss)	$ 120,105	$ (279,329)	$ (2,217)	$ (161,441)	$ 714
Net Assets, Beginning, as Restated	$ 829,701	$ 632,454	$ 64,617	$ 1,526,772	$ 113,991
Net Assets, Ending	$ 949,806	$ 353,125	$ 62,400	$ 1,365,331	$ 114,705

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 549,182	$ 381,244	$ 502,921	$ 1,433,347	$ 600,951
Receipts from Grants	238,813	249,305	-	488,118	-
Receipts from Other Revenue	24,766	-	7,085	31,851	18,312
Receipts from Repayment of Program Loans	6,222	-	-	6,222	-
Financial Aid Disbursements	(155,571)	-	-	(155,571)	-
Payments to Claimants	-	(938,414)	(43,503)	(981,917)	(401,060)
Payments to Suppliers	(334,414)	-	(97,075)	(431,489)	(142,038)
Payments to Employees	(812,750)	-	(81,270)	(894,020)	(41,020)
Payments to Others	-	-	(221,489)	(221,489)	(10,776)
Payments of Program Loans	(6,136)	-	-	(6,136)	-
Net Cash Flows from Operating Activities	$ (489,888)	$ (307,865)	$ 66,669	$ (731,084)	$ 24,369
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ -	$ -	$ 257	$ 257	$ -
Grant Disbursements	(7,391)	-	-	(7,391)	-
Transfers-In	602,183	-	2,025	604,208	-
Transfers-Out	-	(5,163)	(60,301)	(65,464)	(14,439)
Advances from Other Funds	-	-	1,086	1,086	7,640
Repayments of Advances to Other Funds	-	-	287	287	-
Repayments of Advances from Other Funds	-	-	-	-	(7,458)
Other Nonoperating Expense	-	-	(3,089)	(3,089)	(1,169)
Net Cash Flows from Noncapital Financing Activities	$ 594,792	$ (5,163)	$ (59,735)	$ 529,894	$ (15,426)
Cash Flows from Capital and Related Financing Activities:					
Investment in Capital Assets	$ (110,100)	$ -	$ (6,256)	$ (116,356)	$ (7,432)
Transfers-in Restricted to Capital Acquistion	74,114	-	-	74,114	-
Proceeds from Disposal of Capital Assets	-	-	533	533	1,483
Proceeds from Capital Debt	65,529	-	-	65,529	-
Capital Lease Payments	-	-	(299)	(299)	-
Proceeds from Loans	-	-	-	-	8,355
Repayment of Loan Principal	-	-	-	-	(14,130)
Repayment of Bond Principal	(4,194)	-	(395)	(4,589)	-
Prepaid Debt Service	(11,270)	-	-	(11,270)	-
Interest Paid	(585)	-	(1,017)	(1,602)	(1,557)
Net Cash Flows from Capital and Related Financing Activities	$ 13,494	$ -	$ (7,434)	$ 6,060	$ (13,281)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 6,563	$ -	$ 232	$ 6,795	$ 4,989
Purchase of Investments	(9,866)	-	-	(9,866)	(4,962)
Investment Earnings	6,239	27,406	2,745	36,390	6,444
Net Cash Flows from Investing Activities	$ 2,936	$ 27,406	$ 2,977	$ 33,319	$ 6,471
Net Increase (Decrease) in Cash and Cash Equivalents	$ 121,334	$ (285,622)	$ 2,477	$ (161,811)	$ 2,133
Cash and Cash Equivalents, Beginning, as Restated	$ 266,652	$ 556,610	$ 68,248	$ 891,510	$ 129,973
Cash and Cash Equivalents, Ending	$ 387,986	$ 270,988	$ 70,725	$ 729,699	$ 132,106

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002
(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)	$ (573,070)	$ (301,572)	$ 53,439	$ (821,203)	$ 11,634
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 66,050	$ -	$ 3,734	$ 69,784	$ 12,178
Amortization	-	-	50	50	208
Loan Principal Repayments	6,222	-	-	6,222	-
Loans Issued	(6,136)	-	-	(6,136)	-
Bad Debt Expense	3,442	-	-	3,442	-
Net Nonoperating Revenues (Expenses)	-	-	241	241	-
Change in Assets and Liabilities:					
Accounts Receivable	(13,989)	(21,323)	10,150	(25,162)	5,735
Inventories	485	-	1,142	1,627	51
Other Assets	(886)	-	(408)	(1,294)	(10,266)
Accounts Payable	30,072	15,955	(2,713)	43,314	(8,766)
Compensated Absences Payable	2,210	-	942	3,152	245
Deferred Revenues	(3,110)	(2,065)	(324)	(5,499)	30
Other Liabilities	(1,178)	1,140	416	378	13,320
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 83,182	$ (6,293)	$ 13,230	$ 90,119	$ 12,735
Net Cash Flows from Operating Activities	$ (489,888)	$ (307,865)	$ 66,669	$ (731,084)	$ 24,369
Noncash Investing, Capital and Financing Activities:					
Donated Assets	$ 24,333	$ -	$ -	$ 24,333	$ -
Note Receivable Acquired Through the Sale of Capital Assets	501	-	-	501	-
Change in Fair Value of Investments	-	-	289	289	-
Capital Assets Acquired Through Leases	4,495	-	-	4,495	2,599
Accrual of Computer Equipment as an Investment in Capital Assets	-	-	-	-	772
Trade-in Allowance for Investment in Capital Assets	-	-	-	-	67

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2002
(IN THOUSANDS)

			INVESTMENT TRUST					
	PENSION TRUST		SUPPLEMENTAL RETIREMENT		AGENCY		TOTAL	
ASSETS								
Cash and Cash Equivalents	$	56,094	$	-	$	35,456	$	91,550
Investment Pools, at fair value:								
Cash Equivalent Investments	$	2,183,685	$	30,630	$	-	$	2,214,315
Investments:								
Commercial Paper	$	14,322	$	59	$	-	$	14,381
US Treasury Obligations		1,434,514		13,179		-		1,447,693
Mortgage Backed		4,294,052		44,918		-		4,338,970
Corporate Obligations		3,521,527		42,968		-		3,564,495
Foreign and Other Obligations		382,805		3,028		-		385,833
Corporate Stocks		22,574,631		204,776		-		22,779,407
Other Equity		1,836,123		-		-		1,836,123
Total Investments	$	34,057,974	$	308,928	$	-	$	34,366,902
Accrued Interest and Dividends	$	132,485	$	-	$	-	$	132,485
Net Receivables (Payables)		(1,301,465)		-		-		(1,301,465)
Total Investment Pool Participation	$	35,072,679	$	339,558	$	-	$	35,412,237
Receivables:								
Employer Contributions	$	14,593	$	-	$	-	$	14,593
Member Contributions		3,357		-		-		3,357
Accounts Receivable		-		-		5,846		5,846
Interfund Receivables		3,855		-		-		3,855
Other Receivables		66,746		4,508		-		71,254
Accrued Interest and Dividends		1,759		1,400		-		3,159
Total Receivables	$	90,310	$	5,908	$	5,846	$	102,064
Securities Lending Collateral	$	2,896,493	$	23,484	$	1,967	$	2,921,944
Depreciable Capital Assets (Net)		32,306		-		-		32,306
Total Assets	$	38,147,882	$	368,950	$	43,269	$	38,560,101
LIABILITIES								
Accounts Payable	$	20,226	$	14,067	$	16,996	$	51,289
Interfund Payables		3,855		-		-		3,855
Deferred Revenue		10		-		-		10
Accrued Expense		515		-		-		515
Revenue Bonds Payable		28,574		-		-		28,574
Bond Interest		55		-		-		55
Compensated Absences Payable		1,586		-		-		1,586
Securities Lending Collateral		2,896,493		23,484		1,967		2,921,944
Funds Held in Trust		-		-		24,306		24,306
Total Liabilities	$	2,951,314	$	37,551	$	43,269	$	3,032,134
Net Assets Held in Trust for Pension Benefits and Pool Participants	$	35,196,568	$	331,399	$	-	$	35,527,967

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT	TOTAL
Additions:			
Contributions:			
Employer	$ 576,788	$ -	$ 576,788
Member	593,034	-	593,034
Contributions From Other Sources	7,620	-	7,620
Participating Plans	-	17,046	17,046
Total Contributions	$ 1,177,442	$ 17,046	$ 1,194,488
Net Investment Income:			
Investment Income	$ (3,095,146)	$ (33,035)	$ (3,128,181)
Less: Investment Expense	(25,775)	(244)	(26,019)
Net Investment Income	$ (3,120,921)	$ (33,279)	$ (3,154,200)
Securities Lending Revenues (Expenses):			
Securities Lending Income	$ 92,910	$ 759	$ 93,669
Borrower Rebates	(62,751)	(530)	(63,281)
Management Fees	(7,622)	(55)	(7,677)
Net Securities Lending Revenue	$ 22,537	$ 174	$ 22,711
Total Investment Income	$ (3,098,384)	$ (33,105)	$ (3,131,489)
Transfers From Other Funds	$ 8,033	$ -	$ 8,033
Other Additions	10,832	-	10,832
Total Additions	$ (1,902,077)	$ (16,059)	$ (1,918,136)
Deductions:			
Benefits	$ 2,166,064	$ -	$ 2,166,064
Refunds/Withdrawals	155,427	64,056	219,483
Administrative Expenses	33,222	-	33,222
Transfers to Other Funds	8,033	-	8,033
Total Deductions	$ 2,362,746	$ 64,056	$ 2,426,802
Net Increase (Decrease)	$ (4,264,823)	$ (80,115)	$ (4,344,938)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 39,461,391	$ 411,514	$ 39,872,905
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 35,196,568	$ 331,399	$ 35,527,967

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2001 and JUNE 30, 2002
(IN THOUSANDS)

	UNIVERSITY OF MINNESOTA	METROPOLITAN COUNCIL	HOUSING FINANCE AGENCY	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 150,304	$ 74,702	$ 670,460	$ 160,494	$ 1,055,960
Investments	913,162	153,105	273,975	568,387	1,908,629
Accounts Receivable	166,191	20,218	1,995	213,677	402,081
Settlement Receivable	-	-	-	8,780	8,780
Due from Other Governmental Units	-	49,718	-	-	49,718
Due from Primary Government	126,990	-	-	-	126,990
Accrued Investment/Interest Income	4,569	-	18,847	21,538	44,954
Federal Aid Receivable	-	-	-	3,570	3,570
Inventories	17,737	15,050	994	11	33,792
Deferred Costs	6,125	-	-	4,037	10,162
Loans and Notes Receivable	8,344	20,594	-	63,992	92,930
Securities Lending Collateral	30,997	59,781	-	12,674	103,452
Total Current Assets	$ 1,424,419	$ 393,168	$ 966,271	$ 1,057,160	$ 3,841,018
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 89,068	$ 168,190	$ 95,413	$ 139,264	$ 491,935
Investments-Restricted	-	-	139,077	226,946	366,023
Accounts Receivable-Restricted	-	23,782	-	-	23,782
Loans Receivable-Restricted	-	-	-	902,380	902,380
Other Assets-Restricted	-	31,576	-	48,787	80,363
Settlement Receivable	-	-	-	35,120	35,120
Loans and Notes Receivable	59,204	-	1,681,340	395,015	2,135,559
Depreciable Capital Assets (Net)	1,519,965	1,185,271	1,172	282	2,706,690
Nondepreciable Capital Assets	269,730	310,110	-	3,192	583,032
Other Assets	2,452	279	-	6,485	9,216
Total Noncurrent Assets	$ 1,940,419	$ 1,719,208	$ 1,917,002	$ 1,757,471	$ 7,334,100
Total Assets	$ 3,364,838	$ 2,112,376	$ 2,883,273	$ 2,814,631	$ 11,175,118
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 79,635	$ 40,796	$ 12,843	$ 16,432	$ 149,706
Payable to Other Governmental Units	-	536	-	-	536
Due to Primary Government	4,303	-	-	9,709	14,012
Deferred Revenue	37,160	5,613	-	28,698	71,471
Accrued Bond Interest Payable	5,987	3,441	-	-	9,428
General Obligation Bonds Payable	259,626	65,555	-	-	325,181
Loans and Notes Payable	1,588	-	-	872	2,460
Revenue Bonds Payable	750	705	400,335	4,540	406,330
Grants Payable	-	-	-	12,406	12,406
Claims Payable	17,256	11,893	-	39,362	68,511
Compensated Absences Payable	50,918	2,433	73	434	53,858
Securities Lending Collateral	30,997	59,781	-	12,674	103,452
Total Current Liabilities	$ 488,220	$ 190,753	$ 413,251	$ 125,127	$ 1,217,351
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 49,825	$ -	$ -	$ 49,825
Deferred Revenue-Restricted	-	107,658	-	-	107,658
Accrued Bond Interest Payable-Restricted	-	7,018	48,347	11,756	67,121
Revenue Bonds Payable-Restricted	-	-	-	35,240	35,240
Due to Primary Government	55,700	-	-	63,942	119,642
General Obligation Bonds Payable	381,672	673,534	-	-	1,055,206
Loans and Notes Payable	5,568	-	-	1,869	7,437
Revenue Bonds Payable	10,066	12,910	1,535,853	917,603	2,476,432
Grants Payable	-	-	-	18,384	18,384
Claims Payable	11,733	7,251	-	301,638	320,622
Compensated Absences Payable	10,761	4,371	1,188	467	16,787
Funds Held in Trust	-	-	94,979	-	94,979
Other Liabilities	229,815	3,658	-	3,989	237,462
Total Noncurrent Liabilities	$ 705,315	$ 866,225	$ 1,680,367	$ 1,354,888	$ 4,606,795
Total Liabilities	$ 1,193,535	$ 1,056,978	$ 2,093,618	$ 1,480,015	$ 5,824,146
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,161,505	$ 935,528	$ -	$ 690	$ 2,097,723
Restricted	-	96,012	609,928	631,867	1,337,807
Unrestricted	1,009,798	23,858	179,727	702,059	1,915,442
Total Net Assets	$ 2,171,303	$ 1,055,398	$ 789,655	$ 1,334,616	$ 5,350,972

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2001 AND JUNE 30, 2002
(IN THOUSANDS)

	UNIVERSITY OF MINNESOTA	METROPOLITAN COUNCIL	HOUSING FINANCE AGENCY	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 2,028,970	$ 585,594	$ 375,884	$ 303,269	$ 3,293,717
Program Revenues:					
Charges for Services	$ 606,121	$ 275,304	$ 174,115	$ 140,419	$ 1,195,959
Operating Grants and Contributions	641,359	138,760	177,499	77,053	1,034,671
Capital Grants and Contributions	105,342	196,873	-	-	302,215
Net (Expense) Revenue	$ (676,148)	$ 25,343	$ (24,270)	$ (85,797)	$ (760,872)
General Revenues:					
Taxes	$ -	$ 114,659	$ -	$ -	$ 114,659
Investment Income	(56,719)	15,032	-	6,757	(34,930)
Other Revenues	92,061	1,926	684	4,739	99,410
Total General Revenues	$ 35,342	$ 131,617	$ 684	$ 11,496	$ 179,139
State Grants Not Restricted	$ 643,088	$ 19,635	$ 52,932	$ 187,459	$ 903,114
Change in Net Assets	$ 2,282	$ 176,595	$ 29,346	$ 113,158	$ 321,381
Net Assets, as Restated	$ 2,169,021	$ 878,803	$ 760,309	$ 1,221,458	$ 5,029,591
Net Assets, Ending	$ 2,171,303	$ 1,055,398	$ 789,655	$ 1,334,616	$ 5,350,972

The notes are an integral part of the financial statements.

Notes to the Financial Statements

These notes provide disclosures relevant to the combined 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).

During fiscal year 2002, the state implemented several new accounting standards issued by GASB:

- Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”,
- Statement No. 35, “Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities”,
- Statement No. 37, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus”, and
- Statement No. 38, “Certain Financial Statement Note Disclosures”, Paragraphs 6 through 11 only.

The requirements of Statements Nos. 34 and 35 establish new financial reporting standards for state and local governments and represent a significant change in the financial reporting model used by state governments and public colleges and universities. The standards include new as well as revised statement formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to issue government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASB Statement No. 38, “Certain Financial Statement Note Disclosures” was issued during June 2001. This statement modified, established, and rescinded certain financial statement disclosure requirements. As allowed under provisions of this statement, the state has implemented the required portions covering summary of significant accounting polices, violations of finance-related legal or contractual provisions, and debt and lease obligations (paragraphs 6 though 11) for the fiscal year ended June 30, 2002. The additional disclosure items for short-term debt, disaggregation of receivables and payables, interfund balances and transfers (paragraphs 12 through 15) will be implemented with fiscal year ending June 30, 2003.

Financial Reporting Entity of the State of Minnesota

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

Discretely presented component units - These are entities that are legally separate from the state, but for which the state is financially accountable, or their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These component units are reported in a separate column and separately identified in the note disclosures because of their separate legal status.

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

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

- Metropolitan Council (MC) - MC is responsible for coordinating the planning and development of the seven-county metropolitan area. MC operates the public transit system and the regional sewage collection and treatment system. The governor appoints the council members. The chair is responsible for the council activities. MC includes the Metropolitan Sports Facilities Commission as a component unit. MC's fiscal year ends December 31.

- Housing Finance Agency (HFA) - HFA provides money for loans and technical assistance for the construction and rehabilitation of housing for families of low and moderate incomes. HFA is under the administrative control of a commissioner appointed by the governor. HFA issues bonds in its own name.

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

- Public Facilities Authority (PFA) - PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. A state agency provides administrative services to PFA. The state provides funding for PFA. The board members determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

- 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. The state commissioner of the Department of Commerce enters into administrative contracts, sets premium rates and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. WCARP's fiscal year ends December 31.

- National Sports Center Foundation (NSCF) - NSCF is under contract with the Minnesota Amateur Sports Commission to operate the National Sports Center facility primarily for holding youth-oriented athletic and other non-athletic functions and events. NSCF is responsible for certain improvements to the facility and the operating costs of the facility. The commission approves the foundation's spending budget, approves all rates and fees and owns any reserve funds. The facility belongs to the state. The foundation's fiscal year ends December 31.

- Higher Education Services Office (HESO) - HESO makes and guarantees loans to qualified post-secondary students. HESO provides the state grant and loan program services for which the state provides administrative funding. Revenue bonds are issued in HESO's name with limitations set by the legislature.

- Minnesota Technology, Incorporated (MTI) - MTI fosters long-term economic growth and job creation by stimulating innovation and the development of new products, services, and production processes through technology transfer, applied research, and financial assistance. The state's General Fund provides most of the funding for MTI.

- Agricultural and Economic Development Board (AEDB) - AEDB provides services to state government by administering state programs for agricultural and economic development. AEDB may issue revenue bonds for the purpose of financing development projects.

- Rural Finance Authority (RFA) - RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program and agricultural improvement program. RFA is under the administrative control of a commissioner appointed by the governor. The state has issued general obligation bond debt for the programs administered by RFA.

- Minnesota Partnership for Action Against Tobacco (MPAAT) - MPAAT issues grants to health, community and academic organizations throughout Minnesota in support of research and cessation activities that will encourage and help tobacco users quit. MPAAT is funded by a tobacco lawsuit settlement with the state of Minnesota.

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

Metropolitan Council Mears Park Centre 230 East Fifth Street St. Paul, Minnesota 55101	Public Facilities Authority Dept. of Trade & Economic Development 500 Metro Square Bldg., 121 Seventh Place St. Paul, Minnesota 55101
Higher Education Services Office 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108	Housing Finance Agency 400 Sibley Street, Suite 300 St. Paul, Minnesota 55101
Workers' Compensation Assigned Risk Plan Park Glen Management Company 4500 Park Glen Road, Suite 410 Minneapolis, Minnesota 55416	National Sports Center Foundation National Sports Center 1700 105 Avenue Northeast Blaine, Minnesota 55449
Minnesota Partnership for Action Against Tobacco 590 Park Street Suite 400 St. Paul, Minnesota 55103	University of Minnesota 301 Morrill Hall 100 Church Street Southeast Minneapolis, Minnesota 55455

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

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

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

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

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

- State Fund Mutual Insurance Company - The governor appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments.

- Workers' Compensation Reinsurance Association - The governor appoints a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

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

State Lottery
2645 Long Lake Road
Roseville, Minnesota 55113

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, Minnesota 55103

Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, Minnesota 55103

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, Minnesota 55103

State Board of Investment
60 Empire Drive
Suite 355
St. Paul, Minnesota 55103

Minnesota State Colleges and Universities
Financial Reporting Unit
30 E. 7th St. World Trade Center, Suite 500
St. Paul, Minnesota 55101

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

Financial Reporting Structure of the State of Minnesota

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report on the state as a whole while the fund financial statements emphasize fund types. The new reporting model under Statement No. 34 focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements. Both types of statements categorize primary activities as governmental or business-type.

Government-wide Financial Statements

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

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

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

The government-wide Statement of Activities reports both the gross and net cost per functional category (public safety and corrections, transportation, etc.) that are otherwise supported by general government revenues (sales tax, income taxes, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues, and operating and capital grants and contributions. Program revenues must be directly associated with, or derived directly from, the function, or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

Program revenues include charges for services, and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Internally dedicated resources are reported as general revenues rather than program revenues. Program revenues are applied against program expenses in the Statement of Activities to report the net cost of each program.

The net costs (program expenses less program revenues) of all activities are normally covered by general revenues. The previous reporting model did not report on net cost by function or activity.

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

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

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous financial reporting model. The new emphasis is on the major funds in either the governmental or business-type categories. Nonmajor funds are summarized into single columns.

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

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

Classification of Funds

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

The new reporting model under GASB Statement No. 34 requires that certain funds be reclassified to a different fund type or eliminated to avoid double counting of revenues and expenditures. Some of the significant changes include: 1) eliminating expendable and nonexpendable trust funds, most of which were reclassified as special revenue funds; 2) eliminating internal service fund activity, such as for central services, central motor pool, or plant management, to assure that revenues and expenses are reported only once for the state government as an entity; 3) determining and reporting accounts receivable; 4) reporting long-term liability such as bonds, claims and judgments and; 5) reporting on capital assets and infrastructure. One significant change is that Minnesota State Colleges and Universities (MnSCU) is reported in the government-wide statements as a business-type activity. This reporting method consolidates and restructures MnSCU funds and fund types into one enterprise fund. These and other changes affect the comparability between the 2001 and 2002 financial statements.

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

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

- Special revenue funds which account for revenue sources that are restricted to expenditure for specific purposes (not including major capital projects).

- Capital project funds which account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or special revenue funds.

- Debt Service Fund which accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.

- Permanent Fund which accounts for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

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

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

- Enterprise funds account for activities for which a fee is charged to external users for goods or services. Enterprise funds activities are financed and operated in a manner similar to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.

- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include employee insurance; travel management; risk management; central stores; state print shops; plant management; central services such as administrative hearings, office equipment, and bookstore; and intertechnologies which directs and support the various automated systems of the state.

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

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

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.

- The Investment Trust Fund provides an investment vehicle for the assets of various public retirement plans and funds.

- The Agency Fund accounts for resources held in a custodial capacity for various governmental units, individuals, or funds.

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

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

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state of Minnesota considers receivables collected after June 30 but by the close of the books in early September to be available and recognizes them as revenues of the current year for fund financial statements prepared on the modified basis of accrual. Federal Fund revenues that are earned by incurring obligations are recognized in the same period as the recognition of the obligation. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Agency funds use the modified accrual basis of accounting, but do not have a measurement focus because agency funds do not recognize revenues and expenditures.

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

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

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

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

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

Laws of Minnesota Special Session 2001 established a state general tax (property tax) against commercial-industrial and seasonal recreational property. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. The levy for taxes payable in 2002 was $592,000,000. Future levies will be 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.

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

Cash Equivalents and Investments

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

Investments - Investments are reported at fair value. The basis for determining the fair value of investments that is not based on market quotations includes analysis of future cash flows, audited financial statements and independent appraisals. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the Minnesota State Board of Investment. See Note 3 for additional information regarding cash and investments.

Inventories

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

Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in various enterprise funds as restricted assets. The excess of restricted assets over liabilities payable from restricted assets will first be used for bonds payable. The remainder, if any, is included in reserved retained earnings.

Securities Lending

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

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

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

Compensated Absences

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

Capital Assets

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

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

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

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

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets which reflects a reasonable value of the assets and cost required to maintain the service potential at established minimum standards in lieu of depreciation. Transportation infrastructure capital assets, such as highways, curbs, bridges and lighting systems, are reported on 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 system of highways are included in notes to the Required Supplementary Information.

See note 6 for further information on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

General long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, post retirement benefits and arbitrage rebate requirements (see Note 7).

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

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

See Note 7 for further information regarding general long-term obligations.

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The plan is available to all public employees in the state and is administered by Great West Life and Annuity. The State Board of Investment (SBI) and two insurance companies manage investments. The portion of the plan for which participants have selected investment options provided by the two insurance companies is excluded from the state's financial statements because the funds are not under the state's control. The portion of the plan for which participants have selected investment options provided by SBI is accounted for in the State Deferred Compensation Fund, a fiduciary fund, with its investments reported at fair value.

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 will be held in trust, in custodial accounts or in qualifying contracts, as required by federal law. The state is not liable for any investment losses under the plan, but does have the duty of due care of a prudent investor for investments managed by SBI.

Restricted Net Assets

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

Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" 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, not invested in capital assets, net of related debt.

Budgeting and Budgetary Control

The state of Minnesota 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 are available for either year of the biennium. The governor's budget for the biennium is developed by the Department of Finance and presented to the legislature for approval. Specific appropriations are required for all expenditures from the General Fund and all special revenue funds except the Federal, Petroleum Tank Cleanup, Maximum Effort School Loan, Iron Range Resources and Rehabilitation, and Miscellaneous Special Revenue funds. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

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

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

Interfund Activity and Balances

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

Special Item

GASB Statement No. 34 defines a special item as a significant transaction or event within the control of management but either unusual in nature or infrequent in occurrence. The payment of $134,000,000 by Workers' Compensation Assigned Risk Plan (WCARP) to the General Fund as required by the Laws of Minnesota 2002 is reported as a special item in the government-wide Statement of Activities. See note 20 for further details.

Note 2 - Fund Structure and Accounting Principle Changes and Prior Period Adjustments

As discussed in Note 1, the state implemented several new accounting standards issued by GASB.

The following tables summarize fund reclassification changes to fund equities as previously reported on the Combined Balance Sheet (in thousands).

Governmental Funds and Activities	June 30, 2001 As Reported	Change In Fund Structure	Change in Accounting Principle	Prior Period Adjustments	June 30, 2001 As Restated
Major Funds:					
General Fund	$ 1,179,516	$ (145,693)	$ -	$ 5,862	$ 1,039,685
Previously Reported as a Special Revenue Fund:					
Federal Fund	-	7,126	-	-	7,126
Total Major Funds	$ 1,179,516	$ (138,567)	$ -	$ 5,862	$ 1,046,811
Nonmajor Funds:					
Special Revenue Funds:					
Trunk Highway	$ 448,396	$ -	$ -	$ -	$ 448,396
Highway User Tax Distribution	50	-	-	-	50
State Airports	36,346	-	-	-	36,346
Municipal State-Aid Street	-	158,321	174	(5,026)	153,469
County State-Aid Highway	-	348,126	349	(24,881)	323,594
Federal	7,126	(7,126)	-	-	-
Petroleum Tank Cleanup	18,259	-	-	-	18,259
Solid Waste	89,990	-	-	-	89,990
Health Care Access	317,796	-	-	-	317,796
Minnesota Resources	6,977	-	-	-	6,977
Natural Resources	25,214	-	-	-	25,214
Game and Fish	28,856	-	-	-	28,856
Northeast Minnesota Economic Protection	-	130,330	84	-	130,414
Endowment	-	8,715	96	-	8,811
Maximum Effort School Loan	9,917	-	-	-	9,917
Special Compensation	318,925	-	-	-	318,925
Environment and Natural Resources	-	314,669	136	-	314,805
Environmental	29,283	-	-	-	29,283
Iron Range Resources and Rehabilitation	57,192	(10,578)	275	-	46,889
Medical Education and Research	-	342,921	-	-	342,921
Tobacco Use Prevention	-	542,966	9	-	542,975
Miscellaneous Special Revenue	423,829	(10,077)	-	-	413,752
Total Special Revenue Funds	$ 1,818,156	$ 1,818,267	$ 1,123	$ (29,907)	$ 3,607,639
Debt Service Fund	$ 450,493	$ (10,137)	$ 66,626	$ (8,889)	$ 498,093
Capital Projects Funds:					
General Projects	$ 286,720	$ (6,875)	$ -	$ -	$ 279,845
Transportation	4,615	-	-	-	4,615
Building	82,499	8,632	-	6,326	97,457
Total Capital Projects Funds	$ 373,834	$ 1,757	$ -	$ 6,326	$ 381,917
Permanent Fund:					
Permanent School-Includes Endowment School	$ -	$ 570,455	$ -	$ -	$ 570,455
Total Nonmajor Funds	$ 2,642,483	$ 2,380,342	$ 67,749	$ (32,470)	$ 5,058,104
Total Governmental Funds	$ 3,821,999	$ 2,241,775	$ 67,749	$ (26,608)	$ 6,104,915
Adoption of GASB Statements No. 34 and 35:					
Revenue Recognition	$ -	$ -	$ 716,369	$ -	$ 716,369
Capital Assets	-	-	1,408,590	15,027	1,423,617
Accumulated Depreciation	-	-	(673,106)	(1,839)	(674,945)
Nondepreciable Capital Assets	-	-	1,370,496	-	1,370,496
Infrastructure not Depreciated	-	-	4,055,819	-	4,055,819
Long-Term Bonds and Notes Payable	-	-	(2,533,133)	(16,765)	(2,549,898)
Other Liabilities and Long-Term Obligations	-	-	(1,984,849)	-	(1,984,849)
Internal Service Fund Conversion	-	-	114,066	(75)	113,991
Total	$ -	$ -	$ 2,474,252	$ (3,652)	$ 2,470,600
Total Governmental Funds and Activities	$ 3,821,999	$ 2,241,775	$ 2,542,001	$ (30,260)	$ 8,575,515

Proprietary Funds and Business-type Activities	June 30, 2001 As Reported	Change In Fund Structure	Change In Accounting Principle	Prior Period Adjustments	June 30, 2001 As Restated
Major Funds:					
MnSCU	$ -	$ 811,219	$ 18,482	$ -	$ 829,701
Unemployment Insurance	-	607,730	24,724	-	632,454
Total Net Assets	$ -	$ 1,418,949	$ 43,206	$ -	$ 1,462,155
Nonmajor Funds:					
State Colleges and Universities Revenue	$ 90,012	$ (90,012)	$ -	$ -	$ -
State Lottery	-	-	-	-	-
College and University Enterprise Activities	75,941	(75,941)	-	-	-
Minnesota Correctional Industries	17,759	-	-	-	17,759
Behavioral Services	10,386	-	-	-	10,386
Public Employees Insurance	652	-	-	-	652
Enterprise Activities	4,206	-	-	-	4,206
State Operated Community Services	18,908	-	-	-	18,908
Giants Ridge	-	10,578	2,128	-	12,706
Total Net Assets	$ 217,864	$ (155,375)	$ 2,128	$ -	$ 64,617
Internal Service Funds:	$ 114,066	$ -	$ (114,066)	$ -	$ -
Total Proprietary Funds and Business-type Activities	$ 331,930	$ 1,263,574	$ (68,732)	$ -	$ 1,526,772
Fiduciary Funds:					
Pension Trust Funds:					
State Deferred Compensation Fund	$ -	$ 650,223	$ -	$ -	$ 650,223
Other Pension Trust Funds	38,811,168	-	$ -	-	38,811,168
Total Pension Trust Funds	$ 38,811,168	$ 650,223	$ -	$ -	$ 39,461,391
Investment Trust	$ 411,514	$ -	$ -	$ -	$ 411,514
Funds Previously Reported As Expendable Trust Funds:					
Municipal State-Aid Street	$ 158,321	$ (158,321)	$ -	$ -	$ -
County State-Aid Highway	348,126	(348,126)	-	-	-
Endowment School	6,198	(6,198)	-	-	-
Endowment	16,547	(16,547)	-	-	-
Environment and Natural Resources	314,669	(314,669)	-	-	-
Northeast Minnesota Economic Protection	130,330	(130,330)	-	-	-
Unemployment Insurance	607,730	(607,730)	-	-	-
State Deferred Compensation Fund	650,223	(650,223)	-	-	-
Medical Education and Research	342,921	(342,921)	-	-	-
Tobacco Use Prevention	542,966	(542,966)	-	-	-
Total Expendable Trust	$ 3,118,031	$ (3,118,031)	$ -	$ -	$ -
Funds Previously Reported As Non-Expendable Trust Fund:					
Permanent School Fund	$ 564,257	$ (564,257)	$ -	$ -	$ -
Total Fiduciary Funds	$ 42,904,970	$ (3,032,065)	$ -	$ -	$ 39,872,905
Account Groups:					
General Fixed Assets	$ 3,322,006	$ -	$(3,322,006)	$ -	$ -
General Long-Term Obligation Account Group	-	-	-	-	-
Total Account Groups	$ 3,322,006	$ -	$(3,322,006)	$ -	$ -
Total Primary Government	$ 50,380,905	$ 473,284	$ (848,737)	$ (30,260)	$ 49,975,192

Discretely Presented Component Units	June 30, 2001 As Reported	Change In Fund Structure	Change In Accounting Principle	Prior Period Adjustments	June 30, 2001 As Restated
Major Component Units:					
U of M	$ 2,281,059	$ -	$ (112,038)	$ -	$ 2,169,021
Metropolitan Council	1,020,388	(155,001)	13,416	-	878,803
Housing Finance Agency	760,309	-	-	-	760,309
Total Major Component Units	$ 4,061,756	$ (155,001)	$ (98,622)	$ -	$ 3,808,133
Nonmajor Component Units:					
Public Facilities Authority	$ 590,951	$ -	$ (18,050)	$ -	$ 572,901
Minnesota Technology, Inc.	4,316	-	-	-	4,316
Agricultural and Economic Development Board	58,799	-	(35,930)	-	22,869
Rural Finance Authority	66,530	-	(66,626)	-	(96)
Minn. Partnership for Action Against Tobacco	177,729	-	-	-	177,729
Workers' Compensation Assigned Risk Plan	156,598	-	-	-	156,598
National Sports Center Foundation	266	-	-	-	266
Higher Education Services Office	286,875	-	-	-	286,875
Total Nonmajor Component Units	$ 1,342,064	$ -	$ (120,606)	$ -	$ 1,221,458
Total Discretely Presented Component Units	$ 5,403,820	$ (155,001)	$ (219,228)	$ -	$ 5,029,591

Prior Period Adjustments

Primary Government

The General Fund includes a prior period adjustment of $5,862,000 due to the reporting of mutual funds escheat property. This is the first time the General Fund has reported such property.

The government-wide capital assets balance includes a prior period adjustment amount of $13,188,000 due to the acquisition and disposal of capital assets prior to the beginning of the year.

The government-wide general long-term debt balance includes a prior period adjustment of $16,765,000 for loans not previously reported for Department of Natural Resources equipment.

The Building Fund includes a prior period adjustment of $6,326,000 due to a reduction of the fiscal agent cash account by the amount held for bonds defeased in previous years for the Northwest Airlines bonds and corresponding reduction in the note receivable in the Building Fund. The Debt Service Fund also includes a prior period adjustment of $8,889,000 due to a reduction in the fiscal agent cash account by Northwest Airlines income from its rental facilities that will be used to pay the note receivable.

Two nonmajor special revenue funds understated expenditures for the year ended June 30, 2001. Adjustments to the Municipal State-Aid Street Fund and County State-Aid Highway Fund were $5,026,000 and $24,881,000, respectively.

The State Printer Fund, which is an internal service fund, overstated net assets in a prior year by $75,000.

Note 3 - Cash and Investments

Cash and Cash Equivalents

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

The following table summarizes the state's cash and cash equivalents (in thousands), including amounts reported as restricted assets at December 31, 2001 or June 30, 2002, whichever is applicable. Cash with the U.S. Treasury is available for the cash demands of the Unemployment Insurance Fund (enterprise fund). Warrants outstanding is the amount of negotiable warrants issued by the state but not presented for collection as of June 30, 2002.

Carrying Amount	Primary Government	Component Units
Cash in Bank	$ 104,008	$ 3,517
Warrants Outstanding	(202,945)	
Checks Outstanding		(33,494)
Cash on Hand and Imprest Cash	1,546	-
Cash with Fiscal Agent	6,729	-
Cash with U.S. Treasury	270,988	-
Cash Equivalents:		
Cash Management Investment Pools	7,419,334	434,975
Other	192,472	1,142,897
Total Cash and Cash Equivalents[1]	$ 7,792,132	$ 1,547,895

[1]Includes fiduciary funds of $2,305,865.

Deposits

At June 30, 2002, the primary government's bank balance was $114,440,000. For component units at December 31, 2001 or June 30, 2002, whichever is applicable, the bank balances were $17,858,000. These bank balances were adjusted by items in transit to arrive at the state's cash in bank balance. The bank balances were fully covered by federal depository insurance or collateral held by the state's agent in the state's name or held by the component unit in the component unit's name (lowest risk category). Minnesota Statutes, Section 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral. During the year, certain bank accounts administered by Minnesota State Colleges and Universities (MnSCU) carried balances exceeding the legally secured amount. At June 30, 2002, the collateral shortage was $1,387,000.

Investments

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

As of June 30, 2002, the fair value of the SBI's derivatives exposure was approximately 3.3 percent of the total assets managed. Due to the offsetting nature of a number of these agreements, the net market risk of the derivates exposure is minimal. The following tables show the primary government's and component units' investments, including cash equivalents, at their carrying and fair values (in thousands).

Primary Government
Investments at June 30, 2002

Investment Type	Fair Value
Repurchase Agreements	$ 553,656
Commercial Paper	3,750,823
Short-Term Corporate Notes	26,045
U.S. Treasury Obligations	1,655,264
Mortgage Backed	5,221,308
Corporate Obligations	4,300,369
Foreign and Other Obligations	413,669
Corporate Stocks	22,623,642
Other Equity	2,880,029
Total Investments in Risk Category 1	$ 41,424,805
Trustee Managed Pools (Not Categorized)	2,433,787
Total Investments[1]	$ 43,858,592

[1] Includes $34,366,902 for fiduciary funds and $7,611,806 of cash equivalents.

Component Units
Investments at December 31, 2001 and June 30, 2002

Investment Type	Fair Value
Repurchase Agreements	$ 79,850
Commercial Paper	368,166
Short-Term Corporate Notes	14,995
U.S. Treasury Obligations	1,027,458
Mortgage Backed	371,160
Corporate Obligations	698,626
Municipal and Other Obligations	107,364
Corporate Stocks	366,592
Other Equity	26,819
Total Investments	$ 3,061,030
Trustee Managed Pools/Mutual Funds	791,494
Total Investments	$ 3,852,524

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

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

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

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

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

Primary Government
Securities Lending Analysis at June 30, 2002
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 547,123	$ 3,268,957
Collateral Held	$ 553,508	$ 3,357,511
Average Duration	40 days	66 days
Average Weighted Maturity	40 days	423 days

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2002, Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

Funds not invested by SBI are primarily MnSCU agency funds. Investments for these funds must also conform to the above statutes and may be further restricted by bond indentures.

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

Note 4 - Interfund Activity

Primary Government

Primary government interfund receivables and payables at June 30, 2002, including the current portion of interfund advances, are summarized as follows (in thousands):

Primary Government

Fund	Receivables	Payables
General Fund	$ 64,437	$ 21,208
Special Revenue Funds:		
Natural Resources	$ 7,844	$ -
Game and Fish	762	-
Trunk Highway	22,565	49
Highway User Tax	17,107	45,394
Federal	5,443	13,606
Environmental	-	1,163
Health Care Access	-	5,443
Iron Range Resources and Rehab.	1,014	-
Municipal State-Aid Street	9,676	-
County State-Aid Highway	12,471	6,400
Endowment	16	-
Environment and Natural Resources	3,251	-
Medical Education and Research	3,898	-
Miscellaneous Special Revenue	6,810	12,785
Total Special Revenue Funds	$ 90,857	$ 84,840
Capital Projects Funds:		
General Projects	$ -	$ 25,386
Building	-	942
Total Capital Project Funds	$ -	$ 26,328
Debt Service:		
Debt Service	$ -	$ 11,292
Enterprise Funds:		
State Lottery	$ -	$ 9,879
Enterprise Activities	240	-
Behavioral Services	-	1,086
State Colleges and Universities	11,270	-
Unemployment Insurance	-	5,149
Giants Ridge	-	494
Total Enterprise Funds	$ 11,510	$ 16,608
Internal Service Funds:		
State Printer	$ -	$ 240
Central Motor Pool	-	675
Total Internal Service Funds	$ -	$ 915
Fiduciary Funds:		
Pension Trust Funds:		
Public Employees Retirement	$ 1,537	$ 1,436
Police and Fire	1,369	1,230
State Employees	860	22
State Patrol	-	91
Correctional Employees	-	258
Judicial	-	45
Elective State Officers	-	1
Legislative	-	29
Unclassified Employees	22	235
Public Employees	15	90
Public Employees Correctional	52	217
Post Retirement Health Care	-	201
Total Fiduciary Funds	$ 3,855	$ 3,855
Permanent Fund:		
Permanent School	$ -	$ 5,613
Total Primary Government	$ 170,659	$ 170,659

The noncurrent portion of interfund advances for the primary government at June 30, 2002 is summarized as follows (in thousands):

	Advances to Other Funds	Advances from Other Funds
General Fund	$ 4,933	$ -
Internal Service Fund:		
Central Motor Pool	-	4,933
Total All Funds	$ 4,933	$ 4,933

Component Units

Receivables and payables at June 30, 2002, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
(In Thousands)

	Due From	Due To
Component Units		
Workers' Compensation Assigned Risk Plan	$ -	$ 1,867
University of Minnesota	126,990	60,003
Rural Finance Authority	-	71,784
Total Component Units	$ 126,990	$ 133,654
Primary Government		
Governmental Funds:		
General Fund	$ -	$ 104,914
Trunk Highway Fund	-	3,260
Medical Education and Research Fund	-	13,592
Building Fund	-	5,224
Debt Service Fund	131,787	-
Total Primary Government	$ 131,787	$ 126,990
Total	$ 258,777	$ 260,644

Due to primary government exceeds due from component units by $1,867,000 for the Workers' Compensation Assigned Risk Plan because the plan's fiscal year-end differs from the primary government.

Note 5 - Loans, Notes and Financing Leases Receivable

Loans, notes and financing leases receivable, net of allowances for possible losses, as of June 30, 2002, consisted of the following (in thousands):

	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds
Student Loan Program	$ 133	$ -	$ -	$ 33,880
Economic Development	183	48,255	88,235	-
School Districts	-	16,275	-	-
Energy	-	754	5,633	-
Agricultural	1,818	36,106	3,372	-
Transportation	-	25,869	-	-
Resources	1,405	12,550	47	-
Other	-	-	-	58
Total	$ 3,539	$ 139,809	$ 97,287	$ 33,938

	Component Units	
	Non-Restricted	Restricted
Metropolitan Council	$ 20,594	$ -
Agricultural and Economic Development Board	24,827	-
Rural Finance Authority	54,340	-
Housing Finance Authority	1,681,340	-
Public Facilities Authority	5,779	902,380
Higher Education Services Office	374,061	-
University of Minnesota	67,548	-
Total	$ 2,228,489	$ 902,380

Note 6 - Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Governmental Activities:				
Capital Assets not Depreciated:				
Land	$ 1,092,718	$ 125,729	$ (1,848)	$ 1,216,599
State Capitol	11,892	6,677	-	18,569
Construction in Progress	281,199	89,764	(48,141)	322,822
Infrastructure	4,055,819	258,759	(3,137)	4,311,441
Art and Historical Treasures	100	-	-	100
Total Capital Assets not Depreciated	$ 5,441,728	$ 480,929	$ (53,126)	$ 5,869,531
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,158,147	$ 48,203	$ (976)	$ 1,205,374
Infrastructure	25,497	5,741	-	31,238
Equipment, Furniture, Fixtures	336,666	25,963	(15,841)	346,788
Total Capital Assets Depreciated	$ 1,520,310	$ 79,907	$ (16,817)	$ 1,583,400
Less Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (541,816)	$ (25,512)	$ 978	$ (566,350)
Infrastructure	(1,392)	(771)	-	(2,163)
Equipment, Furniture, Fixtures	(191,847)	(32,136)	13,265	(210,718)
Total Accumulated Depreciation	$ (735,055)	$ (58,419)	$ 14,243	$ (779,231)
Total Capital Assets Depreciated, Net	$ 785,255	$ 21,488	$ (2,574)	$ 804,169
Governmental Act., Capital Assets, Net	$ 6,226,983	$ 502,417	$ (55,700)	$ 6,673,700
Business-type Activities:				
Capital Assets not Depreciated:				
Land	$ 51,254	$ 579	$ -	$ 51,833
Construction in Progress	56,117	59,967	(38,143)	77,941
Total Capital Assets not Depreciated	$ 107,371	$ 60,546	$ (38,143)	$ 129,774
Capital Assets Depreciated:				
Buildings	$ 1,298,021	$ 85,741	$ (3,541)	$ 1,380,221
Library Collections	43,331	6,292	(6,892)	42,731
Improvements, Other than Buildings	8,540	41	-	8,581
Equipment, Furniture, Fixtures	271,576	29,873	(22,594)	278,855
Total Capital Assets Depreciated	$ 1,621,468	$ 121,947	$ (33,027)	$ 1,710,388
Less Accumulated Depreciation for:				
Buildings	$ (689,872)	$ (37,531)	$ 2,427	$ (724,976)
Library Collections	(24,193)	(6,104)	6,892	(23,405)
Improvements, Other than Buildings	(1,626)	(217)	-	(1,843)
Equipment, Furniture, Fixtures	(170,455)	(25,603)	18,265	(177,793)
Total Accumulated Depreciation	$ (886,146)	$ (69,455)	$ 27,584	$ (928,017)
Total Capital Assets Depreciated, Net	$ 735,322	$ 52,492	$ (5,443)	$ 782,371
Business-type Act., Capital Assets, Net	$ 842,693	$ 113,038	$ (43,586)	$ 912,145
Fiduciary Funds:				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 28,162	$ 1,724	$ -	$ 29,886
Equipment, Furniture, Fixtures	5,142	1,700	(963)	5,879
Total Capital Assets Depreciated	$ 33,304	$ 3,424	$ (963)	$ 35,765
Less Accumulated Depreciation for:				
Buildings	$ -	$ (794)	$ -	$ (794)
Equipment, Furniture, Fixtures	(3,225)	(689)	820	(3,094)
Total Accumulated Depreciation	$ (3,225)	$ (1,483)	$ 820	$ (3,888)
Total Capital Assets Depreciated, Net	$ 30,079	$ 1,941	$ (143)	$ 31,877
Fiduciary Funds, Capital Assets, Net	$ 30,508	$ 1,941	$ (143)	$ 32,306

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

The Net Asset balance of the State Colleges and Universities Fund includes $124,000 of restricted Construction in Progress, which is reported on the Government-wide Statement of Net Assets in Other Restricted Assets. This amount is not included in the previous table of capital asset activity.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental Activities:		
Public Safety and Corrections	$	9,572
Transportation		15,153
Agricultural and Environmental Resources		5,688
Economic and Workforce Development		1,523
General Education		629
Higher Education		-
Health and Human Services		7,246
Health Care		-
General Government		6,763
Internal Service Funds		11,845
Total Governmental Activities	$	58,419
Business-type Activities:		
State Colleges and Universities	$	66,050
Unemployment Insurance		-
Lottery		1,393
Other		2,012
Total Business-type Activities	$	69,455

Capital outlay expenditures in the governmental funds totaled $500,458,000 for fiscal year 2002. Donations of general capital assets received during fiscal year 2002 are valued at $1,272,000.

General capital assets purchased with resources provided by outstanding capital lease agreements at June 30, 2002 consisted of equipment with a cost of $104,193,000 and buildings with a cost of $1,781,000.

Authorizations and commitments as of June 30, 2002 for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Educational Buildings	Military Affairs	Veterans Affairs	Correctional Facilities	Human Services
Authorization	$ 88,147	$ 8,367	$ 9,083	$ 49,148	$ 108,970	$ 16,804
Expended through June 30, 2002	53,169	8,226	7,643	44,358	103,013	8,593
Total	$ 34,978	$ 141	$ 1,440	$ 4,790	$ 5,957	$ 8,211

Land in the Permanent School Fund totaling 2,512,334 acres was donated by the federal government and valued at the estimated fair value at the time of donation.

Component Units

Component Unit capital assets consisted of the following as of December 31, 2001 and June 30, 2002, as applicable (in thousands):

	Metropolitan Council	Minnesota Technology, Incorporated	Higher Education Services Office	Housing Finance Agency	National Sports Center Foundation	University of Minnesota	Combined Totals
Land	$ 43,608	$ -	$ -	$ -	$ 2,500	$ 34,852	$ 80,960
Buildings and Improvements	1,872,937	-	-	-	692	2,138,600	4,012,229
Equipment	386,709	2,545	322	2,227	899	678,935	1,071,637
Infrastructure	-	-	-	-	-	278,158	278,158
Total	$ 2,303,254	$ 2,545	$ 322	$ 2,227	$ 4,091	$3,130,545	$ 5,442,984
Less: Accumulated Depreciation	807,873	2,390	213	1,055	881	1,340,850	2,153,262
Net Total	$ 1,495,381	$ 155	$ 109	$ 1,172	$ 3,210	$1,789,695	$ 3,289,722

Note 7 - General Long-Term Obligations

Primary Government

The following table is a summary of general long-term obligations at June 30, 2002 and the changes during fiscal year 2002 (in thousands):

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 2,507,408	$ 637,068	$ 221,255	$ 2,923,221	$ 237,262
Loans	41,327	3,536	5,245	39,618	18,054
Revenue Bonds	100	-	100	-	-
Claims	1,622,197	13,053	90,217	1,545,033	122,339
Compensated Absences	216,407	24,605	8,670	232,342	20,592
Workers' Compensation	123,074	3,364	11,489	114,949	12,285
Capital Leases	23,171	3,326	8,470	18,027	6,578
Arbitrage Liabilities	26	-	26	-	-
Total	$ 4,533,710	$ 684,952	$ 345,472	$ 4,873,190	$ 417,110
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 85,187	$ 29,337	$ 5,650	$ 108,874	$ 6,568
Loans	5,053	-	555	4,498	1,793
Revenue Bonds	17,410	36,275	320	53,365	120
Compensated Absences	103,649	-	6,280	97,369	11,582
Workers' Compensation	4,290	102	-	4,392	1,270
Capital Leases	4,176	6,523	2,121	8,578	2,244
Total	$ 219,765	$ 72,237	$ 14,926	$ 277,076	$ 23,577

The resources to repay the various general long-term obligations of the primary government have been, or will be, provided from the fund types as follows (in thousands):

	Governmental Activities		Business-type Activities	Total
	General Fund	Special Revenue Funds		
Liabilities For:				
General Obligation Bonds	$ 2,756,843	$ 166,378	$ 108,874	$ 3,032,095
Revenue Bonds	-	-	53,365	53,365
Loans	4,675	34,943	4,498	44,116
Claims	86,369	1,458,664	-	1,545,033
Compensated Absences	142,487	89,855	97,369	329,711
Workers' Compensation	87,055	27,894	4,392	119,341
Capital Leases	1,061	16,966	8,578	26,605
Total	$ 3,078,490	$ 1,794,700	$ 277,076	$ 5,150,266

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

General Obligation Bonds
Principal and Interest Payments

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 237,262	$ 140,047	$ 6,568	$ 5,340	$ 243,830	$ 145,387
2004	251,696	132,538	7,114	5,262	258,810	137,800
2005	233,940	120,793	7,135	4,892	241,075	125,685
2006	228,284	108,952	7,156	4,512	235,440	113,464
2007	236,320	97,126	7,335	4,127	243,655	101,253
2008-2012	888,653	333,438	34,557	14,837	923,210	348,275
2013-2017	596,265	138,210	25,890	6,583	622,155	144,793
2018-2022	250,801	25,980	13,119	1,385	263,920	27,365
Total	$ 2,923,221	$ 1,097,084	$ 108,874	$ 46,938	$ 3,032,095	$ 1,144,022

Revenue Bonds
Principal and Interest Payments

	Business-type Activities	
Fiscal Year(s)	Principal	Interest
2003	$ 120	$ 3,448
2004	1,515	3,074
2005	1,575	2,992
2006	1,945	2,895
2007	2,190	2,783
2008-2012	11,155	12,027
2013-2017	12,185	8,758
2018-2022	15,155	4,811
2023-2027	7,525	758
Total	$ 53,365	$ 41,546

Loans
Principal and Interest Payments

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 18,054	$ 1,615	$ 1,793	$ -	$ 19,847	$ 1,615
2004	10,331	935	1,244	-	11,575	935
2005	7,574	419	698	-	8,272	419
2006	3,000	115	364	-	3,364	115
2007	659	18	197	-	856	18
2008-2012	-	-	202	-	202	-
Total	$ 39,618	$ 3,102	$ 4,498	$ -	$ 44,116	$ 3,102

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

Capital Leases
Principal and Interest Payments

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 6,578	$ 802	$ 2,244	$ 525	$ 8,822	$ 1,327
2004	4,573	503	1,712	428	6,285	931
2005	3,524	286	1,505	346	5,029	632
2006	2,660	112	919	281	3,579	393
2007	692	18	641	751	1,333	769
2008-2012	-	-	1,557	672	1,557	672
Total	$ 18,027	$ 1,721	$ 8,578	$ 3,003	$ 26,605	$ 4,724

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 was enacted requiring the appropriation.

During fiscal year 2002, the Department of Finance made the necessary transfers to the Debt Service Fund as follows (in thousands):

Transfers to Debt Service Fund		
General Fund	$	282,576
Special Revenue Funds:		
Trunk Highway Fund	$	7,449
Natural Resources Funds		28
Maximum Effort School Loan Fund		1,037
Miscellaneous Special Revenue Fund		3,152
Total Special Revenue Funds	$	11,666
Capital Projects Funds:		
Building Fund	$	18,919
Total Capital Projects Funds	$	18,919
Total Operating Transfers to Debt Service Fund	$	313,161

General Obligation Bond Issues

On October 1, 2001, $330,000,000 in general obligation state various purpose bonds and $25,000,000 in general obligation state trunk highway bonds were issued at a true interest cost of 4.30 percent. On June 1, 2002, $240,000,000 in general obligation state various purpose bonds, $37,405,000 in general obligation state refunding bonds and $30,000,000 in general obligation state trunk highway bonds were issued at a true interest cost of 4.03 percent. On October 1, 2001, $4,000,000 in general obligation state taxable bonds were issued at a true interest rate of 5.41 percent. During fiscal year 2002, $226,905,000 in general obligation bond principal was repaid.

The state issues general obligation refunding bonds to refund obligations of certain bond issues. The proceeds of the bond issues were placed in special escrow accounts and invested in government securities. These investments have been certified to be sufficient to pay all principal and interest on the bonds when due. Accordingly, the original refunded bonds have been eliminated, and the new advance refunding bonds have been added to the General Long-Term Obligation Account Group.

The June 2002 bond sale included $37,405,000 of refunding bonds for a current refunding of $38,450,000 in previously issued bonds of the state. The proceeds for these refunding bonds were held in the state's Debt Service Fund until August 1, 2002 when the refunded bonds were called for redemption and prepayment. Because $38,450,000 was still outstanding on June 30, 2002 and the money available for the refunding was in the state's Debt Service Fund, the total amount is still included in the general obligation bond balance for the current fiscal year, but will be removed as of the redemption date of August 1, 2002.

The balance outstanding for all extinguished debt at June 30, 2002 was $159,825,000 which is shown below (in thousands). The state remains contingently liable to pay the refunded general obligation bonds.

Outstanding Defeased Debt

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 1993	$ 91,720	$ 81,650	$ 81,650	August 1, 2002
November 1, 1998	99,700	96,100	78,175	October 1, 2004
Total	$ 191,420	$ 177,750	$ 159,825	

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

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding at June 30, 2002 (in thousands). This schedule includes general obligation bonds that were sold for the State Operated Community Services and State Colleges and Universities Funds (enterprise funds).

General Obligation Bonds Authorized, but Unissued and Bonds Outstanding

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 92,521	$ 1,481,758	3.75 - 7.56
State Operated Community Services	-	4,252	3.75 - 7.56
State Transportation	4,694	99,110	4.69 - 7.56
Waste Management	375	6,035	5.00 - 7.56
Water Pollution Control	1,501	114,565	4.58 - 7.56
Maximum Effort School Loan	-	85,770	5.00 - 7.56
Reinvest in Minnesota	629	10,205	5.00 - 6.90
Rural Finance Administration	-	66,725	5.00 - 6.98
Refunding Bonds	-	521,917	3.97 - 6.95
Municipal Energy Building	133	5,930	5.00 - 7.56
Game and Fish Building	-	103	5.33 - 6.95
Trunk Highway	15,100	93,505	3.75 - 6.95
Airport Facilities	-	40,235	4.40 - 7.95
Landfill	-	28,175	4.54 - 5.76
Various Purpose	1,216,070	473,810	
Total	$ 1,331,023	$ 3,032,095	

Loans Payable

Governmental loans payable consist of loans taken out by the Department of Natural Resources to pay for fleet, aircraft and computer equipment. Business-type loans are primarily loans for the Department of Administration to purchase equipment.

Revenue Bonds Payable

The State Colleges and Universities is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at six of the state universities. On February 19, 2002, revenue bonds were issued totaling $36,275,000.

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

Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 3,510	October 1, 2012

Claims

Municipal solid waste landfills liability of $236,976,000 for closure and postclosure care is reported for the landfill cleanup program payable from the Solid Waste Fund (special revenue fund) and the General Fund.

Claims of $61,287,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of $29,070,000 are for certain employees who qualify for post-retirement benefits upon retirement at age 55 under terms of their employment contract. See Note 16 for the amount paid in fiscal year 2002.

The remaining claim amount of $1,217,700,000 is for reimbursements of supplementary and second injury benefits for old workers’ compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated undiscounted cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of $232,342,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers’ Compensation

The governmental funds liability for workers' compensation of $114,949,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2002 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 2002, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable - Fiduciary Funds

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

Long-Term Debt Repayment Schedule
Fiduciary Funds - June 30, 2002

Revenue Bonds - SERF, TRF and PERF

Fiscal Year(s)	Principal	Interest
2003	$ 450	$ 1,644
2004	475	1,620
2005	500	1,594
2006	525	1,567
2007	550	1,539
2008-2012	3,175	7,223
2013-2017	4,150	6,252
2018-2022	5,550	4,925
2023-2027	7,475	3,084
2028-2032	5,724	702
Total	$ 28,574	$ 30,150

Note 8 - Operating Lease Agreements

Operating Leases

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

Lease expenditures for the year ended June 30, 2002 totaled approximately $63,745,000 and $18,369,000 for the primary government and component units respectively. Lease expenditures for the year ended December 31, 2001 totaled approximately $2,687,000 for component units.

Future Minimum Lease Payments
(In Thousands)

Primary Government		Component Units			
Year Ending June 30	Amount	Year Ending June 30	Amount	Year Ending December 31	Amount
2003	$ 65,399	2003	$ 11,639	2002	$ 2,261
2004	52,745	2004	9,513	2003	2,111
2005	33,345	2005	7,845	2004	1,893
2006	27,283	2006	7,387	2005	1,684
2007	22,156	2007	6,378	2006	1,108
2008-2012	24,226	2008-2012	22,786	2007-2011	1,636
2013-2017	-	2013-2017	7,195	2012-2016	122
Total	$ 225,154	Total	$ 72,743	Total	$ 10,815

Note 9 - Long-Term Obligations - Component Units

Revenue and General Obligation Bonds

Component Units

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Sections 462A.06 to issue bonds and notes for the purpose of providing funds for rehabilitation, construction and mortgage loans, or for refunding 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 $2,400,000,000, according to Minnesota Statutes, Section 462A.22.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072 to issue revenue bonds for the purpose of making loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,000,000,000, according to Minnesota Statutes, Section 446A.12.

The Higher Education Services Office (HESO) is authorized by Minnesota Statutes, Sections 136A.171-.175 to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $550,000,000, according to Minnesota Statutes, Section 136A.171.

The University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects.

The Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers and transportation, backed by MC's full faith and credit and taxing powers. MC had $739,089,000 in general obligation bonds outstanding, net of unamortized premium, on December 31, 2001.

The Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects.

General Obligation Bonds
(In Thousands)

Fiscal Years	U of M Principal	U of M Interest	MC* Principal	MC* Interest
2003	$ 259,626	$ 22,326	$ 65,555	$ 32,325
2004	170,014	9,354	65,643	29,402
2005	46,027	3,385	64,899	26,339
2006	6,039	1,962	59,287	23,424
2007	6,039	1,888	55,800	20,688
2008-2012	29,197	8,406	222,141	68,331
2013-2017	44,197	6,183	138,279	27,398
2018-2022	80,159	2,911	67,515	6,080
2023-2027	-	-	-	-
2028-2032	-	-	-	-
	$ 641,298	$ 56,415	$ 739,119	$ 233,987
Unamortized Discounts/Premiums and Issuance Costs	-	-	(30)	-
Total	$ 641,298	$ 56,415	$ 739,089	$ 233,987

*MC fiscal year ends December 31.

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

Fiscal Years	U of M Principal	U of M Interest	HFA Principal[1]	HFA Interest	MC[2] Principal	MC[2] Interest
2003	$ 750	$ 648	$ 301,105	$ 98,263	$ 705	$ 674
2004	805	602	130,415	91,459	735	643
2005	855	554	43,170	86,948	770	609
2006	905	502	45,425	84,691	810	573
2007	955	447	41,750	82,402	845	535
2008-2012	5,125	1,304	239,795	375,422	4,935	1,994
2013-2017	1,421	125	306,975	296,642	4,980	563
2018-2022	-	-	320,640	202,633	-	-
2023-2027	-	-	330,570	106,702	-	-
2028-2032	-	-	180,700	26,113	-	-
2033-2037	-	-	12,975	667	-	-
	$ 10,816	$ 4,182	$ 1,953,520	$ 1,451,942	$ 13,780	$ 5,591
Unamortized Discounts/Premiums and Insurance Costs	-	-	(17,332)	-	(165)	-
Total	$ 10,816	$ 4,182	$ 1,936,188	$ 1,451,942	$ 13,615	$ 5,591

[1]See Note 20 for bond redemption information.
[2]MC fiscal year ends December 31.

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

	HESO		PFA		AEDB	
Fiscal Years	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ -	$ 3,883	$ 41,025	$ 35,199	$ 4,540	$ 2,207
2004	-	3,883	36,365	33,094	2,275	2,002
2005	-	3,883	34,745	31,303	2,395	1,866
2006	-	3,883	42,415	29,580	2,540	1,717
2007	1,429	3,883	42,185	27,472	2,545	1,560
2008-2012	20,843	18,808	220,510	105,441	10,915	5,462
2013-2017	23,310	17,284	214,545	50,023	7,360	2,538
2018-2022	32,692	15,492	73,115	6,071	3,360	508
2023-2027	54,632	11,677	-	-	-	-
2028-2032	52,167	6,696	-	-	-	-
2033-2037	39,927	2,004	-	-	-	-
	$ 225,000	$ 91,376	$ 704,905	$ 318,183	$ 35,930	$ 17,860
Unamortized Discounts/Premiums and Insurance Costs	-	-	(8,452)	-	-	-
Total	$ 225,000	$ 91,376	$ 696,453	$ 318,183	$ 35,930	$ 17,860

Variable Rate Debt

Higher Education Services Office

Interest rates on the tax-exempt 1992, 1993 and 1994B series of bonds vary weekly based on the determination by the remarketing agent of the lowest rate that would permit the sale of bonds at par plus accrued interest on the date of determination. The variable rate cannot exceed 15 percent per annum. The interest rate for the Series 1992, 1993, and 1994B bonds as of June 30, 2002 was 1.35 percent.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds reset every 28, 28, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable LIBOR rate plus 1 percent or 17 percent. The interest rate as of June 30, 2002 for the Series 1999A bonds was 1.95 percent. The interest rate as of June 30, 2002 for the Series 2002A and 2002B bonds was 2.02 percent and 1.43 percent, respectively.

University of Minnesota

In connection with the issuance of the 2001A, 2001B, 2001C and 1999A variable-rate bonds, the U of M entered into floating-to-fixed interest-rate swap agreements for notional amounts tied to the outstanding balance of the bonds. The U of M makes monthly payments at fixed rates between 3.08 percent and 4.4 percent and receives the weighted average rate that was paid to the bondholders during the previous month. The final maturity dates of the swaps are tied to the final maturity dates of the underlying bonds. With the exception of the Series 2001B taxable bonds, the U of M treats these swaps as qualified hedges with respect to such bonds.

In connection with the issuance of the Series 1996A bonds, the U of M has entered into a fixed-to-floating interest-rate swap agreement on a notional amount of $190,000,000. The U of M makes floating-rate interest payments monthly based upon the weekly Bond Market Association Municipal Swap Index. The interest obligation for future years is calculated on the basis of the interest rate in effect at June 30, 2002 of 1.23 percent. The actual rates to be paid to bondholders over the life of the bonds will be at rates determined on the basis of prevailing market conditions. The U of M receives fixed-rate interest payments ranging from 4.45 to 5.43 percent semiannually. The final maturity date of the swap is in 2021, although there are specified notional reductions annually that began in 2001. The U of M treats this swap as a qualified hedge with respect to such bonds.

At June 30, 2002, the U of M had $557,298,000 in outstanding variable rate bonds.

Bond Defeasances

Public Facilities Authority had $51,995,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2002.

In prior years, the U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amounts defeased for general obligation bonds was $126,831,000 with $39,225,000 outstanding at June 30, 2002. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

During MC's fiscal year ended December 31, 2001, MC issued $31,525,000 in general obligation bonds which refunded the remaining 2002-2009 maturities of the Series 1992A general obligation bonds. The transactions resulted in an economic gain of $2,432,075 and a reduction of $2,921,672 in future debt service payments.

Note 10 - Long-Term Commitments

Long-term commitments consist of grant agreements, construction and other contracts. These commitments will be partially funded by current reserves for long-term commitments with the remaining resources provided by future bond proceeds, gas tax and motor vehicle registration revenues and federal grants. Long-term commitments as of June 30, 2002 were as follows (in thousands):

Primary Government	
Special Revenue Fund:	
Trunk Highway Fund	$ 582,763
Capital Projects Funds:	
General Projects Fund	46,746
Transportation Fund	33,424
Building Fund	275,006
Enterprise Funds:	
State Colleges and Universities	124,500
Total Primary Government	$ 1,062,434

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse owners for most of their costs to clean up contamination from petroleum tank leaks and spills. The payments will come from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). A significant number of unreported tank contamination sites and cleanup costs presently exist which will require Petrofund expenditures. As of June 30, 2002, the Petrofund has reimbursed eligible applicants approximately $317 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2005, are between $370-$400 million for investigative and cleanup costs.

Solid Waste Fund

Minnesota Statutes, Section 115B.39 established the Closed Landfill Program to provide environmental response to qualified, state-permitted, closed landfills. Currently, 105 closed sites are in the program. Five additional sites may enter the program in the near future. The state becomes responsible for the long-term care of these closed municipal solid waste facilities only after certain eligibility requirements are met. The state is responsible, in perpetuity, for performing cleanup and final closure work as well as all maintenance and monitoring functions at these qualifying sites. Funding for the state's perpetual obligation at these landfills comes from the Solid Waste Fund (special revenue fund), which includes revenues from the Solid Waste Management Tax authorized by Minnesota Statutes, Chapter 297H, insurance recovery proceeds, and financial assurance from previous owners and operators. Additional revenue from the sale of state general obligation bonds is used for design and construction work at the publicly-owned landfills in the program. As of June 30, 2002, $146.2 million has been expended by the Solid Waste and bond funds. Estimates indicate that the total of all program payments may reach $539 million, of which $27.2 million is estimated to be expended during the year ending June 30, 2003. These estimates include costs for planned response actions, amounts representing future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and reimbursements. Actual costs may be higher than estimated because of inflation, changes in technology, inclusion of additional qualifying sites, changes in regulations or future unanticipated response actions.

Component Units

The U of M has construction projects in progress with an estimated cost of $451,575,000 to complete. These costs will be funded from plant fund assets and state appropriations.

The U of M owns certain steam production facilities that produce steam for heating and cooling for the Twin Cities campuses. By agreement, these facilities are managed, operated and maintained by an unaffiliated company. The term of the agreement is 25 years and commenced on July 1, 1992. Under the agreement, the U of M must make minimum fixed payments for certain operating and maintenance costs as well as contingent payments based on monthly usage.

The minimum fixed amount of the steam plant required payments at June 30, 2002 was as follows (in thousands):

Fiscal Year Ending June 30	Total
2003	$ 6,062
2004	6,062
2005	6,062
2006	6,062
2007	6,062
2008-2012	30,311
2013-2017	30,311
Total	$ 90,932

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2001, unpaid commitments for transit services were approximately $52.7 million. Future commitments for Metropolitan Transit Light Rail were approximately $132 million. Future commitments for regional transit services were approximately $78.6 million. Finally, future commitments for Environmental Services were approximately $126.1 million.

Note 11 - Contingent Liabilities - Litigation

1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable or from funds appropriated for the payment of tort claims. The tort claims appropriations for the fiscal year ended June 30, 2002 were $875,000 and $671,000 for the fiscal each year ending June 30, 2003. The maximum limits of liability for tort claims are $300,000 for any one claim and $1,000,000 for any number of claims arising out of a single occurrence.

2) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over $10,000,000 in excess of current levels.

   a. At any one time, there are hundreds of Department of Transportation eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been or will be acquired exceeds $10 million. Liability arising out of decisions unfavorable to the state may impact the state's trunk highway fund.

   b. *Amoco, et al. v. Commissioner of Revenue.* Minnesota Supreme Court. This case involves cross-appeals from a final order of the Minnesota Tax Court ruling: (1) that Minnesota's gasoline excise tax is not "in lieu" of its corporate franchise tax; and (2) that Amoco's exploration and production segment was not unitary with its refining, marketing, transportation, and chemical segments during the tax periods in question. Amoco has appealed the first ruling; the Commissioner of Revenue has cross-appealed the second. The amount in controversy is approximately $30 million. Rulings adverse to the state, however, could result in substantial additional liabilities as to these and other taxpayers. A decision by the Minnesota Supreme Court can be expected during the first half of 2003.

   c. *AT&T Corp. v. Commissioner of Revenue.* Minnesota Tax Court. The taxpayer appeals, as a representative of Qwest Corp., from the denial of sales and use tax refund claims for the periods January 1990 to January 1996 on two theories. The first claim, in the approximate amount of $10 million, alleges that Qwest purchased equipment which qualifies both under the capital equipment exemption in effect for claims filed prior to May 5, 1993 and under the exemption in effect for later periods. The taxpayer also asserts that the application to Qwest of the subsequent law, on the basis of the date a claim for refund was filed, violates due process. The second claim, in the approximate amount of $2 million, alleges that certain equipment sold by the taxpayer to Qwest was not sold within Minnesota and was not stored or used in Minnesota. The total of the two claims is approximately $12 million. Trial is scheduled for late Spring of 2003.

   d. *Automatic Merchandising Council, et al. v. Commissioner of Revenue, et al., Ramsey County District Court.* Plaintiffs, a membership organization comprised of suppliers and operators of vending machines and an operator of vending machines, seek a declaratory judgment that, beginning with certain amendments to Minnesota's sales tax law effective January 1, 2002, imposition of the tax on sales of food through vending machines is unconstitutional under the Federal Equal Protection Clause and the Uniformity Clause of the Minnesota Constitution. A determination in the Plaintiffs' favor would result in a potential tax refund liability well in excess of $10 million when applied as precedent to Plaintiffs' subsequent tax periods, as well as to the potential refund claims of other vending companies. Plaintiffs' Motion for Summary Judgment, heard on August 26, 2002, was granted at the end of November 2002. The time for appeal has not yet run.

e. *Sprint Spectrum LP, Sprint Communications Company, LP, and United Telephone Company of Minnesota v. Comm'r of Revenue*, Minn. Tax Court Nos. 7299, 7308, 7309; and *XO Communications, Inc. v. Comm'r of Revenue*, Minn. Tax Court Nos. 7430 & 7442. Minnesota Tax Court. Plaintiffs, regional telecommunication public utilities, claim that they are entitled to capital equipment refunds of sales taxes paid. The claims are based on the theory that the Plaintiffs use the telecommunications equipment they purchase or install in Minnesota for the tax-exempt purpose of "manufacturing, fabricating or refining" of "tangible property." A determination in the Plaintiffs' favor would result in a combined potential tax refund liability in excess of $10 million. The claims will be heard by the Tax Court in early 2003.

Note 12 - Contingent Liabilities - Other

Primary Government

Pension Trust Funds

In addition to the pension trust funds included in the reporting entity (see Note 15), the state is funding a portion of the unfunded liability for other public employee pension funds. Therefore, the state may be contingently liable for the unfunded liability of these funds. 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):

Minneapolis Employee Retirement Fund	June 30, 2002	$ 127,650
Minneapolis Teachers Retirement Fund	June 30, 2002	$ 631,629
St. Paul Teachers Retirement Fund	June 30, 2002	$ 241,728
Local Police and Fire Fund	December 31, 2001	$ 116,784

The unfunded liability of the Local Police and Fire Fund for 2001 consists of three local plans.

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

Component Units

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

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

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2001 was approximately $4.6 million.

Note 13 - Northwest Airlines Maintenance Facilities

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

As of June 30, 2002, $40,235,000 of the revenue bonds remained outstanding. Of this amount, $23,140,000 is payable primarily from lease payments of NWA, and $17,095,000 is payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the city of Duluth. In the event these revenues are insufficient to make the debt service payments on the revenue bonds, the state may apply certain state-aid payments otherwise payable to the city of Duluth.

On July 1, 1999, $3,435,000 of the revenue bonds was defeased, thereby reducing the outstanding bonds. The invested funds, which are held in escrow, will be sufficient to pay the principal and interest on the bonds to their earliest call date.

Note 14 - Equity

Fund Balances - Primary Government

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

	Governmental Fund Types					Fiduciary Fund Types
	General	Special Revenue	Debt Service	Permanent	Capital Projects	Trust and Agency
Fund Balances:						
Reserved for Encumbrances	$ 137,814	$ 413,686	$ -	$ -	$ -	$ -
Reserved for Inventory	-	14,091	-	-	-	-
Reserved for Long-Term Receivables	-	139,055	131,787	-	97,287	-
Reserved for Long-Term Commitments	-	128,397	-	-	154,185	-
Reserved for Local Governments	-	521,011	-	5,375	-	-
Reserved for Trust Principal	-	1,213,564	-	519,160	-	-
Reserved for Debt Requirements	-	-	410,260	-	-	-
Reserved for Other	8,472	7,165	-	-	-	-
Total Reserved Fund Balances	$ 146,286	$ 2,436,969	$ 542,047	$ 524,535	$ 251,472	$ -
Unreserved Fund Balances:						
Designated for Appropriation Carryover	$ 324,509	$ 446,317	$ -	$ -	$ -	$ -
Designated for Tax Relief	158,148	-	-	-	-	-
Designated for Fund Purposes	-	337,659	-	-	-	35,527,967
Total Designated Fund Balance	$ 482,657	$ 783,976	$ -	$ -	$ -	$35,527,967
Undesignated	56,516	472,520	-	-	1,608	-
Total Unreserved Fund Balance	$ 539,173	$ 1,256,496	$ -	-	$ 1,608	$35,527,967
Total Fund Balance	$ 685,459	$ 3,693,465	$ 542,047	$ 524,535	$ 253,080	$35,527,967

Reserved Fund Balance

The reserved portion of the fund balances indicates the portion of the fund balance that is not available for appropriation or is legally segregated for a specific future use.

Reserved for Local Governments is the equity amount in three special revenue funds required by the state constitution to be paid to local governments. The funds are the Municipal State-Aid Street, County State-Aid Highway and Endowment School funds. The payments to these local governments are for street and highway projects (to municipalities and counties) and to subsidize education in local school districts.

Reserved for Other of $7,165,000 in the special revenue fund (Federal Fund) consists primarily of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

The unreserved portion of the fund balances consists of designated fund balances indicating tentative managerial plans for future use of resources and undesignated fund balances indicating those unreserved financial resources available for appropriation. A portion of the undesignated fund balances in the Natural Resources (special revenue) funds may be appropriated only for specific programs.

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

	Special Revenue Funds
Public Safety and Corrections	$ 23,459
Transportation	24,883
Environmental Resources	52,663
Economic and Workforce Development	106,791
General Education	9,967
Higher Education	4,759
Health and Human Services	68,654
General Government	45,483
Intergovernmental Aids	1,000
Total	$ 337,659

Net Assets - Proprietary Funds and Component Units

The following table summarizes the net assets of the primary government proprietary fund types and component units (in thousands):

	Proprietary Fund Types		
	Enterprise	Internal Service	Component Units
Invested in Capital Assets, Net of Related Debt	$ 776,233	$ 5,513	$ 2,097,723
Restricted	431,695	-	1,337,807
Unrestricted	157,403	109,192	1,915,442
Total Net Assets	$ 1,365,331	$ 114,705	$ 5,350,972

Note 15 - Pension and Investment Trust Funds

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

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

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

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

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

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

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Four hundred sixty-seven employers participate in this plan. Normal retirement is age 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 basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. Currently, TRF does not have an unfunded actuarial accrued liability. Effective July 1, 2002, charter school teachers previously covered by a First Class City Teachers Retirement Fund are covered by this fund.

The Public Employees Retirement Fund (PERF) covers employees of various governmental subdivisions, including counties, cities, school districts and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: basic and coordinated. 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 basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. The state is not an employer of the participants in the plan, but performs only in a fiduciary capacity and is not responsible for the unfunded accrued liability of this fund.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental subdivisions. Normal retirement age is 55. The annuity formula for each member is 3 percent of average salary for each year of service in that plan. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity. Approximately 500 employers participate in this plan.

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

- Single employer (state of Minnesota) plans:

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

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

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

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

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

Funding Policy Information

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

Cost Sharing Plan Required Contributions
(In Thousands)

		SERF	TRF
Required Contributions:			
Employee*	2002	$ 79,487	$ 152,331
	2001	$ 74,364	$ 145,075
	2000	$ 70,378	$ 138,696
Employer*	2002	$ 76,614	$ 142,222
	2001	$ 73,362	$ 139,799
	2000	$ 69,322	$ 134,419

*Contributions were 100 percent of required contributions.

Single Employer Plan Disclosures for Current Year
(In Thousands)

	SPRF	CERF	JRF	LRF
Annual Required Contributions (ARC)*	$ 6,899	$ 17,176	$ 8,304	$ 3,061
Interest on Net Pension Obligation (NPO)*	(1,196)	(813)	(1,125)	(368)
Amort Adj to ARC*	-	-	-	-
Annual Pension Cost	$ 5,703	$ 16,363	$ 7,179	$ 2,693
Contributions	10,424	17,132	10,714	4,593
Increase (Decrease) in NPO	$ (4,721)	$ (769)	$ (3,535)	$ (1,900)
NPO, Beginning (Asset)	(14,073)	(9,568)	(13,238)	(4,334)
NPO, Ending (Asset)	$ (18,794)	$ (10,337)	$ (16,773)	$ (6,234)

*Components of Annual Pension Cost

Single Employer Plan Disclosures
(In Thousands)

		SPRF	CERF	JRF	LRF
Annual Pension Cost (APC)	2002	$ 5,703	$ 16,363	$ 7,179	$ 2,693
	2001	$ 6,687	$ 15,849	$ 7,447	$ 3,239
	2000	$ 6,363	$ 14,985	$ 7,029	$ 3,062
Percentage of ARC Contributed	2002	151%	100%	129%	150%
	2001	136%	100%	104%	170%
	2000	159%	104%	107%	121%
NPO (End of Year)	2002	$ (18,794)	$ (10,337)	$ (16,773)	$ (6,234)
	2001	$ (14,073)	$ (9,568)	$ (13,238)	$ (4,334)
	2000	$ (10,449)	$ (8,769)	$ (12,733)	$ (2,007)

Actuarial Assumptions for Single Employers

- The actuarial cost method used by all plans is the Entry Age Normal method.
- The calculation of the actuarial valuation of assets is a market value based formula based on the Unrecognized Asset Return (UAR is actual net return on market value minus net return based on actuarial assumption). The actuarial value of assets is the Market Value of Assets at June 30, 2002 less: 80 percent UAR for fiscal year 2002; 60 percent UAR for fiscal year 2001; 40 percent UAR for fiscal year 2000; and 10 percent UAR for fiscal year 1999.
- Minnesota statutes or valuation standards do not require an inflation rate assumption to cost the plans.
- Expected investment returns for pre-retirement and post-retirement are 8.5 for all plans.
- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF and JRF, projected salary increases are a level 5.0 percent.
- The payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent post-retirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5 percent post-retirement discount rate is used to account for the one-time adjustment applicable at retirement.
- The level percentage of projected payroll is the amortization method used, except for the ESOF plan which uses the level dollar amortization method.
- The amortization period is through July 1, 2020.
- The amortization period is closed.

Defined Contribution Funds

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

Plan Descriptions and Contribution Information

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

The College and University Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, cover unclassified teachers, librarians, administrators and certain other staff members who have been employed full-time for a minimum of two academic years. The plan administrator is Wells Fargo. Participation is mandatory for qualified employees. These funds consist of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups participate in the IRAP, one for faculty and one for managerial employees. For the faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent respectively, while for the managerial employees the employer rate is 6.0 percent and the employee rate is 4.0 percent. For the SRP, the statutory contribution rate is 5 percent of salary between $6,000 and $15,000. Vesting occurs immediately, and normal retirement is age 55. One employer participates in this plan. Total current membership in the plan is approximately 14,500.

The Public Employee Defined Contribution Retirement Fund (PEDCRF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services and physicians employed at public facilities. The plan administrator is the Public Employee Retirement Association. 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. PEDCRF covers approximately 1,000 units of government. There are 4,716 members in the plan.

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

Defined Contribution Plans
Contributions Made for Fiscal Year 2002
(In Thousands)

	PEDCRF	UERF	CURF	PHCBF
Employee Contributions	$ 958	$ 4,951	$ 18,385	$ 3,298
Employer Contributions	$ 1,078	$ 6,311	$ 21,582	N/A

Investment Trust Fund

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

Component Units

The following component units are participants in the SERF, P&FF and the Unclassified Employees Retirement funds:

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

Note 16 - Post-Retirement Benefits

For certain employees, post-retirement benefits are available upon retirement at age 55 under terms of their employment contract. Through fiscal year 2002, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers and State Colleges and Universities faculty entitled to early retirement incentives. If these employees elect retirement at age 55, the state pays the employer's share of health insurance benefits until the employees reach age 65.

Periodically, the legislature has provided early retirement incentives for other employees meeting specific requirements. The specific circumstances usually require the employee to retire within a narrow time frame, whereby the state will pay the employer's share of health insurance benefits until the employee reaches age 65. The 1993 and 1995 legislatures approved incentive windows from May 17, 1993 through January 30, 1994, and from May 23, 1994 through January 30, 1995, respectively.

The cost of these benefits, which is recognized when paid, was $9,574,519 during fiscal year 2002. Approximately 1,450 former employees currently receive this benefit.

Note 17 - Segment Information

Segment information financial data for the year ended June 30, 2002 follows (in thousands).

		MnSCU	
	Giants Ridge	Revenue Fund	Mesabi Range/ Vermillion
Condensed Statement of Net Assets			
Assets:			
Current Assets	$ 897	$ 28,690	$ 84
Restricted Assets	6,729	36,079	588
Capital Assets	20,878	72,644	2,467
Other Assets	1,777	-	-
Total Assets	$ 30,281	$ 137,413	$ 3,139
Liabilities:			
Current Liabilities	$ 2,171	$ 8,271	$ 185
Noncurrent Liabilities	15,993	37,636	1,160
Total Liabilities	$ 18,164	$ 45,907	$ 1,345
Net Assets:			
Invested in Capital Assets, Net of Related Debt	$ 12,181	$ 70,768	$ 1,177
Restricted	-	20,737	588
Unrestricted	(64)	-	29
Total Net Assets	$ 12,117	$ 91,505	$ 1,794
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets			
Operating Revenues - Customer Charges	$ 3,430	$ 54,871	$ 532
Depreciation Expense	(793)	(5,571)	(110)
Other Operating Expenses	(4,120)	(48,249)	(308)
Operating Income (Loss)	$ (1,483)	$ 1,051	$ 114
Nonoperating Revenues (Expenses):			
Interest Income	25	1,214	12
Interest Expense	(151)	(804)	(101)
Other	(167)	277	-
Transfers-In	1,187	-	-
Change in Net Assets	$ (589)	$ 1,738	$ 25
Beginning Net Assets	12,706	89,767	1,768
Ending Net Assets	$ 12,117	$ 91,505	$ 1,793
Condensed Statement of Cash Flows			
Net Cash Provided (Used) By:			
Operating Activities	$ (636)	$ 7,134	$ (1)
Noncapital Financing Activities	1,292	-	-
Capital and Related Financing Activities	(5,235)	31,362	(120)
Investing Activities	246	(2,706)	(11)
Net Increase (Decrease)	$ (4,333)	$ 35,790	$ (132)
Beginning Cash and Cash Equivalents	$ 11,241	$ 13, 476	$ 132
Ending Cash and Cash Equivalents	$ 6,908	$ 49,266	$ -

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

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

Note 18 - Risk Management

Primary Government

The state is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other self-insurance mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund, which offers liability and property coverage. The agency pays a premium to participate in this coverage. All state agencies are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a deductible between $1,000 and $100,000. The fund covers the balance of the claim up to $500,000. The primary reinsurer covers losses up to $25,000,000 after which the excess loss is shared among three reinsurers up to $400,000,000. The liability coverage is up to the statutory limit of $300,000 per person for property damage or bodily injury or $1,000,000 for bodily injury per occurrence. Once annual losses paid by the Risk Management Fund reach $3,500,000, the reinsurer will step in and cover those losses in excess of each covered agency's deductible. Once this limit is reached, the fund has to pay a $10,000 maintenance deductible for each claim.

The Risk Management Fund purchases insurance policies for state agencies seeking other types of coverage. This type of policy covers risks for which the state is not able to self-insure and includes aviation, medical malpractice and foster care liability. The premiums for these policies are billed back to agencies at cost.

Statutory provisions prohibit the state from insuring property against loss. Certain agencies and programs are exempted from this prohibition. These include the Minnesota Correctional Facility - Stillwater, Minnesota State Colleges and Universities, Family Farm Security Program, Department of Military Affairs, Iron Range Resources and Rehabilitation Board and the Sibley House. The Commissioner of the Department of Administration may authorize the purchase of insurance on state properties should it be deemed necessary and appropriate to protect buildings and contents. All losses of state property are self-insured, covered by programs of the Risk Management Fund or covered by insurance policies purchased by the Risk Management Fund on behalf of state agencies.

Tort Claims

Tort claims against the state are limited by statute to $300,000 per person for property damage or bodily injury and $1,000,000 per occurrence. These risks are not covered through insurance. Each state agency is responsible to pay for the cost of claims from its operating budget of various funds. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). The WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,400,000. The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. These costs are paid from each agency's operating budget. During fiscal year 2002, a change in claim liability occurred as a result of several events that contributed to an estimated $8 million reduction in outstanding liabilities. These events included full or partial settlement of claims, the deaths of former employees thus reducing future liabilities and the recalculation of new claim-based revised financial data.

State Employee Group Insurance Program

The Minnesota State Legislature created an employee insurance trust fund administered by the State Employee Group Insurance Program (SEGIP) to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental benefits coverage through provider organizations. The insurance trust fund is not associated with any other public risk pools. The fund type used to account for SEGIP fiscal activities is an internal service fund dedicated solely for the purpose of this program. A contingency reserve is maintained within the trust fund to increase the controls over medical plan provisions and other insurance costs for the purpose of moderating premium and claim fluctuations, and to assume all inherent risk associated with the self-funded insurance programs, which would also include losses to the fund.

SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the state. SEGIP has not had any settlements in excess of coverage for the past three years.

In January 2000, the Fund became fully self-insured for medical coverage and assumes all liability for medical claims. The self-funded programs within the fund establish claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not paid, and of claims that have been incurred but not reported. These estimates are agreed to by the insurance carriers and the state and are reviewed for accuracy and reasonableness. The estimates are based on claim experience and claim lag timetables provided by the carriers and do not include additional estimates for subrogation, salvage or unallocated claim adjustments.

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program. The risk pool was created by the Minnesota State Legislature to provide public employees and other eligible persons with life insurance and hospital, medical and dental benefit coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Laws of Minnesota, 1987 codified as Minnesota Statutes, Section 43A.316. The PEIP became a self-funded program again in 1998 after a brief period as a fully funded entity.

PEIP's membership as of June 30, 2002 was 3,926 members and their dependents. The members of the pool include 20 school districts, 84 cities/townships, 3 counties and 30 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 $50,000.

A significant increase in medical claims has contributed to operating losses for the risk pool during the past three fiscal years. The accumulated operating losses have resulted in a negative equity balance of $835,000 as of June 30, 2002 because liabilities exceed assets. While there is no current need for additional outside funding, PEIP would be responsible for the pool's excess liabilities. To reduce the amount of the excess liabilities, the pool needs to be self-sustaining through member premiums. Based on projections prepared by independent advisors, employer premiums for fiscal years 2003 and 2004 should be sufficient to return the pool to a self-sustaining program.

The pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits the recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured.

The following table presents changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2002 and 2001 (in thousands):

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/01	$ 5,582	$ 4,572	$ 3,771	$ 6,383
Fiscal Year Ended 6/30/02	$ 6,383	$ 17,513	$ 4,185	$ 19,711
Tort Claims (*)				
Fiscal Year Ended 6/30/01	$ -	$ 1,812	$ 1,812	$ -
Fiscal Year Ended 6/30/02	$ -	$ 880	$ 880	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/01	$ 136,660	$ 3,258	$ 12,729	$ 127,189
Fiscal Year Ended 6/30/02	$ 127,189	$ 4,923	$ 12,771	$ 119,341
State Employee Insurance Plans				
Fiscal Year Ended 6/30/01	$ 39,606	$ 384,872	$ 379,923	$ 44,555
Fiscal Year Ended 6/30/02	$ 44,555	$ 384,005	$ 387,879	$ 40,681
Public Employee Insurance Program				
Fiscal Year Ended 6/30/01	$ 1,076	$ 16,849	$ 15,300	$ 2,625
Fiscal Year Ended 6/30/02	$ 2,625	$ 18,971	$ 18,851	$ 2,745

*The Office of the Attorney General does not recognize liabilities for Tort Claims. Claims have never exceeded funding appropriated by the legislature.

Component Units

Metropolitan Council

Metropolitan Council (MC) is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss as discussed below. MC has not experienced significant reduction in insurance coverage from the prior year. In addition, MC has not had any settlements in excess of coverage for the past three years.

Liability

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred, but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes, Section 466.04 generally limits the MC's 2000 tort exposure to $300,000 per claim and $1,000,000 per occurrence for a claim arising on or after January 1, 2000. For claims arising earlier, the limits are $200,000 per claim and $750,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

Workers' Compensation

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 5.22 percent.

The self-insurance retention limit for workers' compensation is $1,240,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

The University is self-insured for medical malpractice, general liability, directors and officers liability and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total estimated expense of a claim is estimated and booked as a liability when it is probable a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims.

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

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2001 and 2000 or June 30, 2002 and 2001, as applicable (in thousands):

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council				
Fiscal Year Ended 12/31/00	$ 17,706	$ 7,132	$ 7,781	$ 17,057
Fiscal Year Ended 12/31/01	$ 17,057	$ 10,163	$ 8,372	$ 18,848
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/01	$ 9,475	$ 1,596	$ 2,918	$ 8,153
Fiscal Year Ended 6/30/02	$ 8,153	$ 815	$ 2,476	$ 6,492
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/01	$ 14,000	$ (1,629)	$ 1,571	$ 10,800
Fiscal Year Ended 6/30/02	$ 10,800	$ (495)	$ 1,305	$ 9,000

Note 19 - Budgetary Basis Vs GAAP

Actual revenues, transfers-in, expenditures, encumbrances and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year encumbered. A reconciliation of the fund balances under the two bases for the General Fund is provided in the following table (in thousands).

Reconciliation of GAAP Basis Fund Balance to Budgetary Fund Balance

	General Fund
GAAP Basis Fund Balance	$ 685,459
Less: Reserved Fund Balance	146,286
Less: Designated Fund Balance	482,657
Undesignated Fund Balance	$ 56,516
Basis of Accounting Differences	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (542,448)
Human Services Receivable	(19,535)
Motor Vehicle Excise Tax	(7,873)
Tax Refunds Payable	354,760
Deferred Revenue	16,685
Other Receivables	867
Expenditure Accruals/Adjustments:	
Medical Assistance	282,671
Education Aids	476,828
Police and Fire Aid	67,296
Other Payables	11,044
Other Financial Sources (Uses):	
Transfers-In	
Permanent School Fund	(5,613)
Advance to Internal Services Fund	(1,980)
Fund Structure Differences:	
Terminally Funded Pension Plans	8,580
Investments at Market	(21,619)
Behavioral Services Fund	(1,364)
Budgetary Basis:	
Undesignated Fund Balance	$ 674,815

Change in Budgetary Fund Structure

Some financial components, formerly part of the General Fund budget, have been removed and placed into a new non-budgeted fund, the State Colleges and Universities enterprise fund. Certain revenue sources, primarily tuition and fees, which are legally dedicated for State Colleges and Universities operations and fund balances derived from these resources were removed. Appropriations for these operations from general resources are made to the General Fund and transferred to State Colleges and Universities enterprise fund.

Note 20 - Subsequent Events

Primary Government

On October 22, 2002, $267,000,000 of general obligation state various purpose bonds and $13,000,000 of general obligation state trunk highway bonds were sold at a true interest rate of 4.36 percent. The bonds were issued to finance the cost of capital improvements. These bonds are backed by the full faith and credit and taxing powers of the state of Minnesota.

As required by the constitution and statutes, transfers from primary government and component unit funds presented below were made on November 27, 2002 to the separately invested Debt Service Fund to cover the principal and interest maturing through July 1, 2004 (in thousands):

General Fund	$ 295,441
Natural Resources Fund	14
Trunk Highway Fund	8,823
Maximum Effort School Loan Fund	19,405
University of Minnesota	8,329
Total Transfers to Debt Service	$ 332,012

On November 1, 2002, the Port Authority of Saint Paul and the state entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the designing, constructing, equipping, and furnishing of two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the state. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds to be sold to finance both of the facilities is approximately $200,000,000.

Component Units

During February 2002, the Metropolitan Council sold $32,425,000 of general obligation sewer refunding bonds, which will refund the Council's general obligation sewer refunding bonds, series 1993A. During June 2002, the Metropolitan Council sold $19,735,000 of general obligation sewer refunding bonds, which will partially refund the Council's general obligation sewer refunding bonds, series 1995A and 1996E. The Metropolitan Council has a December 31 year-end.

In July 2002, the Minnesota Housing Finance Agency (HFA) issued $102,470,000 of revenue bonds for the purpose of providing funds for certain HFA homeownership programs. In September 2002, HFA issued $20,000,000 of revenue bonds for the purpose of providing funds for HFA home improvement programs.

As of June 30, 2002 the agency called for early redemption of the following bonds:

Program Funds	Retirement Date	Original Par Value
Single Family	July 1, 2002	$ 40,550,000
Residential Housing Finance	July 29, 2002	10,965,000
Rental Housing	August 26, 2002	6,030,000
Single Family	August 30, 2002	41,050,000
Rental Housing	September 16, 2002	635,000
Total		$ 99,230,000

In 2002, the Workers Compensation Assigned Risk Plan (WCARP) transferred $134,000,000 of WCARP assets to the General Fund, per Laws 2002, Chapter 374, Article 8, Section 5, Subdivision 1. The assets were transferred after December 31, 2001 but prior to June 30, 2002. WCARP has a December 31 year-end.

As of October 15, 2002 the Minnesota Public Facilities Authority is preparing to issue additional Clean Water Bond Fund and Drinking Water Bond Fund revenue bonds. The issues are expected to close in mid-December 2002. The estimated par amounts of the bonds to be issued are $100,000,000 and $50,000,000, respectively, subject to change.

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", the state has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 2,855 bridges and tunnels that the state maintains.

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 uses three pavement condition indices to determine the condition of the trunk highway system, the Present Serviceability Rating (PSR), the Surface Rating (SR) and the 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
1999	3.45	3.33
2000	3.47	3.35
2001	3.47	3.35
2002	3.39	3.30

Bridges and Tunnels

Measurement Scale

The Minnesota Department of Transportation (MnDOT) utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,855 bridges under MnDOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 through 9 where 9 is excellent and 0 is failed.

Rating	Description
9	Excellent (no specific definition).
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:

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	1997	1998	1999	2000	2001
Fair to Good	95.5%	95.4%	96.3%	96.1%	95.9%

All Other Systems	1997	1998	1999	2000	2001
Fair to Good	88.0%	88.4%	90.1%	89.6%	90.8%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the year ended June 30, 2002 (in thousands):

	Budget	Actual
Costs to be Capitalized	$ 296,500	$ 258,803
Maintenance of System	417,400	357,823
Total Construction Program	$ 713,900	$ 616,626

MnDOT projects may span several years, project costs are budgeted in the first year but spent throughout the life of the project. This process does not allow an accurate comparison of the amounts budgeted and spent within a fiscal year due to funding carryover between two or more fiscal years. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. The table demonstrates that over the past year, the state spending has been in line with the budgeted amounts and other tables contained within this narrative demonstrate that the state has met its desired condition levels.

Actuarial Measures of Pension Funding Progress

The state of Minnesota is the employer for five defined benefit single employer plans that are administered by Minnesota State Retirement System (MSRS). MSRS prepares and publishes its own stand-alone comprehensive annual financial report (see Summary of Significant Accounting Policies for the address).

The Elective State Officers Retirement (ESORF), is excluded from the single employer plan disclosures since this plan is closed to new entrants and any remaining active employees have either retired, terminated, or elected coverage under another plan.

Required supplementary information of funding progress is provided for the following plans:

- State Patrol Retirement Fund (SPRF)
- Correctional Employees Retirement Fund (CERF)
- Legislative Retirement Fund (LRF)
- Judicial Retirement Fund (JRF)

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		SPRF	CERF	JRF	LRF
Actuarial Valuation Date	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
	2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
	2000	7/1/2000	7/1/2000	7/1/2000	7/1/2000
Actuarial Value of Plan Assets	2002	$ 591,383	$ 457,416	$ 131,379	$ 45,501
	2001	$ 572,815	$ 431,134	$ 123,589	$ 42,608
	2000	$ 528,573	$ 386,964	$ 111,113	$ 37,265
Actuarial Accrued Liability	2002	$ 510,344	$ 446,426	$ 171,921	$ 78,070
	2001	$ 489,483	$ 398,633	$ 165,244	$ 75,072
	2000	$ 458,384	$ 359,885	$ 153,660	$ 69,364
Total Unfunded Actuarial Liability (Asset)	2002	$ (81,039)	$ (10,990)	$ 40,542	$ 32,569
	2001	$ (83,332)	$ (32,501)	$ 41,655	$ 32,464
	2000	$ (70,189)	$ (27,079)	$ 42,547	$ 32,099
Funded Ratio*	2002	116%	102%	76%	58%
	2001	117%	108%	75%	57%
	2000	115%	108%	72%	54%
Annual Covered Payroll	2002	$ 49,278	$ 124,373	$ 31,078	$ 5,089
	2001	$ 48,935	$ 120,947	$ 28,246	$ 5,858
	2000	$ 48,167	$ 112,587	$ 26,315	$ 5,808
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2002	(164%)	(9%)	130%	640%
	2001	(170%)	(27%)	147%	554%
	2000	(146%)	(24%)	162%	553%

*Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

The following table presents changes in the balances of self-insured claims liabilities for the Public Employees Insurance program during fiscal years 1998-2002 (in thousands).

Public Employees Insurance Program
Self-Insured Claims Liabilities

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Fiscal Year Ended 6/30/98	$ -	$ 1,968	$ 1,433	$ 535
Fiscal Year Ended 6/30/99	$ 535	$ 5,796	$ 5,495	$ 836
Fiscal Year Ended 6/30/00	$ 836	$ 9,643	$ 9,403	$ 1,076
Fiscal Year Ended 6/30/01	$ 1,076	$ 16,849	$ 15,300	$ 2,625
Fiscal Year Ended 6/30/02	$ 2,625	$ 18,971	$ 18,851	$ 2,745

The following table presents revenues for the Public Employees Insurance program during fiscal year 1998-2002 (in thousands).

Public Employees Insurance Program
Revenues

	Insurance Premiums	Investment Income	Reinsurance	Total
Fiscal Year Ended 6/30/98	$ 8,115	$ 316	$ 728	$ 9,159
Fiscal Year Ended 6/30/99	$ 7,483	$ 267	$ 347	$ 8,097
Fiscal Year Ended 6/30/00	$ 10,327	$ 295	$ 621	$ 11,243
Fiscal Year Ended 6/30/01	$ 17,628	$ 267	$ 395	$ 18,290
Fiscal Year Ended 6/30/02	$ 21,743	$ 65	$ 634	$ 22,442

The following table presents expenses, excluding claims, for the Public Employees Insurance program (in thousands).

Public Employees Insurance Program
Expenses, Excluding Claims

	Total Expenses
Fiscal Year Ended 6/30/98	$ 1,357
Fiscal Year Ended 6/30/99	$ 2,101
Fiscal Year Ended 6/30/00	$ 3,014
Fiscal Year Ended 6/30/01	$ 4,506
Fiscal Year Ended 6/30/02	$ 4,958

APPENDIX B

State General Obligation Long-Term Debt (Unaudited)

General Obligation Bonds Outstanding August 1, 2003

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of August 1, 2003.

GENERAL OBLIGATION BONDS OUTSTANDING AUGUST 1, 2003
(INCLUDING THIS ISSUE)
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$1,042,852	
	Transportation	106,170	
	Pollution Control	107,275	
	Waste Management	5,505	
	Refunding Bonds	352,173	
	Reinvest in Minnesota	9,075	
	Land Fill	26,335	
	Infrastructure Development Bonds	474,870	
	Various Purpose	476,478	
	Total Category 1		$2,600,733
2	School Loan	$ 48,480	
	School Loan Refunding	25,455	
	Municipal Energy Building	4,650	
	Rural Finance Authority	67,600	
	Game and Fish Building	42	
	Total Category 2		$ 146,227
3	Trunk Highway	$ 92,160	
	Trunk Highway Refunding	1,860	
	Total Category 3		$ 94,020
4	State Sports & Health Club Tax Bonds Refunding Bonds	4,200	
	Total Category 4		$ 4,200
	Total Outstanding August 1, 2003 — Previous Issues(1)		$2,845,180
	Plus August 1, 2003 Tax Exempt Bond Issue		460,000
	Plus August 1, 2003 Taxable Bond Issue		3,000
	Less Bonds Refunded by August 1, 2003 Issue		(23,850)
	Total Outstanding August 1, 2003, Including This Issue		$3,284,330

(1) Excludes all bonds previously refunded.

The full faith and credit and unlimited taxing powers of the State are pledged for the payment of all of the above bonds.

The outstanding bonds comprising the first category are payable primarily from money appropriated to the Debt Service Fund from the Accounting General Fund, which is supported by income tax, sales tax, and other receipts. The bonds comprising the second category are payable to a substantial degree from money appropriated to the Debt Service Fund from special accounts in the Accounting General Fund to which the receipts from special revenue sources, such as school district capital and debt service loan repayments, State college charges, fees and rentals, have been pledged. The third category, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 62 percent of the net proceeds of the State gasoline and motor vehicle registration taxes pursuant to the State Constitution. The fourth category, State Sports and Health Club Tax Bonds, are payable primarily from money appropriated to the Debt Service Fund from the sales tax imposed on membership dues, initiation fees and facilities fees of private sports and health clubs.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED

August 1, 2003
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Authorizations Dated August 1, 2003 and this Issue(3)	Remaining Authorization
Municipal Energy Building	1983, Ch. 323	$ 29,979.9	$ 29,930.0	$ 0.0	$ 44.9
Building	1987, Ch. 400	369,687.2	369,560.5	0.0	126.7
Water Pollution Control	1987, Ch. 400	66,747.0	66,740.0	0.0	7.0
Building	1989, Ch. 300	112,865.4	112,235.0	0.0	630.4
Building	1990, Ch. 610	270,129.1	270,126.0	0.0	3.1
Wetlands/Reinvest in MN	1991, Ch. 354	27,989.0	27,360.0	0.0	629.0
Building	1992, Ch. 558	202,134.0	196,910.0	0.0	5,224.0
Waste Management	1992, Ch. 558	2,000.0	1,625.0	0.0	375.0
Transportation	1992, Ch. 558	17,500.0	17,305.0	63.0	132.0
Building	1993, Ch. 373	39,605.6	38,355.0	0.0	1,250.6
Transportation	1993, Ch. 373	9,900.0	9,270.0	210.0	420.0
Building	1994, Ch. 643	526,505.9	521,264.0	400.0	2,691.9
Municipal Energy Building	1994, Ch. 643	4,000.0	3,975.0	0.0	25.0
Transportation	1994, Ch. 643	34,948.7	34,820.0	0.0	128.7
Water Pollution Control	X1995, Ch. 2	718.6	710.0	0.0	8.6
Building	1996, Ch. 463	481,371.2	475,155.0	2,850.0	3,366.2
Municipal Energy Building	1996, Ch. 463	3,908.3	3,850.0	0.0	58.3
Water Pollution Control	1996, Ch. 463	25,450.0	24,300.0	150.0	1,000.0
Transportation	1996, Ch. 463	10,000.0	9,995.0	5.0	0.0
Building	1997, Ch. 246	82,599.9	82,400.0	5.0	194.9
Water Pollution Control	1997, Ch. 246	4,000.0	3,765.0	0.0	235.0
Transportation	1997, Ch. 246	3,000.0	2,985.0	0.0	15.0
Building	X1997, Ch. 2	38,308.1	35,815.0	700.0	1,793.1
Building	1998, Ch. 404	101,453.2	98,295.0	400.0	758.2
Transportation	1998, Ch. 404	4,000.0	3,980.0	70.0	0.0
Building	1999, Ch. 240	442,105.0	420,365.0	6,000.0	15,740.0
Transportation	1999, Ch. 240	28,440.0	26,105.0	1,000.0	1,335.0
Transportation	2000, Ch. 479	7,000.0	5,500.0	100.0	1,400.0
Trunk Highway	2000, Ch. 479	100,100.0	98,000.0	1,500.0	600.0
Various Purpose	2000, Ch. 492	535,060.0	434,800.0	32,500.0	67,680.0
Various Purpose	X2001, Ch. 12	117,205.0	69,150.0	32,700.0	15,355.0
Various Purpose	2002, Ch. 280	7,800.0	0.0	0.0	7,800.0
Various Purpose	2002, Ch. 374	75,120.0	72,460.0	0.0	2,660.0
Various Purpose(4)	2002, Ch. 393	977,635.0	138,850.0	194,592.0	644,193.0
Trunk Highway	X2002, Ch. 1	10,115.0	0.0	10,000.0	115.0
Various Purpose	X2002, Ch. 1	16,315.0	4,500.0	2,900.0	8,915.0
Trunk Highway	X2003, Ch. 18	110,110.0	0.0	102,000.0	8,110.0
Trunk Highway	X2003, Ch. 19	400,000.0	0.0	29,000.0	371,400.0
Various Purpose	X2003, Ch. 20	236,915.0	0.0	25,000.0	211,915.0
Totals		$5,533,121.0	$3,714,640.5	$442,145.0	$1,376,335.5(3)

X indicates Special Session Laws.

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

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner of Finance to prepare and present to appropriate legislative committees on or before January 1 of each odd-numbered year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) The $442,145,000 included in this total consists of $439,145,000 in tax-exempt Various Purpose and Trunk Highway General Obligation Bonds and $3 million of taxable General Obligation Bonds both to be sold in August 2003. The taxable bonds to be sold are for the Rural Finance Authority Program authorized under Laws 2002, Chapter 393.

(4) The Governor vetoed $353 million of appropriations for capital projects to be funded from this bond authorization.

Pursuant to state law, in the Order authorizing the issuance of the Bonds the Commissioner of Finance has reserved the right, for a period of eighteen months after the Bonds have been issued, to amend the Order to determine that a portion of the Bonds were issued, or shall be deemed to have been issued, pursuant to a law other than the one specified in the Order and for a different purpose, and reallocate and transfer their proceeds to the appropriate account in the bond proceeds fund for expenditure pursuant to the law designated in the amendment.

Debt Management Policy

The Governor has established a State Debt Management Policy. Included in this policy is a guideline providing for the issuance of general obligation bonds in amounts such that appropriations to the Debt Service Fund from the Accounting General Fund should not exceed 3.0% of the Accounting General Fund non-dedicated revenues for a biennium; and a second guideline providing that the principal amount of general obligation bond debt should not exceed 2.5% of the personal income of State residents. A third guideline is that the total amount of all State general obligation bonds, moral obligation debt, State bond guarantees, equipment capital leases, and real estate leases outstanding at the end of any fiscal year should not exceed 5.0% of State personal income for that fiscal year. The purpose of the third guideline is to acknowledge all future commitments of the State, and to establish an upper limit on the total amount of the commitments.

The percentages of the appropriation for debt service from the Accounting General Fund and the ratios of debt to personal income are as follows:

Biennium Ending	Percentage of Accounting General Fund Revenues for Debt Service	Debt/Personal Income	Future Commitments/ Personal Income
June 30, 1995	2.61%	1.8%	4.23%
June 30, 1997	2.47%	1.8%	3.64%
June 30, 1999	2.64%	1.8%	3.60%
June 30, 2001	2.43%	1.6%	3.03%
June 30, 2003 (est)	2.35%	1.7%	3.15%

Of the State's general obligation bonds outstanding on June 30, 2003, 40.3 percent were scheduled to mature within five years, and 71.4 percent were scheduled to mature within ten years.

NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND FOR GENERAL OBLIGATION BONDS DEBT SERVICE

($ in Thousands)

In Fiscal Year	Accounting General Fund	All Other Funds	Transfer Total
1994	220,974	18,477	239,451
1995	212,890	24,372	237,262
1996	214,504	26,728	241,232
1997	235,519	22,459	257,978
1998	237,609	19,346	256,955
1999	286,495	20,445	306,940
2000	255,037	16,244	271,281
2001	304,994	18,315	323,309
2002	285,553	19,438	304,991
2003	295,441	43,958	339,399

The Net Transfer amount does not include investment earnings in the Debt Service Fund and the Bond Proceeds Fund which are also appropriated to pay debt service on State general obligation bonds.

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STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
GENERAL FUND								
STATE BUILDING CAPITAL IMPROVEMENT								
	'87.400	**2,670**	**245**	**245**	**245**	**245**	**245**	**245**
		803	136	124	111	99	86	73
	'89.290	**150**	**15**	**15**	**15**	**15**	**15**	**15**
		45	8	7	6	6	5	4
	'89.300	**23,885**	**2,110**	**2,110**	**2,110**	**2,005**	**2,005**	**2,005**
		7,777	1,238	1,129	1,018	904	801	696
	'90.610	**10,382**	**870**	**870**	**870**	**870**	**865**	**865**
		3,388	529	483	437	392	347	302
	'91.354	**1,925**	**175**	**175**	**175**	**175**	**175**	**175**
		562	96	88	79	70	61	52
	'92.558	**72,800**	**6,115**	**6,105**	**6,105**	**6,105**	**6,345**	**6,335**
		23,178	3,708	3,396	3,072	2,751	2,429	2,099
	'93.373	**4,130**	**345**	**345**	**345**	**335**	**335**	**335**
		1,412	221	201	181	162	145	127
	'93.558	**6,050**	**550**	**550**	**550**	**550**	**550**	**550**
		1,767	302	275	247	219	191	162
	'94.643	**256,623**	**18,550**	**18,545**	**18,540**	**18,850**	**18,635**	**18,535**
		96,185	13,163	12,193	11,186	10,155	9,207	8,262
	X'95.002	**3,465**	**245**	**245**	**245**	**280**	**280**	**270**
		1,251	181	168	154	139	125	111
	'96.463	**249,010**	**17,600**	**17,195**	**16,890**	**16,705**	**16,700**	**16,260**
		97,943	12,352	11,498	10,644	9,778	8,938	8,101
	'97.246	**56,480**	**3,855**	**4,255**	**4,555**	**4,255**	**4,255**	**3,755**
		20,566	2,718	2,533	2,328	2,108	1,902	1,696
	X'97.002	**27,745**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**
		11,409	1,400	1,306	1,213	1,119	1,026	933
	'98.404	**31,950**	**2,085**	**1,970**	**1,970**	**1,970**	**1,970**	**1,965**
		14,307	1,657	1,554	1,455	1,354	1,252	1,149
	'99.240	**363,720**	**33,645**	**25,470**	**22,535**	**24,355**	**19,715**	**19,650**
		157,540	17,774	16,388	15,191	14,005	12,892	11,890
STATE MUNICIPAL ENERGY BUILDING BONDS								
	'83.323	**1,295**	**430**	**220**	**220**	**125**	**125**	**55**
		166	54	38	27	18	12	8
	'90.610	**25**	**0**	**0**	**0**	**0**	**5**	**5**
		8	1	1	1	1	1	1
	'94.643	**1,415**	**395**	**395**	**395**	**95**	**95**	**20**
		147	65	45	22	9	4	2
	'96.463	**1,915**	**385**	**385**	**385**	**345**	**345**	**60**
		236	82	64	46	28	12	2
REFUNDING BONDS								
	'16A.66	**400,660**	**68,332**	**63,107**	**48,552**	**48,312**	**43,577**	**38,583**
		78,081	18,474	15,369	12,516	10,109	7,767	5,602

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
245	**245**	**245**	**245**	**170**	**20**	**20**	**5**	**5**	**0**	**0**	**0**	**0**	**0**
60	47	34	21	7	2	1	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	2	2	1	0	0	0	0	0	0	0	0	0	0
2,010	**2,010**	**2,010**	**2,010**	**1,815**	**815**	**650**	**125**	**75**	**20**	**0**	**0**	**0**	**0**
590	482	373	263	152	80	40	8	3	1	0	0	0	0
865	**865**	**865**	**865**	**867**	**410**	**120**	**120**	**115**	**30**	**30**	**10**	**10**	**0**
256	210	163	116	69	34	21	14	8	4	2	1	0	0
175	**175**	**175**	**175**	**175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
42	33	24	14	5	0	0	0	0	0	0	0	0	0
6,335	**6,335**	**6,335**	**6,335**	**5,825**	**2,100**	**1,790**	**505**	**55**	**55**	**20**	**0**	**0**	**0**
1,766	1,429	1,089	746	400	183	79	20	6	3	1	0	0	0
335	**335**	**335**	**335**	**335**	**335**	**50**	**10**	**10**	**5**	**5**	**0**	**0**	**0**
109	90	71	52	33	15	4	1	1	0	0	0	0	0
550	**550**	**550**	**550**	**550**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
133	104	74	45	15	0	0	0	0	0	0	0	0	0
18,530	**18,535**	**18,530**	**18,525**	**18,525**	**18,518**	**15,860**	**7,485**	**5,485**	**2,550**	**1,275**	**625**	**425**	**100**
7,305	6,334	5,352	4,358	3,354	2,350	1,435	751	425	196	98	43	16	3
270	**270**	**270**	**270**	**270**	**270**	**270**	**5**	**5**	**0**	**0**	**0**	**0**	**0**
97	83	68	54	39	23	8	0	0	0	0	0	0	0
16,260	**16,260**	**16,260**	**15,810**	**15,910**	**15,910**	**15,910**	**14,115**	**10,590**	**6,440**	**2,620**	**885**	**640**	**50**
7,280	6,451	5,618	4,780	3,963	3,145	2,330	1,515	890	408	174	57	19	1
3,755	**3,755**	**3,755**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**155**	**0**	**0**	**0**	**0**
1,514	1,332	1,148	963	798	632	465	297	129	4	0	0	0	0
1,845	**1,845**	**1,845**	**1,845**	**1,595**	**1,595**	**1,595**	**1,595**	**1,595**	**445**	**445**	**340**	**90**	**0**
839	745	651	558	464	383	301	220	140	59	36	13	2	0
1,965	**1,965**	**1,965**	**1,965**	**1,965**	**1,965**	**1,965**	**1,965**	**1,965**	**1,315**	**970**	**25**	**25**	**0**
1,046	943	840	737	634	531	428	325	222	119	56	2	1	0
19,650	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**17,665**	**12,280**	**7,935**	**1,835**
10,869	9,879	8,957	8,041	7,119	6,192	5,265	4,346	3,438	2,528	1,615	807	297	48
55	**25**	**25**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5	3	1	0	0	0	0	0	0	0	0	0	0	0
5	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	0	0	0	0	0	0	0	0	0	0	0	0	0
20	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	0	0	0	0	0	0	0	0	0	0	0	0	0
10	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	0	0	0	0	0	0	0	0	0	0	0	0	0
37,963	**18,190**	**17,845**	**5,500**	**5,400**	**5,300**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3,613	2,167	1,260	673	400	133	0	0	0	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
GENERAL FUND (CONT)								
REINVESTMENT IN MINNESOTA (RIM)								
	'87.400	**330**	**20**	**25**	**25**	**30**	**30**	**30**
		114	18	16	15	14	12	10
	'89.300	**220**	**15**	**15**	**15**	**20**	**20**	**20**
		74	11	11	10	9	8	7
	'90.610	**885**	**90**	**90**	**90**	**90**	**85**	**85**
		266	47	43	38	33	29	24
	'91.354	**7,640**	**650**	**645**	**645**	**630**	**625**	**625**
		2,561	397	363	328	293	261	228
RURAL FINANCE AUTHORITY (RFA)								
	'86.398	**28,000**	**5,000**	**0**	**14,000**	**9,000**	**0**	**0**
		4,194	1,503	1,380	942	369	0	0
	'96.463	**35,100**	**0**	**2,000**	**0**	**5,000**	**18,000**	**4,500**
		9,707	1,991	1,927	1,863	1,863	1,343	414
	'00.492	**4,500**	**0**	**0**	**0**	**0**	**0**	**0**
		2,244	236	236	236	236	236	236
LANDFILL								
	'94.639	**26,335**	**1,840**	**1,845**	**1,835**	**1,805**	**1,805**	**1,805**
		10,379	1,353	1,257	1,156	1,056	962	870
POLLUTION CONTROL								
	'87.400	**2,550**	**210**	**210**	**210**	**210**	**210**	**210**
		873	134	123	111	99	88	77
	'89.300	**810**	**75**	**75**	**75**	**75**	**75**	**75**
		254	43	39	35	31	27	23
	'90.610	**3,105**	**275**	**275**	**275**	**280**	**280**	**280**
		998	162	148	134	119	104	90
	'92.558	**7,580**	**685**	**685**	**685**	**685**	**685**	**670**
		2,319	389	353	318	281	246	210
	'93.373	**4,240**	**330**	**330**	**330**	**325**	**325**	**325**
		1,554	227	209	190	170	154	137
	'93.558	**4,400**	**400**	**400**	**400**	**400**	**400**	**400**
		1,285	220	200	180	159	139	118
	'94.643	**24,330**	**1,800**	**1,800**	**1,800**	**1,820**	**1,820**	**1,810**
		8,862	1,251	1,156	1,057	956	866	774
	X'95.002	**455**	**35**	**30**	**30**	**30**	**30**	**30**
		164	21	19	18	17	15	14
	'96.463	**18,270**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**
		6,865	871	814	755	695	636	577
	'97.246	**3,085**	**195**	**195**	**195**	**190**	**190**	**190**
		1,362	157	148	138	129	119	109
	'98.404	**3,225**	**185**	**185**	**185**	**185**	**185**	**185**
		1,482	164	154	145	135	126	116

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
30	**30**	**30**	**30**	**20**	**20**	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
9	7	6	4	2	1	0	0	0	0	0	0	0	0
20	**20**	**20**	**20**	**20**	**10**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6	5	4	2	1	1	0	0	0	0	0	0	0	0
85	**85**	**85**	**85**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
20	15	10	6	1	1	0	0	0	0	0	0	0	0
625	**625**	**625**	**625**	**560**	**380**	**275**	**45**	**45**	**15**	**0**	**0**	**0**	**0**
195	162	128	94	59	33	15	4	2	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,100	**2,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
236	69	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**4,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
236	236	236	118	0	0	0	0	0	0	0	0	0	0
1,805	**1,795**	**1,795**	**1,795**	**1,795**	**1,795**	**1,715**	**1,345**	**810**	**375**	**375**	**0**	**0**	**0**
778	684	590	495	400	305	213	132	76	37	16	0	0	0
210	**210**	**210**	**210**	**130**	**130**	**130**	**60**	**0**	**0**	**0**	**0**	**0**	**0**
66	55	44	32	21	14	7	2	0	0	0	0	0	0
75	**75**	**75**	**75**	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
19	15	11	7	3	2	1	0	0	0	0	0	0	0
280	**280**	**280**	**280**	**85**	**85**	**85**	**50**	**15**	**0**	**0**	**0**	**0**	**0**
75	60	45	30	14	10	5	2	0	0	0	0	0	0
670	**665**	**665**	**670**	**540**	**175**	**50**	**50**	**0**	**0**	**0**	**0**	**0**	**0**
174	138	102	65	29	10	4	1	0	0	0	0	0	0
325	**325**	**325**	**325**	**325**	**325**	**325**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
120	103	85	67	49	30	12	0	0	0	0	0	0	0
400	**400**	**400**	**400**	**400**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
97	75	54	32	11	0	0	0	0	0	0	0	0	0
1,810	**1,810**	**1,810**	**1,810**	**1,810**	**1,810**	**1,690**	**465**	**465**	**0**	**0**	**0**	**0**	**0**
682	588	492	395	297	197	103	36	13	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**0**	**0**	**0**	**0**	**0**
12	11	10	8	7	5	4	2	1	0	0	0	0	0
1,215	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**915**	**260**	**85**	**0**	**0**	**0**
519	459	399	339	278	217	156	95	42	12	3	0	0	0
190	**190**	**190**	**190**	**185**	**185**	**185**	**185**	**185**	**135**	**85**	**10**	**10**	**5**
99	89	80	70	60	50	41	31	21	12	6	1	1	0
185	**185**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**125**	**0**	**0**
106	96	87	77	68	58	48	39	29	20	11	3	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
GENERAL FUND (CONT)								
POLLUTION CONTROL (CONT)								
	'99.240	**35,225**	**2,045**	**2,030**	**2,020**	**2,020**	**2,020**	**1,970**
		16,726	1,814	1,713	1,609	1,503	1,398	1,294
VARIOUS PURPOSE								
	'00.492	**278,178**	**20,983**	**22,461**	**22,765**	**29,090**	**13,895**	**14,695**
		108,699	13,551	12,574	11,476	10,161	9,072	8,344
	X'01.012	**68,200**	**3,780**	**3,780**	**3,780**	**3,780**	**3,780**	**3,450**
		32,711	3,292	3,150	2,975	2,786	2,597	2,415
	'02.374	**68,560**	**3,610**	**3,610**	**3,610**	**6,790**	**3,620**	**3,500**
		31,988	3,317	3,195	3,033	2,773	2,513	2,333
	'02.393	**61,040**	**3,290**	**2,045**	**2,065**	**3,445**	**3,455**	**3,180**
		31,701	2,995	2,908	2,815	2,678	2,505	2,337
	X'02.001	**500**	**25**	**25**	**25**	**25**	**25**	**25**
		261	25	24	23	22	20	19
STATE TRANSPORTATION								
	'84.597	**4,100**	**700**	**700**	**700**	**700**	**700**	**300**
		716	217	176	136	95	55	27
	'87.400	**590**	**50**	**50**	**50**	**50**	**50**	**50**
		193	31	28	25	23	20	17
	'89.300	**400**	**40**	**40**	**40**	**35**	**35**	**30**
		124	21	19	16	14	12	11
	'90.610	**2,690**	**210**	**215**	**215**	**210**	**205**	**200**
		941	135	124	113	102	91	81
	'92.558	**7,315**	**535**	**535**	**530**	**540**	**525**	**525**
		2,731	366	340	312	285	258	232
	'93.373	**4,775**	**355**	**355**	**355**	**355**	**355**	**330**
		1,885	251	233	214	194	175	158
	'94.643	**29,900**	**1,935**	**1,935**	**1,945**	**1,995**	**1,995**	**1,990**
		12,255	1,514	1,416	1,316	1,214	1,114	1,014
	X'95.002	**2,385**	**175**	**170**	**170**	**165**	**165**	**165**
		871	116	107	99	90	82	74
	'96.463	**5,175**	**355**	**355**	**355**	**350**	**345**	**345**
		1,993	252	235	218	201	184	167
	'97.246	**2,335**	**160**	**160**	**150**	**150**	**150**	**145**
		978	116	108	101	94	86	79
	X'97.002	**1,120**	**70**	**70**	**70**	**70**	**70**	**70**
		443	52	49	46	44	40	37
	'98.404	**3,405**	**225**	**220**	**220**	**220**	**220**	**220**
		1,411	171	160	149	138	127	116
	'99.240	**23,780**	**1,370**	**1,370**	**1,370**	**1,370**	**1,370**	**1,370**
		11,351	1,247	1,176	1,104	1,032	960	887

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970	950	500	0
1,189	1,085	980	876	771	666	561	457	353	250	146	49	13	0
16,700	14,700	21,205	17,585	9,880	9,880	9,884	9,885	9,885	9,885	9,895	8,830	5,250	825
7,536	6,726	5,802	4,809	4,102	3,583	3,064	2,551	2,047	1,541	1,033	530	176	22
3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	3,450	1,000
2,240	2,065	1,890	1,715	1,540	1,365	1,190	1,015	840	665	490	315	140	26
3,500	3,500	3,500	3,500	3,135	3,140	3,140	3,140	3,150	3,150	3,155	3,155	3,155	1,500
2,154	1,975	1,797	1,618	1,448	1,288	1,127	966	805	644	483	321	160	39
3,180	3,180	3,180	3,180	3,180	3,180	3,185	3,185	3,185	3,185	3,185	3,185	3,185	2,185
2,172	2,008	1,843	1,679	1,514	1,350	1,185	1,021	856	691	526	362	197	57
25	25	25	25	25	25	25	25	25	25	25	25	25	25
18	16	15	14	12	11	10	9	7	6	5	3	2	1
300	0	0	0	0	0	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0	0	0	0	0	0
50	50	50	50	50	20	20	0	0	0	0	0	0	0
15	12	9	7	4	2	1	0	0	0	0	0	0	0
30	30	30	30	30	15	15	0	0	0	0	0	0	0
9	8	6	4	3	1	1	0	0	0	0	0	0	0
200	200	200	200	200	135	130	65	65	20	10	10	0	0
71	60	50	39	29	20	13	7	4	2	1	0	0	0
525	525	525	525	525	420	350	240	240	140	95	5	5	5
205	177	150	122	94	69	49	33	21	11	5	1	0	0
330	330	330	325	325	325	315	110	110	70	55	15	15	15
140	123	105	87	69	51	34	20	14	8	5	2	1	0
1,990	1,990	1,990	1,990	1,990	1,990	1,935	1,350	1,320	770	570	115	90	15
912	810	707	603	497	391	288	200	131	76	40	8	3	0
165	165	165	165	165	165	165	110	110	0	0	0	0	0
66	58	50	42	33	25	16	8	3	0	0	0	0	0
345	345	345	345	335	335	335	295	295	80	5	5	5	0
150	133	115	98	81	64	47	30	15	3	1	0	0	0
140	140	140	140	140	140	140	140	140	90	70	0	0	0
72	64	57	50	43	35	28	21	14	7	3	0	0	0
70	70	70	70	70	70	70	70	70	70	0	0	0	0
33	30	26	23	19	16	12	9	5	2	0	0	0	0
220	220	220	220	225	225	225	225	225	25	25	10	10	5
105	94	83	72	60	49	38	26	15	4	2	1	1	0
1,370	1,370	1,370	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	445	125	0
814	740	667	594	521	447	374	301	229	156	83	17	3	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
GENERAL FUND (CONT)								
STATE TRANSPORTATION (CONT)								
	'00.479	**5,300**	**285**	**285**	**285**	**285**	**285**	**280**
		2,495	256	243	229	215	201	187
	'02.374	**3,900**	**195**	**195**	**195**	**195**	**195**	**195**
		2,037	194	187	178	168	158	148
	'02.393	**5,000**	**250**	**250**	**250**	**250**	**250**	**250**
		2,611	248	239	228	216	203	190
	X'02.001	**4,000**	**200**	**200**	**200**	**200**	**200**	**200**
		2,089	199	192	183	173	163	152
WASTE MANAGEMENT								
	'87.400	**185**	**15**	**15**	**15**	**15**	**15**	**15**
		58	9	9	8	7	6	5
	'90.610	**1,620**	**150**	**150**	**150**	**150**	**100**	**100**
		543	81	73	65	56	50	45
	'92.558	**1,420**	**105**	**105**	**105**	**105**	**90**	**65**
		611	69	64	59	53	48	44
	'96.463	**2,280**	**140**	**140**	**140**	**140**	**140**	**140**
		967	112	106	99	92	86	79
INFRASTRUCTURE DEVELOPMENT								
STATE BUILDING CAPITAL IMPROVEMENT								
	'90.610	**27,948**	**2,540**	**2,540**	**2,540**	**2,540**	**2,540**	**2,540**
		8,404	1,425	1,296	1,165	1,033	902	768
	'92.558	**22,750**	**1,830**	**1,830**	**1,830**	**1,830**	**1,835**	**1,835**
		7,761	1,200	1,096	989	888	794	698
	'94.643	**70,162**	**5,250**	**5,255**	**5,255**	**4,915**	**4,915**	**4,910**
		26,197	3,547	3,280	3,010	2,732	2,486	2,238
	'96.463	**84,825**	**5,530**	**5,525**	**5,530**	**5,365**	**5,350**	**5,340**
		34,624	4,152	3,894	3,636	3,370	3,111	2,844
	'98.404	**52,685**	**3,005**	**3,005**	**2,965**	**2,965**	**2,900**	**2,900**
		24,730	2,657	2,506	2,354	2,202	2,052	1,903
REFUNDING BONDS								
	'16A.66	**48,845**	**5,915**	**5,955**	**5,770**	**5,760**	**5,760**	**5,685**
		10,769	2,357	2,065	1,774	1,481	1,184	885
REINVESTMENT IN MINNESOTA (RIM)								
	'90.610	**275**	**25**	**25**	**25**	**25**	**25**	**25**
		80	14	13	11	10	9	7
POLLUTION CONTROL								
	'90.610	**1,375**	**125**	**125**	**125**	**125**	**125**	**125**
		402	69	63	56	50	43	37
VARIOUS PURPOSE								
	'00.492	**109,177**	**5,807**	**5,809**	**5,790**	**5,790**	**5,775**	**5,775**
		52,939	5,393	5,142	4,861	4,565	4,272	3,978
	'02.393	**72,810**	**3,650**	**3,650**	**3,650**	**3,650**	**3,650**	**3,650**
		37,885	3,608	3,481	3,316	3,134	2,951	2,764

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
280	**280**	**280**	**280**	**275**	**275**	**275**	**275**	**275**	**275**	**275**	**275**	**275**	**0**
173	159	145	131	117	103	89	76	62	48	34	21	7	0
195	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**
138	128	118	107	97	87	77	67	56	46	36	26	15	5
250	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**
177	164	151	138	125	112	98	85	72	59	46	33	20	7
200	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**
142	131	121	110	100	89	79	68	58	47	37	26	16	5
15	**20**	**20**	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5	4	3	2	1	0	0	0	0	0	0	0	0	0
100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**10**	**10**	**0**	**0**	**0**	**0**
40	34	29	24	19	14	9	4	1	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**0**
41	37	34	31	28	24	21	18	15	11	8	5	2	0
140	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**100**	**75**	**5**	**0**	**0**
71	64	57	50	43	36	28	21	14	7	2	0	0	0
2,540	**2,540**	**2,540**	**2,540**	**2,078**	**325**	**145**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
633	497	359	221	83	17	5	0	0	0	0	0	0	0
1,835	**1,835**	**1,835**	**1,835**	**1,835**	**1,835**	**750**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
600	500	399	296	192	89	20	0	0	0	0	0	0	0
4,910	**4,905**	**4,905**	**4,905**	**4,905**	**4,907**	**4,235**	**2,740**	**2,240**	**890**	**120**	**0**	**0**	**0**
1,987	1,732	1,475	1,215	955	696	456	241	116	29	3	0	0	0
5,340	**5,335**	**5,335**	**5,335**	**5,335**	**5,335**	**5,335**	**4,725**	**4,725**	**3,425**	**1,660**	**275**	**25**	**0**
2,575	2,303	2,029	1,755	1,481	1,205	929	653	413	198	66	8	1	0
2,900	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,745**	**2,100**	**1,000**	**100**
1,751	1,598	1,446	1,296	1,144	990	837	686	537	388	242	108	30	3
5,690	**4,135**	**4,175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
586	328	110	0	0	0	0	0	0	0	0	0	0	0
25	**25**	**25**	**25**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6	5	3	2	1	0	0	0	0	0	0	0	0	0
125	**125**	**125**	**125**	**125**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
30	24	17	10	3	0	0	0	0	0	0	0	0	0
5,775	**5,775**	**5,775**	**5,775**	**5,775**	**5,775**	**5,771**	**5,770**	**5,765**	**5,765**	**5,765**	**5,495**	**4,225**	**1,225**
3,680	3,381	3,083	2,787	2,489	2,189	1,890	1,593	1,299	1,005	711	418	171	32
3,650	**3,650**	**3,650**	**3,650**	**3,650**	**3,650**	**3,645**	**3,645**	**3,640**	**3,640**	**3,640**	**3,640**	**3,640**	**3,520**
2,573	2,382	2,190	1,999	1,808	1,617	1,425	1,234	1,043	853	662	471	280	92

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
SPORTS & HEALTH TAX REFUNDING BONDS								
	'16A.66	**6,445**	**2,245**	**1,155**	**1,100**	**1,215**	**470**	**130**
		647	233	179	127	69	26	11
GROUP TOTAL GENERAL FUND		**2,812,030**	**247,987**	**230,407**	**224,912**	**236,307**	**211,662**	**190,703**
		1,046,157	138,656	127,317	115,733	104,054	92,626	81,931
GAME & FISH	'16A.66	**55**	**13**	**13**	**13**	**8**	**3**	**3**
		6	2	2	1	1	0	0
GROUP TOTAL GAME & FISH		**55**	**13**	**13**	**13**	**8**	**3**	**3**
		6	2	2	1	1	0	0
TRUNK HIGHWAY	'16A.66	**4,250**	**2,390**	**550**	**530**	**595**	**185**	**0**
		291	133	77	52	24	5	0
TRUNK HIGHWAY	'00.479	**93,750**	**4,990**	**4,990**	**4,990**	**4,990**	**4,990**	**4,975**
		44,976	4,610	4,394	4,152	3,897	3,644	3,391
GROUP TOTAL TRUNK HIGHWAY		**98,000**	**7,380**	**5,540**	**5,520**	**5,585**	**5,175**	**4,975**
		45,267	4,743	4,470	4,204	3,921	3,648	3,391
MAX EFFORT SCHOOL LOAN REFUNDING BONDS	'16A.66	**29,305**	**3,850**	**3,660**	**3,520**	**3,520**	**3,365**	**3,325**
		6,128	1,359	1,184	1,012	839	667	497
SCHOOL LOANS	'91.265	**12,300**	**1,155**	**1,160**	**1,160**	**1,160**	**1,160**	**1,160**
		3,647	634	576	516	456	396	334
	'92.558	**3,190**	**290**	**290**	**290**	**290**	**290**	**290**
		932	159	145	130	116	101	85
	'93.373	**2,120**	**190**	**185**	**185**	**185**	**185**	**185**
		652	108	99	89	79	69	60
	'94.643	**1,950**	**150**	**150**	**150**	**150**	**150**	**150**
		687	102	93	84	76	69	61
	X'95.002	**15,980**	**1,185**	**1,185**	**1,185**	**1,185**	**1,180**	**1,185**
		5,726	823	759	690	621	559	499
	'00.492	**15,400**	**805**	**805**	**805**	**805**	**805**	**805**
		7,403	737	710	674	634	593	553
GROUP TOTAL MAX EFFORT SCHOOL LOAN		**80,245**	**7,625**	**7,435**	**7,295**	**7,295**	**7,135**	**7,100**
		25,176	3,921	3,566	3,196	2,821	2,454	2,090
STATE GUARANTEED BONDS GUARANTEED BOND CLASS	'91.350	**39,485**	**805**	**855**	**975**	**1,035**	**1,105**	**1,180**
		24,056	2,460	2,407	2,348	2,282	2,211	2,133
GROUP TOTAL STATE GUARANTEED BONDS		**39,485**	**805**	**855**	**975**	**1,035**	**1,105**	**1,180**
		24,056	2,460	2,407	2,348	2,282	2,211	2,133

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
130	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4	0	0	0	0	0	0	0	0	0	0	0	0	0
190,638	**164,220**	**167,910**	**151,390**	**136,665**	**127,415**	**115,885**	**97,215**	**89,570**	**71,650**	**62,615**	**47,000**	**34,825**	**13,055**
72,103	62,856	54,228	45,888	38,275	31,337	24,987	19,262	14,493	10,161	6,687	3,651	1,572	343
3	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
3	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,975	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**3,475**	**650**
3,135	2,878	2,622	2,368	2,112	1,854	1,596	1,341	1,090	837	585	335	122	17
4,975	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**4,975**	**3,475**	**650**
3,135	2,878	2,622	2,368	2,112	1,854	1,596	1,341	1,090	837	585	335	122	17
3,305	**2,385**	**2,375**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
327	182	61	0	0	0	0	0	0	0	0	0	0	0
1,160	**1,160**	**1,160**	**1,160**	**655**	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
272	210	147	84	20	1	0	0	0	0	0	0	0	0
290	**290**	**290**	**290**	**290**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
70	55	39	23	8	0	0	0	0	0	0	0	0	0
185	**185**	**190**	**190**	**190**	**65**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
50	40	30	19	9	2	0	0	0	0	0	0	0	0
150	**150**	**150**	**150**	**150**	**150**	**150**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
53	45	37	29	21	12	4	0	0	0	0	0	0	0
1,185	**1,180**	**1,180**	**1,175**	**1,175**	**1,175**	**1,175**	**630**	**0**	**0**	**0**	**0**	**0**	**0**
439	377	315	252	188	125	63	16	0	0	0	0	0	0
805	**805**	**805**	**805**	**805**	**805**	**805**	**805**	**805**	**805**	**800**	**800**	**800**	**120**
512	472	431	391	350	310	269	229	188	147	107	67	26	3
7,080	**6,155**	**6,150**	**3,770**	**3,265**	**2,245**	**2,130**	**1,435**	**805**	**805**	**800**	**800**	**800**	**120**
1,724	1,381	1,060	798	596	450	336	244	188	147	107	67	26	3
1,260	**1,350**	**1,430**	**1,515**	**1,605**	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2,050	1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0	0
1,260	**1,350**	**1,430**	**1,515**	**1,605**	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2,050	1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2003	2004	2005	2006	2007	2008	2009
TOTAL PRINCIPAL - LESS GUARANTEE		**2,990,330**	**263,005**	**243,395**	**237,740**	**249,195**	**223,975**	**202,780**
TOTAL INTEREST - LESS GUARANTEE		1,116,606	147,323	135,355	123,134	110,797	98,728	87,412
TOTAL DEBT SERVICE - LESS GUARANTEE (1)		4,106,936	410,328	378,750	360,874	359,992	322,703	290,192
TOTAL PRINCIPAL - ALL FUNDS		**3,029,815**	**263,810**	**244,250**	**238,715**	**250,230**	**225,080**	**203,960**
TOTAL INTEREST - ALL FUNDS		1,140,662	149,782	137,763	125,482	113,079	100,939	89,545
TOTAL DEBT SERVICE - ALL FUNDS (1)		4,170,477	413,592	382,013	364,197	363,309	326,019	293,505

The Total Debt Service - All Funds does not include:
$72,200,000 of bonds dated October 1, 1994; $2,040,000 of bonds dated May 1, 1995;
For which funds are held in escrow, have been invested and will be sufficient to pay the principal of, and interest on, the bonds to their earliest call date.

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2004-2023

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
202,695	**175,350**	**179,035**	**160,135**	**144,905**	**134,635**	**122,990**	**103,625**	**95,350**	**77,430**	**68,390**	**52,775**	**39,100**	**13,825**
76,962	67,114	57,909	49,053	40,982	33,640	26,919	20,847	15,770	11,145	7,379	4,052	1,721	363
279,657	**242,464**	**236,944**	**209,188**	**185,887**	**168,275**	**149,909**	**124,472**	**111,120**	**88,575**	**75,769**	**56,827**	**40,821**	**14,188**
203,955	**176,700**	**180,465**	**161,650**	**146,510**	**161,005**	**122,990**	**103,625**	**95,350**	**77,430**	**68,390**	**52,775**	**39,100**	**13,825**
79,011	69,080	59,792	50,848	42,681	34,464	26,919	20,847	15,770	11,145	7,379	4,052	1,721	363
282,966	**245,780**	**240,257**	**212,498**	**189,191**	**195,469**	**149,909**	**124,472**	**111,120**	**88,575**	**75,769**	**56,827**	**40,821**	**14,188**

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 2003 valuation, was estimated by the Commissioner of Revenue to be $382,049,000. 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 Increase from Prior Year
1994	166,739,642	3,104,512	169,844,154	4.84
1995	177,164,000	3,282,000	180,446,000	6.24
1996	189,112,000	3,440,000	192,552,000	6.71
1997	202,875,000	3,490,000	206,365,000	7.17
1998	219,034,000	3,641,000	222,675,000	7.90
1999	237,387,125	3,931,269	241,318,394	8.37
2000	260,679,384	4,003,571	264,682,955	9.68
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003 est	377,714,000	4,335,000	382,049,000	17.48

EQUIPMENT FINANCING

The Commissioner of Finance is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of June 1, 2003, principal in the amount of $22,167,605 was outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent of moneys appropriated from time to time for this purpose.

Various State agencies, with the Commissioner of Finance's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of June 1, 2003, principal in the amount of $16,329,976 was outstanding and unpaid under such equipment leases. The nature of the State's obligation to make rental payments under these equipment leases is the same as under the master leases described above.

APPENDIX C

Description of Rural Finance Authority Programs

The Rural Finance Authority (RFA) currently administers seven loan programs to provide affordable credit to eligible farmers, and one program to provide financial assistance to proposed methane digester projects.

Five programs are funded from the sale of general obligation bonds. They include: the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program and the Restructure Loan Program. Proceeds from this proposed bond sale will be utilized primarily in the Livestock Expansion Loan Program and the Restructured Loan Program. Sale proceeds may also be used in the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program and the Agricultural Improvement Loan Program.

All five programs are participation programs whereby the RFA joins in partnership with local lending institutions to provide credit based upon certain pre-established rules. Over 410 financial facilities are included in master participation agreements.

General eligibility requirements for all five programs are: (1) a borrower must be a resident of Minnesota or a domestic family farm corporation or family farm partnership, as defined in Minnesota Statutes, Section 500.24, subdivision 2; and (2) the borrower or one of the borrowers must be the principal operator of the farm with respect to which the loan is made.

Security for the loans must be a first mortgage on agricultural real estate and a first lien security interest in any additional collateral deemed necessary by the lead financial institution or the RFA. The interest rate for the RFA portion of a loan is set to meet the debt service requirements of the bonds sold to finance it plus one-quarter of one percent for deposit into a loan loss reserve. The maximum term for loan participations is ten (10) years.

The following is a more extensive description of each of the five loan participation programs:

Livestock Expansion Program

This program creates affordable financing for new, state-of-the-art improvements for livestock production, including the purchase and construction or installation of improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended to be used for the purpose of raising livestock. The RFA may participate on a loan up to 45 percent of the loan principal to a maximum of $250,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must (1) be actively engaged in a livestock operation; (2) have the ability to repay the loan; and (3) have a total net worth not exceeding $439,000, indexed for inflation.

Agricultural Improvement Program

This program is similar to the Livestock Expansion program in that it provides financing for improvements to a farm, but these improvements can be for any farm related purpose including grain handling facilities, machine storage, erosion control, wells and manure systems. The RFA participation is 45 percent of the loan principal up to a maximum of $125,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must have a total net worth not exceeding $269,000, indexed for inflation.

Restructured Loan Program

Under this program, the RFA works with local lenders to help farmers reorganize their debt. This program is for farmers who remain in good credit standing with their local lender, but who are having trouble with cash flow. Only debt of an agricultural nature is eligible. The RFA will participate on 45 percent of the loan principal up to $150,000. The loans may be amortized over a period of up to 25 years. Participation is restricted to loans that do not exceed 80 percent of the appraised value of real estate comprising collateral for the loan. A borrower must (1) have received at least 50 percent of average annual gross income from farming for the past three years; (2) have a debt to asset ratio over 50 percent; (3) have a net worth not exceeding $439,000, indexed for inflation; and (4) have projected annual expenses not exceeding 95 percent of projected annual income.

Beginning Farmer Loan Program

This program is aimed at younger, lower equity individuals who intend, over time, to become full time farmers. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45 percent of the loan principal up to a maximum of $125,000. Each loan requires a minimum down payment of 10 percent of the purchase price. Loan amortization may be scheduled on a term of 15, 20, 25 or 30 years as negotiated among the lender, the borrower and the RFA. RFA participation is for a maximum of 10 years. A borrower must (1) have sufficient education, training or experience to succeed in the type of farming that they intend to pursue; (2) have a total net worth not exceeding $269,000, indexed for inflation; (3) agree to enroll in a farm business management program approved by the Commissioner of Agriculture; and (4) agree to obtain credit life insurance for the amount of the debt incurred.

Seller-Sponsored Loan Program

This program is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate its financing to the lender/RFA. The lender and the RFA provide the balance of the funds with a first mortgage. The down payment is negotiable. The program rules do not, however, require one to be made. Each lender determines its own requirements based on the buyer's ability to repay the needed financing.

APPENDIX D

Cash Flow Information

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

> "General fund" means 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 Accounting 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.

Special revenue funds included in the Statutory General Fund include the Petro Tank Release, the State Airports, the Game and Fish, the IRRRA, the Tobacco Use Prevention, the Workers Compensation, the Solid Waste and the Northeast Minnesota Economic Development Funds.

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

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout Fiscal Year 2004. The Commissioner anticipates that the Statutory General Fund may have a negative cash balance from time to time in Fiscal Year 2005.

The Legislature did not fund the Cash Flow Reserve for the Current Biennium. However, the Legislature did provide that if on the basis of a future revenue and expenditure forecast, the Commissioner of Finance determines that there will be a positive unrestricted budgetary accounting general fund balance at the close of the biennium, the first $350 million of the balance will be allocated to the Cash Flow Reserve.

The State has not done any short-term borrowing since January 1985 and has no short-term debt outstanding.

APPENDIX E

Obligations of State Agencies

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of August 1, 2003, is set forth below.

Agency Indebtedness

Minnesota Housing Finance Agency (MHFA). The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. The enabling legislation for the MHFA authorizes it to issue bonds and notes in amounts such that the principal amount outstanding at any instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to an amount of $3.0 billion. The proceeds from the MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the production and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds are general obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor for inclusion in the State budget, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds to its debt service reserve requirement. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized to appropriate the amount included in the Governor's proposed budget for debt service reserve fund, but is not legally obligated to appropriate such amount. Under Chapter 462A, if such a deficiency is certified, the MHFA is also required to certify to the Governor any anticipated deficiency in the revenues of the following fiscal year, estimated to be available for the payment of principal installments and interest due in that year, and the Governor is required to report such an anticipated deficiency to the Legislature.

The principal amount of bonds and notes of the MHFA which are outstanding at any time (excluding the principal amount of any bonds and notes advance refunded) is limited to $3,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the MHFA, which were outstanding as of August 1, 2003:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: August 1, 2003

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 8/01/2003 (in thousands)
Rental Housing	15	1.75% to 6.60%	2004-2045	$ 361,835	$ 225,255
Residential Housing Finance	25	1.32% to 5.85%	2004-2033	836,685	781,565
Single Family Mortgage	88	3.20% to 8.05%	2004-2032	1,775,245	986,930
	128			$2,973,765	$1,993,750

The payment of principal and interest on obligations of the Agency as shown above may be made, if necessary, from the MHFA's General Reserve Account.

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

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

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of August 1, 2003 was $696,248,158. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University.

Minnesota Higher Education Services Office (MHESO). The MHESO was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 1995 Legislature named MHESO as successor for all of the bonds of the Minnesota Higher Education Coordinating Board. The law authorizes the MHESO to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $550,000,000. The loans are made and insured in accordance with MHESO's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of August 2003, MHESO had $300,000,000 of bonds outstanding payable from the Supplemental Educational Loan Fund II. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MHESO, and, if necessary, from proceeds of additional MHESO obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the state universities within the Minnesota State Colleges and Universities System. As of August 1, 2003, the MnSCU had $23,545,000 tax exempt bonds and $12,370,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students for student activities, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guarantees have been issued to date, one for $3,890,923 and the other for $16,515,000. The guarantees are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority (MHEFA). The MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law authorized the MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed $650,000,000. As of August 1, 2003, the MHEFA had $586,050,293 principal amount of bonds outstanding. Each issue is payable solely from and secured by a first lien on the revenues of the project financed, reserve funds and a guarantee of the institution for which the project is financed.

Minnesota State Armory Building Commission (MSABC). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed $15,000,000. As of August 1, 2003, the MSABC had $5,955,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota State Zoological Board. (MSZB). The State appropriated moneys to finance the acquisition and construction of a State zoological garden which is owned and operated by the MSZB. The MSZB is not specifically authorized by law to borrow money or issue obligations in evidence thereof. However, in 1977 the Legislature authorized the MSZB to acquire an automated, monorail transportation system for the garden by installment purchase contract, and the MSZB entered into such a contract for this purpose.

On April 1, 1980, the Minnesota State Zoological Board was unable to make the installment payment then due under the installment purchase contract. On December 30, 1985 the State and investors entered into closing documents through which the State acquired all investor rights to the monorail system for the sum of $1.5 million. The documents released the State from any and all investor claims against the State and MSZB regarding the monorail system.

Minnesota Rural Finance Authority. In 1986 the Legislature created the Minnesota Rural Finance Authority (RFA) and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of August 1, 2003, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Finance is authorized to issue up to $123.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $115.1 million of these bonds, including bonds of this issue, for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of August 1, 2003, the RFA had issued $32,174,785, of revenue bonds for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of August 1, 2003, the MPFA had outstanding bonds of: Water Pollution Control Revenue Bonds, $712,900,000, Drinking Water Revenue Bonds, $69,065,000, and Transportation Revenue Bonds, $31,915,000, for a total outstanding amount of $813,880,000. 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 $1,000,000,000. For bonds issued before January 1, 1994, if a deficiency is certified, the MPFA is required to certify to the Governor any anticipated deficiency in the revenues of the following fiscal year, estimated to be available for the payment of principal installments and interest due in that year. The Governor is required to report such anticipated deficiencies to the Legislature. For bonds issued before January 1, 1994, in the opinion of bond counsel and general counsel to the MPFA, the Legislature is legally authorized to appropriate the amount included in the Governor's proposed budget to the debt service reserve fund, but is not legally obligated to appropriate such amount.

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 August 1, 2003, MAEDB will have outstanding $29,115,000 of pooled revenue bonds which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB has outstanding $594,195,352 of revenue bonds that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Office of the Commissioner of the Iron Range Resources & Rehabilitation (IRRRA). THE IRRRA was established by Minnesota Statutes, Chapter 298, to perform certain functions for the Northeastern portion of the State, including the promotion of economic development. The IRRRA is authorized to issue revenue bonds to accomplish the promotion of economic development. As of August 1, 2003 the IRRRA had $15,490,000 of bonds outstanding to finance the Giant's Ridge Recreation Area.

Minnesota Department of Finance. Minnesota Laws 1991, Chapter 350, authorized the State to issue revenue bonds secured by the State's full faith and credit in an amount up to $50,000,000 to finance the construction and equipping of an engine repair facility in Hibbing, and up to $125,000,000 to finance the construction and equipping of an aircraft maintenance facility in Duluth. By agreement dated December 21, 1994 with Northwest Airlines, Inc. ("NAI"), the intended lessee of both facilities, and certain other parties, it was agreed that the Hibbing facility would not be constructed and that the State would use its best efforts to issue revenue bonds secured by the State's full faith and credit for the Duluth facility. The State issued $47,670,000 of revenue bonds in May 1995, $38,680,000 of the revenue bonds will remain outstanding as of August 1, 2003, of which $22,275,000 are payable primarily from lease payments of NAI, and $16,405,000 are payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the City of Duluth. In the event such revenues are insufficient the State will have the right to apply to the payment of such bonds, or to reimburse itself for making such payments from, certain state-aid payments otherwise payable to the City of Duluth. All $38,680,000 of the revenue bonds outstanding are secured by the State's full faith and credit. The bonds are structured so that the initial bonds, together with expected later refundings, will provide financing over a 30 year amortization period. The 1997 Minnesota Legislature cancelled $48,765,000 of the bonding authorization for the Hibbing facility. The 2001 Legislature cancelled $81,275,000 of the bonding authorization for the Duluth facility.

The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of state revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Finance sold $29,000,000 of the revenue bonds in June 2000. As of August 1, 2003, there were $28,125,000 of Minnesota State Retirement System bonds outstanding.

APPENDIX F

State Government and Fiscal Administration

State Government

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

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

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

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

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

A general organization chart of the Executive Branch of State government is shown on the following page. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.

Fiscal Administration

The Department of Finance was created in 1973 under the control and supervision of the Commissioner of Finance. The Commissioner is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Minnesota voters approved a constitutional amendment in November 1998 that eliminated the Office of the State Treasurer as of January 6, 2003. The Commissioner of Finance assumed the duties of the State Treasurer. Included in the financial duties of the Commissioner are:

Preparation of State biennial budget and capital budget.

Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.

Administration of the State payroll system.

Sale and issuance of State general obligation and certain revenue bonds, general obligation certificates of indebtedness, and equipment lease purchase financings.

Preparation of periodic and special reports on the financial affairs of the State.

Operation and control of allotment system (annual agency operating budgets).

Preparation of revenue, expenditure and cash flow estimates.

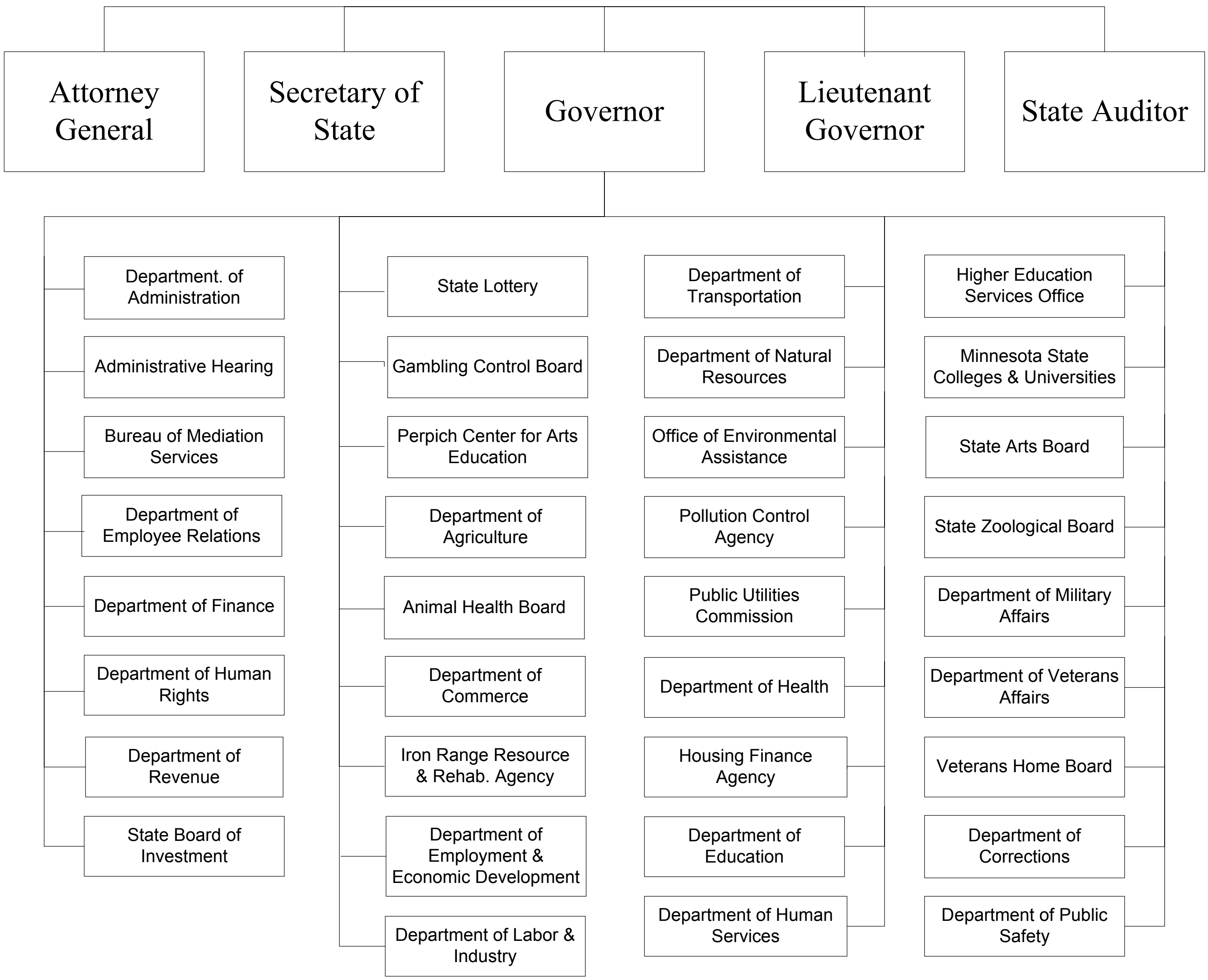
Banking and cash management activities.

To receive and account for all moneys paid into the State treasury properly disbursed or invested.

Accounting System

State law requires the Commissioner of Finance to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

STATE ORGANIZATION CHART



State law requires the Commissioner of Finance to administer the payroll of all employees of the executive branch of government.

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

Financial Reporting

State law requires the Commissioner of Finance to prepare a comprehensive financial report for each Fiscal Year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2002 general purpose financial statements are presented in Appendix A, and general long-term debt unaudited schedules are presented in Appendix B.

Investments

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

Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the constitution, State law, or by federal law.

Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

Revenues and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

The State currently has 16 bargaining units for State employees. The Department of Employee Relations (DOER), Labor Relations and Total Compensation Division, negotiates seven non-faculty labor contracts. Minnesota State Colleges and Universities System staff negotiates three faculty contracts. The DOER develops compensation plans for unrepresented employees. All contracts and compensation plans are subject to review and approval by the Legislature.

Previous Biennium Labor Agreements for American Federation of State, County and Municipal Employees (AFSCME) Council 6 including the arbitration award for the Corrections Officers Unit, Minnesota Association of Professional Employees (MAPE), Middle Management Association (MMA), Minnesota Government Engineering Council (MGEC), State Residential Schools Education Association (SRSEA), Minnesota Law Enforcement Association (MLEA), the arbitration award for the Minnesota Nurses Association (MNA) and the three faculty unit contracts were approved by the Legislature and signed by the Governor effective April 10, 2003.

Amendments to the Managerial Plan (wages and early retirement sections only), Commissioner Plan (wages and early retirement sections only) and MnSCU Administrators Plan were also approved by the Legislature and effective April 10, 2003.

All of the agreements and plans above were previously implemented, with the exception of the MNA arbitration award because they had received interim approval.

Negotiations for the Current Biennium labor agreements have begun. The Previous Biennium agreements expired on June 30, 2003, however, these contracts and plans remain in effect until subsequent agreements are reached or contracts are cancelled. The State has opened negotiations with AFSCME, AFSCME Corrections Officer Unit, and MAPE. The State has also begun coalition insurance bargaining with all units.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of July 1, 2003
AFSCME (6 bargaining units)	18,780
MN Association of Professional Employees	10,800
Middle Management Association	2,800
MN Government Engineers Council	900
MN Nurses Association	750
MN Law Enforcement Association	690
State Residential Schools Education Association	160
State College Faculty Association	3,900
State University Interfaculty Organization	2,900
State University Admin and Service Faculty	550
Total Represented Employees	42,230
Total State Employment	46,250
Percent of All Executive Branch Employees Unionized	91%

APPENDIX G

Minnesota Defined Benefit Retirement Plans

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriation. Estimates of direct Accounting General Fund appropriations to these plans for the FY 2000-2001 Biennium and Previous Biennium are shown in Table G-1. Additionally, Table G-2 presents summary data on the financial condition of the plans for the most recent Fiscal Year on which valuation data is available. Information provided in Table G-2 includes:

a. current assets held in trust for participants;
b. the accrued benefit liability;
c. the accrued liability funding ratio;
d. the number of plan members;
e. identification of the funds for which the State has custodial responsibility; and
f. identification of the funds for which the State may have a contingent liability.

Information concerning the specific benefit provisions of each plan is available upon request from the Commissioner of Finance.

Effective July 1, 1997, annual cost-of-living increases tied to national CPI are guaranteed up to 2.5%. Any benefit increase beyond that level is based on a rolling five-year average market value gain to retiree assets, less an assumed minimum 6% return.

Each plan's financing requirement is determined by a specific formula established in State law. No assurance can be provided that the formulas will not change in the future. A brief description of the existing formulas follows:

1. *Minnesota State Retirement System; State Teachers' Retirement Association; Public Employees' Retirement Association; and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds the contribution is specified in statute as a fixed percentage of the plan member's salary.

2. *Adjustments for Pre-1973 Retirees in Various Funds.* Contributions for these adjustments are included in payroll deductions and employer contributions as part of the total fund liabilities with the exception of the *Minneapolis Employees Retirement Fund (MERF),* for which the State made annual appropriations of $550,000. This appropriation terminated at the end of Fiscal Year 2001.

3. *State's share of amortizing unfunded liabilities of local police or fire relief associations that are being phased out.* Current State law provides that the State's contribution for the next 12 years will remain at the level of the Fiscal Year 1992 appropriation, or less, as plans achieve full-funding, before the year 2010.

4. *Minneapolis Employees' Retirement Fund.* This fund is closed to new members. The annual Accounting General Fund obligation is specified in statute as: (a) the total annual level dollar contribution needed to amortize the entry-age normal unfunded liability by 2020 as estimated in the most recent valuation, less (b) 2.5% of covered payroll, and less (c) $3,900,000. The total cannot exceed $9,000,000 per year.

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

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

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

TABLE G-1

	Estimated Direct Accounting General Fund Appropriation		
	Previous Biennium	**Current Biennium**	**Next Biennium**
		($ in thousands)	
Constitutional Officers' Retirement	$ 718	$ 795	$ 894
Legislators' Retirement Plan	10,436	10,100	10,500
Judges' Retirement Plan(1)	1,998	0	0
Minneapolis Employees Retirement Fund(2)	7,742	13,264	13,264
Local Police or Fire Associations	7,761	10,514	10,514
Public Employees Retirement Association Aid	29,172	29,172	29,172
Minneapolis Teachers' Retirement Assoc.(3)	31,208	31,628	31,628
St. Paul Teachers' Retirement Association(3)	5,780	5,906	5,906
Duluth Teachers' Retirement Association(4)	486	0	0
TOTAL	$95,301	$101,379	$101,878

(1) The Judges' Retirement Plan was converted to a pre-funded plan in the 1991 legislative session. Contributions for all active judges are now covered through payroll, not direct appropriation.

(2) Effective July 1, 1998, the state contribution is provided on a formula basis and is capped at no more than $9 million per fiscal year. Any requirements beyond the capped aid are the exclusive obligation of the employer units.

(3) 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. The 1997 Legislature passed a major pension bill that included reallocations of current funding (no net new expenditure) which largely resolve ongoing actuarial deficiencies heretofore affecting the Minneapolis and St. Paul teacher retirement plans.

(4) As of July 1, 2001, the accrued liability funding ratio of the Duluth Teachers' Retirement Fund Association exceeded that of the state Teachers Retirement Fund Association. As such, the state's obligation to participate in funding of the Duluth teachers plan was terminated at the end of fiscal year 2002.

2003 Pension Legislation

- Converts the payment of pension obligations for pre-1997 legislators from the current pre-funded post-retirement system to an annual pay-as-you-go system. All annual pension obligations for members in that plan would be paid in full on an annual basis with no changes implemented in member contribution rates or benefit levels.

- Allows local government employees in Public Employee Retirement Association (PERA) plans to take voluntary unpaid leave of absences and voluntary reductions in hours through June 30, 2005 and accumulate full years of service credits during that time the employees provide full contribution to the PERA retirement plans. Also, allows local school districts to purchase service credits and provide all or a portion of the employee's contribution to teacher retirement plans for teachers on extended leaves of absence, not to exceed five years.

TABLE G-2

Condition of Defined Benefit Pension Plans to Which Minnesota Provides Accounting General Fund Resources, July 1, 2002[1]
($ in Millions)

	Current Assets	Accrued Benefit Liability	Funding Ratio	Active Members	Other Members
1. Funds For Which the State Has Custodial Responsibility					
Minnesota State Retirement System:					
— General Employees Fund	$ 7,673	$ 7,340	104.53%	49,099	40,968
— Correctional Employees Fund ...	457	446	102.46%	3,249	1,756
— State Patrol Employees Fund	591	510	115.88%	810	800
— Judges Retirement Fund	131	172	76.42%	283	281
— Legislators Retirement Fund[2] ...	46	78	58.28%	134	230
— Constitutional Officers Fund[2] ...	201	4,075	4.93%	0	17
Public Employees Retirement Association:					
— Public Employees Fund	11,017	12,958	85.02%	137,817	167,345
— PERA Police & Fire Fund	4,707	3,886	121.12%	9,940	7,271
— Local Correctional Service Fund .	40	42	95.16%	3,270	833
Teachers Retirement Association	17,379	16,503	105.31%	71,690	62,676
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund	1,540	1,668	92.35%	836	5,221
Local Police & Fire Associations[1]	769	664	86.31%	157	1,771
St. Paul Teachers' Retirement Fund	900	1,141	78.82%	4,306	5,029
Minneapolis Teachers' Ret. Fund	1,028	1,660	61.94%	5,720	7,235
Duluth Teachers' Retirement Fund	281	279	100.39%	1,276	2,159

(1) The information provided in this table reflects the condition of all funds as of June 30, 2002, except for four local police & fire relief association funds that report separately on December 31, 2002: Minneapolis Fire, Minneapolis Police, Fairmont Police, and Virginia Fire.

(2) The pre-1997 Legislators and Constitutional Officers defined benefit retirement plans are now financed on a pay-as-you-go basis from annual appropriations — there are no separate assets reserved for these plans. Legislators and Constitutional Officers first elected after July 1, 1997 are members of the state's defined contribution plan.

APPENDIX H

Selected Economic and Demographic Statistics

Population Trends In The State

Minnesota resident population grew from 4,390,000 in 1990 to 4,934,000 in 2000 or, at an average annual compound rate of 1.2 percent as shown in Table 1. In comparison, U.S. population also grew at an annual compound rate of 1.2 percent during this period. Between 2000 and 2002, data in Table 1 indicate Minnesota population grew at annual compound rate of .9 percent compared to 1.1 percent for the U.S. Minnesota population is currently forecast by the U.S. Department of Commerce to grow at an annual compound rate of .8 percent through 2015.

The Structure Of The State's Economy

Diversity and a significant natural resource base are two important characteristics of the State's economy.

When viewed in 2002 at a highly aggregative level of detail, the structure of the State's economy parallels the structure of the United States economy as a whole. As shown in Table 2 below, State employment in ten major sectors was distributed in approximately the same proportions as national employment. In all sectors, the share of total State employment was within two percentage points of national employment share.

Some unique characteristics of the State's economy are apparent in employment concentrations in industries that comprise the durable goods and non-durable goods manufacturing categories summarized in Tables 3 and 4. In the durable goods industries, the State's employment in 2002 was highly concentrated in the industrial machinery and instrument and miscellaneous categories. Of particular importance is the industrial machinery category in which 27.2 percent of the State's durable goods employment was concentrated in 2002, as compared to 18.4 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the industrial machinery classification. Concentration in the instruments and miscellaneous category is partly explained by the presence in the state of Medtronic and other manufacturers of cardiac pacemakers.

The importance of the State's rich resource base for overall employment is apparent in the employment mix in non-durable goods industries displayed in Table 4. In 2002, 31.3 percent of the State's non-durable goods employment was concentrated in food and kindred industries, and 15.7 percent in paper and allied industries. This compares to 24.8 percent and 9.1 percent, respectively, for comparable sectors in the national economy. Both of these rely heavily on renewable resources in the State. Over half of the State's acreage is devoted to agricultural purposes, and nearly one-third to forestry. Printing and publishing is also relatively more important in the State than in the U.S.

Mining is currently a less significant factor in the State economy than it once was. Mining employment, primarily in the iron ore or taconite industry, dropped to 5.6 thousand in 2002. It is not known whether recent layoffs are permanent. However, Minnesota retains vast quantities of taconite as well as copper, nickel, cobalt, and peat which may be utilized in the future.

Employment Growth In The State

In the period 1990 to 2000, overall employment growth in Minnesota exceeded national growth as shown in Table 5. Manufacturing has been a strong sector, with Minnesota employment outperforming its U.S. counterpart in both the 1990-2000 and 2000-2002 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.1 percent while increasing 19.9 percent nationally. Employment data indicate the recession which began in July 1990 was less severe in Minnesota than in the national economy, and that Minnesota's recovery was more rapid than the nation's. However, preliminary data indicate that the recession which began in March, 2001 has been more severe in Minnesota than in the national economy. For the 2000 to 2002 period, Minnesota employment declined 1.5 percent compared to 0.7 percent nationally.

Performance Of The State's Economy

Since 1990, State per capita personal income has usually been within eleven percentage points of national per capita personal income. As shown in Table 6, the State's per capita income, which is computed by dividing personal income by total resident population, has generally remained above the national average in spite of two recessions and some difficult years in agriculture. In 2002, Minnesota per capita personal income was 110.1 percent of its U.S. counterpart.

Tables 7, 8, and 9 show the performance of the Minnesota economy relative to the eleven other states in the North Central Region. Measures used for comparison are total personal income, population, personal income per capita, and non-agricultural employment. In the level of personal income per capita, as shown in Table 7, Minnesota ranked second among the twelve states in 1990 and first in 2002. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and second during the period 2000 to 2002. However, Table 8 shows that Minnesota does not rank first or second in personal income growth among neighboring states every year. Over the period 1990 to 2000, Table 9 shows Minnesota non-agricultural employment grew 25.7 percent while the entire North Central Region grew 18.5 percent. During the 2000-2002 period, Minnesota non-farm employment declined 0.9 percent, while regional employment declined 1.7 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2001 and 2002, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 3.7 percent in 2001, as compared to the national average of 4.7 percent. In 2002, Minnesota's unemployment rate averaged 4.4 percent, as compared to the national average of 5.8 percent.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Average Annual Compound % Change U.S.	Average Annual Compound % Change Minnesota
1990	249,623	4,390	0.9	0.7
1991	252,981	4,441	1.3	1.2
1992	256,514	4,495	1.4	1.2
1993	259,919	4,556	1.3	1.4
1994	263,126	4,610	1.2	1.2
1995	266,278	4,660	1.2	1.1
1996	269,394	4,713	1.2	1.1
1997	272,647	4,763	1.2	1.1
1998	275,854	4,813	1.2	1.0
1999	279,040	4,873	1.2	1.2
2000	282,224	4,934	1.1	1.3
2001	285,318	4,985	1.1	1.0
2002	288,369	5,020	1.1	0.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2002
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durable	238.0	8.8	9,906	7.4
Manufacturing Non-Durable	168.6	6.2	6,783	5.1
Mining	5.6	0.2	557	0.4
Construction	121.2	4.5	6,556	4.9
Transportation and Public Utilities	126.2	4.7	6,773	5.1
Trade	627.9	23.2	29,977	22.4
Finance, Insurance and Real Estate	166.0	6.1	7,760	5.8
Services	809.1	29.9	41,184	30.6
Government	388.4	14.3	21,260	15.9
Agriculture	56.0	2.1	3,248	2.4
Total	2,707.0	100.0	134,004	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Economic Security, unpublished data, April 2002. Minnesota services data includes Indian gaming.

Minnesota employment data benchmarked to March 2001 levels.

Industry detail determined according to the Standard Industrial Code of 1987.

U.S. employment data benchmarked to March 2001 levels.

Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Economic Security.

U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January 2003.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2002
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Furniture, Lumber and Wood	28.6	12.0	1,258	12.7
Stone, Clay, Glass	10.5	4.4	554	5.6
Primary Metals	7.4	3.1	592	6.0
Fabricated Metals	33.7	14.2	1,418	14.3
Industrial Machinery	65.0	27.2	1,823	18.4
Electronic Equipment	31.1	13.1	1,419	14.3
Transportation Equipment	15.7	6.6	1,667	16.8
Instruments and Miscellaneous	46.1	19.4	1,175	11.9
Total	238.1	100.0	9,906	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Economic Security, unpublished data.

Minnesota employment data benchmarked to March 2001. U.S. data benchmarked to March 2001. Both Minnesota and U.S. industry detail determined according to the Standard Industrial Code of 1987.

Columns may not add due to rounding.

TABLE 4
EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2002
(Thousands of Jobs)

Non-Durable Goods(1)	Minnesota	% of Total	U.S.	% of Total
Food and Kindred	52.8	31.3	1,689	24.8
Paper and Allied	26.5	15.7	615	9.1
Printing and Publishing	51.2	30.4	1,410	20.8
Chemicals	11.1	6.6	1,008	14.9
Rubber and Leather	19.1	11.3	983	14.5
Other Non Durables	7.9	4.7	1,078	15.9
Total	168.6	100.0	6,783	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Economic Security, unpublished data.

Minnesota data benchmarked to March 2001. U.S. data benchmarked to March 2001. Both Minnesota and U.S. industry detail determined according to the Standard Industrial Code of 1987.

(1) Excludes "Tobacco Products Manufacturing."

Columns may not add due to rounding.

TABLE 5
EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2002
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	**1990**	**2000**	**2002**	**1990-2000**	**2000-2002**	**1990**	**2000**	**2002**	**1990-2000**	**2000-2002**
Manufacturing Durable	231.5	261.5	238.0	12.9	(9.0)	11,109	11,141	9,906	2.9	(11.1)
Manufacturing Non-Durable[1]	169.3	179.7	168.6	6.1	(6.2)	7,919	7,297	6,783	(7.9)	(7.0)
Mining	8.1	7.2	5.6	(11.1)	(22.2)	709	543	557	(23.4)	2.6
Construction	79.5	118.9	121.2	49.6	1.9	5,119	6,653	6,556	30.0	(1.5)
Transportation and Public Utilities	109.5	135.5	126.2	23.7	(6.9)	5,777	7,031	6,773	21.7	(3.7)
Trade	519.5	631.4	627.9	21.5	0.6	25,774	30,284	29,977	17.5	(1.0)
Finance, Insurance and Real Estate	125.2	162.8	166.0	30.0	2.0	6,709	7,578	7,760	13.0	2.4
Services	549.2	796.3	809.1	45.0	1.6	27,934	40,457	41,184	44.8	1.8
Government	337.7	382.3	388.4	13.2	1.6	18,304	20,702	21,260	7.2	2.7
Agriculture	103.1	73.4	56.0	(28.8)	(23.7)	3,223	3,305	3,248	2.5	(1.7)
Total	2,232.6	2,749.0	2,707.0	23.1	(1.5)	112,577	134,991	134,004	19.9	(0.7)

Sources: Minnesota 1990, 2000 and 2002 — Minnesota Department of Economic Security, unpublished data.

U.S. 1990, 2000 and 2002, Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota employment data benchmarked to March 2001 levels. Minnesota services data includes Indian gaming. U.S. employment benchmarked to March 2001. Both Minnesota and U.S. industry detail determined according to the Standard Industrial Code of 1987.

Minnesota agricultural employment: Unpublished estimate from Minnesota Department of Jobs and Training. U.S. Agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings January 2003.

U.S. and Minnesota agricultural employment data for 2002 not necessarily comparable with earlier years because of changes in methodology.

(1) Excludes tobacco products manufacturing.

TABLE 6
MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1990	20,000	19,572	102.2
1991	20,427	20,023	102.0
1992	21,582	20,960	103.0
1993	21,903	21,539	101.7
1994	23,241	22,340	104.0
1995	24,295	23,255	104.5
1996	25,904	24,270	106.7
1997	27,086	25,412	106.6
1998	29,092	26,893	108.2
1999	30,194	27,880	108.3
2000	32,231	29,760	108.3
2001	33,059	30,413	108.7
2002	34,071	30,941	110.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2002

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2002 Personal Income (Millions)	2000-2002 Rate of Increase (%)	Regional Rank 2000-2002	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2002 Population (Thousands)	2002 Per Capita Personal Income ($)	2002 Regional Rank
Illinois	237,593	401,800	5.39	5	420,913	2.35	11	12,441	20,744	1	12,601	33,404	2
Ohio	204,114	319,650	4.59	12	335,841	2.50	9	11,364	18,788	4	11,421	29,405	6
Michigan	177,104	292,790	5.16	8	304,490	1.98	12	9,956	19,020	3	10,050	30,296	3
Indiana	97,907	164,540	5.33	6	173,932	2.81	8	6,092	17,616	9	6,159	28,240	10
Wisconsin	89,025	152,570	5.53	3	162,818	3.30	6	5,374	18,152	6	5,441	29,923	4
Missouri	91,000	154,100	5.41	4	164,143	3.21	7	5,605	17,743	8	5,673	28,936	8
Minnesota	87,796	159,040	6.12	1	171,026	3.70	2	4,934	20,000	2	5,020	34,071	1
Iowa	48,313	77,730	4.87	10	83,051	3.37	4	2,929	17,372	10	2,937	28,280	9
Kansas	45,104	73,882	5.06	9	79,144	3.50	3	2,693	18,177	5	2,716	29,141	7
Nebraska	28,591	47,599	5.23	7	51,480	4.00	1	1,713	18,077	7	1,729	29,771	5
South Dakota	11,312	19,511	5.60	2	20,468	2.42	10	756	16,227	11	761	26,894	12
North Dakota	10,121	16,022	4.70	11	17,109	3.34	5	641	15,872	12	634	26,982	11

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION(1)
2001-2002

Rank	State	Percent Growth
1	North Dakota	4.18
2	Iowa	4.05
3	MINNESOTA	3.79
4	Nebraska	3.70
5	Missouri	3.17
6	Wisconsin	3.16
7	Indiana	3.15
8	Kansas	3.01
9	Ohio	2.74
10	Michigan	2.70
11	Illinois	1.91
12	South Dakota	1.60
	REGION	2.84

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(1) Refer to Table 7 for Personal Income figures.

TABLE 9
NON-AGRICULTURAL EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION
(Thousands of Jobs)

State	1990 Employment	2000 Employment	2002 Employment	% Increase 1990-2000	2000-2002
Illinois	5,288.3	6,044.9	5,925.0	14.3	(2.0)
Ohio	4,882.3	5,624.7	5,516.8	15.2	(1.9)
Michigan	3,969.7	4,673.9	4,545.8	17.7	(2.7)
Indiana	2,521.9	3,000.1	2,904.5	19.0	(3.2)
Wisconsin	2,291.5	2,833.2	2,829.8	23.6	(0.1)
Missouri	2,345.0	2,748.8	2,682.8	17.2	(2.4)
MINNESOTA	2,129.5	2,675.6	2,650.8	25.7	(0.9)
Iowa	1,226.3	1,478.4	1,462.2	20.6	(1.1)
Kansas	1,088.5	1,344.6	1,362.8	23.5	1.4
Nebraska	730.1	908.8	910.2	24.5	0.2
South Dakota	288.7	377.7	378.2	30.8	0.1
North Dakota	265.9	327.7	330.4	23.2	0.8
Region	27,027.7	32,038.6	31,499.3	18.5	(1.7)

Source: Global Insight (USA), Inc., @ Markets Data Bank. Minnesota employment data from Minnesota Department of Economic Security, benchmarked to March 2001.

TABLE 10
MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1997-2002 AND THE FIRST FOUR MONTHS OF 2003 NOT SEASONALLY ADJUSTED

	Annual Average	
Year	**Minnesota**	**U.S.**
1997	3.3%	4.9%
1998	2.5%	4.5%
1999	2.8%	4.2%
2000	3.3%	4.0%
2001	3.7%	4.7%

Month	**Minnesota**	**U.S.**
2002		
January	5.2%	6.3%
February	5.1%	6.1%
March	5.0%	6.1%
April	4.8%	5.7%
May	3.9%	5.5%
June	4.7%	6.0%
July	4.2%	5.9%
August	4.0%	5.7%
September	4.1%	5.4%
October	3.8%	5.3%
November	3.9%	5.6%
December	4.0%	5.7%
Annual Average	4.4%	5.8%

Month	**Minnesota**	**U.S.**
2003		
January	5.2%	6.5%
February	4.9%	6.4%
March	4.9%	6.2%
April	4.6%	5.8%

Source: Minnesota Department of Economic Security.

TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank			Sales	Assets		Net Income	
02	01	Company	$000	$000	Rank	$000	Rank
25	34	Target	43,917,000	28,603,000	122	1,654,000	49
63	84	United Health Group	25,020,000	14,164,000	205	1,352,000	62
81	86	Supervalu	20,908,500	5,796,200	335	198,300	262
91	131	Best Buy	19,597,000	7,375,000	304	570,000	148
110	126	Minnesota Mining & Mfg.	16,332,000	15,329,000	195	1,974,000	39
123	121	U.S. Bancorp	15,422,300	180,027,000	24	3,289,200	26
180	137	Xcel Energy	10,341,000	28,405,800	123	(2,006,000)	472
193	194	Northwest Airlines	9,489,000	13,289,000	222	(798,000)	448
207	218	St. Paul Cos.	8,917,700	39,920,000	89	217,800	251
235	264	General Mills	7,949,000	16,540,000	182	458,000	177
237	244	Cenex Harvest States	7,845,200	3,481,700	401	NA	NA
276	318	Medtronic	6,410,800	10,904,500	245	984,000	88
297	—	Land O' Lakes	5,847,000	3,246,000	414	NA	NA
408	392	Hormel Foods	3,910,300	2,220,200	455	189,300	268
410	395	Nash Finch	3,900,000	NA	NA	29,700	362
457	—	Ecolab	3,403,600	2,878,400	427	209,800	256
464	495	C.H. Robinson Worldwide	3,294,500	777,200	498	96,300	321
470	485	PepsiAmericas	3,239,800	3,562,600	398	129,700	297

Source: *Fortune Magazine,* dated April 14, 2003

APPENDIX I

Continuing Disclosure Undertaking

The Commissioner's Order authorizing the issuance of the Bonds will contain provisions enabling participating underwriters in the primary offering of the Bonds to comply with the requirements of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5), in substantially the following form:

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated July 24, 2003 (the "Official Statement"), is a final official statement within the meaning of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12 as in effect and interpreted from time to time ("Rule 15c2-12"). The initial purchasers of the Bonds designated in Section 12 hereof (the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds are reoffered.

3.02. *Continuing Disclosure.*

(a) *General Undertaking.* On behalf of the State the Commissioner covenants and agrees with the Registered Owners from time to time of the Bonds to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to nationally recognized municipal securities information repositories and any Minnesota state information depository, annual financial information of the type included in the Official Statement and notice of the occurrence of certain specified events which materially affect the terms, payment, security, rating or tax status of the Bonds, as set forth in this Section. The State is the only "obligated person" in respect of the Bonds within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Bond, any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or is treated as the owner of the Bond for federal income tax purposes.

(b) *Information To Be Disclosed.* The Commissioner will provide, in the manner set forth in paragraph (c) hereof, either directly or indirectly through an agent designated by the Commissioner, the following information (the "Disclosure Information") at the following times:

(1) On or before December 31 of each year, commencing in 2003 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the Fiscal Year ending on the previous June 30, prepared by the Department of Finance in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such Fiscal Year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been submitted to each of the repositories referred to under this paragraph (b) or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this paragraph (b)(1) or subsection (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, notice of the occurrence of any of the following events and which is a Material Fact (as hereinafter defined):

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults;

(C) Unscheduled draws on debt service reserves reflecting financial difficulties;

(D) Unscheduled draws on credit enhancements reflecting financial difficulties;

(E) Substitution of credit or liquidity providers, or their failure to perform;

(F) Adverse tax opinions or events affecting the tax-exempt status of the security;

(G) Modifications to rights to security holders;

(H) Bond calls;

(I) Defeasances;

(J) Release, substitution, or sale of property securing repayment of the securities; and

(K) Rating changes.

As used herein, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a "Material Fact" is also an event that would be deemed "material" for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

(3) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (1) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the State under subsection (d)(2);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (1) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) *Manner of Disclosure.* The Commissioner agrees to make available the information described in paragraph (b) to the following entities by telecopy, overnight delivery, mail or other means, as appropriate:

(1) the information described in subparagraph (1) of paragraph (b), to each then nationally recognized municipal securities information repository under Rule 15c2-12 and to any State information depository then designated or operated by the State of Minnesota as contemplated by Rule 15c2-12 (the "State Depository"), if any;

(2) the information described in subparagraphs (2) and (3) of paragraph (b), to the Municipal Securities Rulemaking Board and to the State Depository, if any; and

(3) the information described in paragraph (b), to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraphs (1) or (2) of this paragraph (c), as the case may be, or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(d) *Term; Amendments; Interpretation.*

(1) The covenants of the State in this Section 3.02 shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (3) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (i) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2 12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that Rule 15c2-12 is in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) *Failure to Comply; Remedies.* If the State fails to comply with any provision of this Section 3.02 any person aggrieved thereby, including the Registered Owner of any outstanding Bond, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) *Further Limitation of Liability of State.* If and to the extent the limitations of liability contained in subsection (e) are not effective, anything contained in this Section 3.02 to the contrary notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State.

The Commissioner of Finance is not in default of any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

APPENDIX J
Definition of Ratings

Moody's Investors Service, Inc.:

Aa1 Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Standard & Poor's Ratings Group:

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

Fitch Ratings:

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

APPENDIX K
Form of Legal Opinion

The Honorable Dan McElroy
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $3,000,000 General Obligation Taxable State Bonds

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance of the State of Minnesota on behalf of the State, preliminary to and in issuance of $3,000,000 General Obligation Taxable State Bonds dated August 1, 2003 (the Bonds). The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue.

From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, rules, regulations and judicial decisions now in effect, it is our opinion that the Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

We express no opinion regarding federal, state and other tax consequences to holders of the Bonds.

Dated: August , 2003.