OFFICIAL STATEMENT DATED JUNE 18, 2002

NEW ISSUE

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

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

$307,405,000
STATE OF MINNESOTA

General Obligation
State Bonds

Dated: June 1, 2002 **Due: August 1, as shown below**

Year	Amount	Interest Rate	Price or Yield	CUSIP 604128	Year	Amount	Interest Rate	Price or Yield	CUSIP 604128
2003	$31,115,000	2.50%	1.638%	2W7	2013	$9,975,000	5.00%	4.13%	3G1
2004	26,605,000	4.00	2.00	2X5	2014	9,975,000	5.00	4.26	3H9
2005	26,695,000	5.00	2.51	2Y3	2015	9,975,000	5.00	4.36	3J5
2006	36,975,000	5.00	2.81	2Z0	2016	9,975,000	5.00	4.46	3K2
2007	17,465,000	5.00	3.10	3A4	2017	9,975,000	5.00	4.56	3L0
2008	15,175,000	5.00	3.39	3B2	2018	9,975,000	5.00	4.65	3M8
2009	15,175,000	5.00	3.60	3C0	2019	9,975,000	5.00	4.74	3N6
2010	15,175,000	5.00	3.79	3D8	2020	9,975,000	5.00	4.83	3P1
2011	15,175,000	5.00	3.90	3E6	2021	9,975,000	5.00	4.88	3Q9
2012	18,075,000	5.00	4.00	3F3					

(Plus accrued interest from June 1, 2002)

The Bonds comprise $240,000,000 General Obligation State Various Purpose Bonds, $30,000,000 General Obligation State Trunk Highway Bonds and $37,405,000 General Obligation State Refunding Bonds.

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

Bonds maturing after August 1, 2012 will be subject to redemption and prepayment by the State as provided herein.

Form and Payment:

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

The Bonds are offered by the State subject to the legal opinions of Dorsey & Whitney LLP, bond counsel, as to the validity of the Bonds and tax exemption, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or before June 26, 2002.

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	Jesse Ventura
LIEUTENANT GOVERNOR	Mae Schunk
SECRETARY OF STATE	Mary Kiffmeyer
STATE TREASURER	Carol C. Johnson
STATE AUDITOR	Judith H. Dutcher
ATTORNEY GENERAL	Mike Hatch
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF FINANCE

Pamela Wheelock

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$307,405,000

General Obligation State Bonds

Dated June 1, 2002

INTRODUCTION

General

This Official Statement, including the cover page, this Official Statement Supplement contained on pages S-1 through S-35, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $240,000,000 General Obligation State Various Purpose Bonds, $30,000,000 General Obligation State Trunk Highway Bonds and $37,405,000 General Obligation State Refunding Bonds of the State of Minnesota (the "State") to be dated June 1, 2002 (collectively 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 in the principal amount of $270,000,000 are being issued for the purpose of financing all or a portion of the cost of the programs and capital projects described in the section hereof entitled "The Bonds — Authorization and Purpose" and Appendix C. The types of capital projects to be funded generally include educational facilities, parks, pollution control facilities, transportation, natural resources, agricultural enterprises, dam repairs, and trunk highway improvements.

Bonds in the principal amount of $37,405,000 are being issued for the purpose of refunding $38,450,000 in principal amount of outstanding general obligation refunding bonds of the State dated August 1, 1992. Such proceeds of the Bonds will be placed in the State's Debt Service Fund and used to pay the principal of the bonds being refunded on August 1, 2002, when such bonds will be called for redemption and prepayment. Certain amounts previously credited to Debt Service Fund will be used to pay principal of and interest on the bonds being refunded on August 1, 2002. The bonds being refunded are described 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 and federal laws and federal tax regulations.

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, 2003. 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."

Bond Maturity Schedule

The Bonds are comprised of $240,000,000 General Obligation State Various Purpose Bonds, $30,000,000 General Obligation State Trunk Highway Bonds and $37,405,000 General Obligation State Refunding Bonds. The maturity schedules are shown below.

$240,000,000 General Obligation State Various Purpose Bonds

Year	Principal Amount	Year	Principal Amount
2003	15,200,000	2012	16,500,000
2004	18,200,000	2013	8,400,000
2005	18,500,000	2014	8,400,000
2006	28,000,000	2015	8,400,000
2007	13,600,000	2016	8,400,000
2008	13,600,000	2017	8,400,000
2009	13,600,000	2018	8,400,000
2010	13,600,000	2019	8,400,000
2011	13,600,000	2020	8,400,000
		2021	8,400,000

$30,000,000 General Obligation State Trunk Highway Bonds

Year	Principal Amount	Year	Principal Amount
2003	1,590,000	2012	1,575,000
2004	1,590,000	2013	1,575,000
2005	1,590,000	2014	1,575,000
2006	1,590,000	2015	1,575,000
2007	1,590,000	2016	1,575,000
2008	1,575,000	2017	1,575,000
2009	1,575,000	2018	1,575,000
2010	1,575,000	2019	1,575,000
2011	1,575,000	2020	1,575,000
		2021	1,575,000

$37,405,000 General Obligation State Refunding Bonds

Year	Principal
2003	14,325,000
2004	6,815,000
2005	6,605,000
2006	7,385,000
2007	2,275,000

Legal Opinions — Tax Exemption

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

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

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

Additional Bonds

The State does not expect to sell additional tax-exempt general obligation bonds within 30 days after the date of 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 that uses for forecasting purposes data provided by DRI•WEFA, 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, 2003 (the "Current Biennium") are summarized as set forth below. The Accounting General Fund is defined on page S-2 and Trunk Highway Fund is defined on page S-27.

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
END OF 2002 LEGISLATIVE 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
Budget Reserve Account	$ 319
Projected Unrestricted Balance at June 30, 2003	$ 0

CURRENT BIENNIUM
TRUNK HIGHWAY FUND
END OF 2002 LEGISLATIVE SESSION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2001	$ 181
Highway User Taxes	$1,517
Federal Aid	$ 647
Non-Dedicated Revenues	$ 173
Dedicated Revenues, Transfers In and Other	$ 70
Prior Year Accounting Adjustments	(33)
Total Resources	$2,555
Expenditures	$2,395
Projected Unreserved Balance at June 30, 2003	$ 160

Economic Update

The Commissioner of Finance believes that final personal income tax revenue for tax year 2001 will be materially lower than was estimated in the February 2002 revenue forecast. Processing of timely final personal income tax payments and payments accompanying extension requests has largely been completed and such payments are $200 million less than projected. While refund return processing and payment will continue through at least mid-July, the Commissioner of Finance is now estimating that refund payments will exceed the amount forecast in February 2002 by $140 million.

While the full impact of this reduction in tax year 2001 future revenues will not be determined until processing of timely returns is complete, much of this revenue reduction is expected to be ongoing. Department of Finance economists attribute the reduction in final revenue to an even larger decline in capital gains realizations than the 31 percent decline included in the forecast and to a larger than anticipated reduction in bonuses and stock option income during tax year 2001. The Commissioner of Finance anticipates that when the lower than projected final individual income tax revenue for tax year 2001 currently estimated at $340 million is incorporated into the revenue forecast in November 2002, projected state revenues for the remainder of the Current Biennium and for the Next Biennium will be reduced. For the effects on the Current Biennium budget see page S-10.

Bonds Outstanding

The total amount of State general obligation bonds outstanding on June 1, 2002, including this issue will be approximately $3.0 billion. The total amount of general obligation bonds authorized but unissued as of June 1, 2002, will be approximately $1.3 billion. See Appendix B, pages B-1 and B-2.

Cash Flow Information

The June 2002, end of session cash flow analysis for the State's Statutory General Fund as defined in Appendix D indicates that the State will have a positive cash flow balance throughout the Current Biennium. Therefore, the State does not expect to do any short-term borrowing for cash flow purposes during the Current Biennium. The State has not done any short-term borrowing since January 1985 and has no short-term debt outstanding. 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@dorseylaw.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 $240,000,000 General Obligation State Various Purpose Bonds, $30,000,000 General Obligation State Trunk Highway Bonds and $37,405,000 General Obligation State Refunding Bonds being issued comprise bonds authorized by several different laws.

General Obligation State Various Purpose Bonds.

Laws 1983, Chapter 323, as amended, authorizes the issuance of $29,979,900 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide funds appropriated to the Commissioner of Finance for the purpose of making loans to school districts and municipalities for capital expenditures for energy conservation investments in accordance with the provisions of Minnesota Statutes, Section 216C.37, of which $165,000 are included in this issue.

Laws 1991, Chapter 354, authorizes the issuance of $28,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 84.943 to 84.944, and 103F.515, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature comprising the construction of dams, acquisition of conservation easements on marginal agricultural lands, acquisition of fish and wildlife habitat, and acquisition of critical habitat, of which $20,000 are included in this issue.

Laws 1992, Chapter 558, authorizes the issuance of $17,500,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to finance grants to political subdivisions to pay costs of acquisition and betterment of public land, buildings, and improvements of a capital nature needed for the development of the State Transportation System, including key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $60,000 are included in this issue.

Laws 1993, Chapter 373, authorizes the issuance of $9,900,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to finance grants to political subdivisions to pay costs of acquisition and betterment of public land, buildings, and improvements of a capital nature needed for the development of the State Transportation System, including key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $100,000 are included in this issue.

Laws 1994, Chapter 643, as amended, authorizes the issuance of $526,506,800 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $3,000,000 are included in this issue.

Laws 1994, Chapter 643, authorizes the issuance of $34,948,700 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public land, buildings, and improvements of a capital nature needed for the development of the State Transportation System, and to finance grants to political subdivision for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, and light rail transit system, of which $500,000 are included in this issue.

Laws 1996, Chapter 463, as amended, authorizes the issuance of $481,700,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $1,400,000 are included in this issue.

Laws 1996, Chapter 463, authorizes the issuance of $10,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, and 174.50 to 174.51, to finance grants to political subdivisions to pay costs of acquisition and betterment of public land, buildings, and improvements of a capital nature needed for the development of the State Transportation System, including key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $150,000 are included in this issue.

Laws 1997, Chapter 246, authorizes the issuance of $4,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to finance grants to be made to political subdivisions to pay a portion of the cost of acquisition and betterment of public land, buildings and improvements of a capital nature needed for the prevention, control, and abatement of water pollution, in accordance with the long-range State plan and in accordance with standards adopted pursuant to law by the Minnesota Pollution Control Agency, of which $65,000 are included in this issue.

Laws 1997, Chapter 246, authorizes the issuance of $3,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public lands, buildings, and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $30,000 are included in this issue.

Laws 1998, Chapter 404, as amended, authorizes the issuance of $98,795,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $500,000 are included in this issue.

Laws 1998, Chapter 404, as amended, authorizes the issuance of $4,000,000, of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public lands, buildings, and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $100,000 are included in this issue.

Laws 1999, Chapter 240, as amended, authorizes the issuance of $444,805,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $27,000,000 are included in this issue.

Laws 1999, Chapter 240, authorizes the issuance of $28,440,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public lands, buildings, and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $90,000 are included in this issue.

Laws 1999, Chapter 240, authorizes the issuance of $39,500,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to finance grants to be made to political subdivisions to pay a portion of the cost of acquisition and betterment of public land, buildings, and improvements of a capital nature needed for the prevention, control, and abatement of water pollution, in accordance with the long-range State plan and in accordance with standards adopted pursuant to law by the Minnesota Pollution Control Agency, of which $5,000,000 are included in this issue.

Laws 2000, Chapter 492, as amended, authorizes the issuance of $535,060,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings, and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $109,500,000 are included in this issue.

Laws 2000, Chapter 479, as amended, authorizes the issuance of $7,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675 and 174.50 to 174.51, to provide money to the Commissioner of Transportation to pay costs of acquisition and betterment of public land, buildings and improvements of a capital nature needed for the development of the State transportation system, and to finance grants to political subdivisions for this purpose, including costs of key bridges and bridge approaches on county highway systems, municipal street systems, and township road systems, of which $1,500,000 are included in this issue.

Special Session Laws 2001, Chapter 12, authorizes the issuance of $117,205,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $30,150,000 are included in this issue.

Laws 2002, Chapter 374, authorizes the issuance of $75,120,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $38,560,000 are included in this issue.

Laws 2002, Chapter 393, authorizes the issuance of $977,635,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.162 and 446A.07, to provide moneys for the acquisition and betterment by the State of public land, buildings and improvements of a capital nature, and to provide moneys appropriated to State agencies and political subdivisions for this purpose, of which $22,110,000 are included in this issue.

General Obligation State Trunk Highway Bonds.

Laws 2000, Chapter 479 authorizes the issuance of $100,100,000 State Trunk Highway Bonds pursuant to the Minnesota Constitution, Articles XI and XIV, and Minnesota Statutes, Sections 167.50 to 167.52, to finance capital improvements to the trunk highway system including interstate routes, of which $30,000,000 are included in this issue.

General Obligation State Refunding Bonds.

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council of which $37,405,000 are included in this issue. The issuance has been approved by resolution of the State Executive Council.

Security(1)

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

(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).

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.)

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal and interest on trunk highway bonds. Article XIV provides that the payment of the principal and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula may be made within six years of the last previous change. The next time this distribution formula may be changed is in the 2004 legislative session.

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

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

BOOK ENTRY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REDEMPTION AND PREPAYMENT

Bonds maturing on or before August 1, 2012 will not be subject to redemption prior to their stated maturity dates, but Bonds maturing on or after August 1, 2013 will be subject to redemption and prepayment by the State at its option on August 1, 2012 and any interest payment date thereafter, in whole or in part, in an order determined by the State and by lot within each maturity, at a price of par plus accrued interest to the date specified for redemption.

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

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

TAX EXEMPTION AND COLLATERAL TAX MATTERS

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

(1) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes;

(2) is subject to Minnesota franchise taxes imposed on corporations and financial institutions;

(3) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and

(4) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal alternative minimum taxes.

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

Arbitrage/Use of Proceeds

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

Future Tax Legislation

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

Future Judicial Decisions

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

Premium Bonds

The Bonds maturing in the years 2003 through 2021 are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Bonds at a premium must, from time to time, reduce their federal and Minnesota tax bases for the Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Bonds acquired at a premium.

Collateral Tax Matters

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

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

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

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

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

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

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

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

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

LEGAL OPINIONS

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

FINANCIAL 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-35 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, 2001, 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 appropriation for the fiscal year ending June 30, 2003 is $671,000.

2. *Amoco, et al., v. Commissioner of Revenue*. Minnesota Supreme Court. Before trial, the Tax Court granted two of the Commissioner's motions for partial summary judgment concluding:

(1) that the State's gasoline excise tax is not in lieu of its corporate franchise tax; and (2) that the amount of state and federal gasoline taxes paid by a gasoline distributor are includable in its "sales factor" for corporate franchise tax income apportionment purposes. After a trial, the Court resolved two additional issues ruling: (3) that Amoco's exploration and production segment is not unitary with its refining, marketing, transportation, and chemical segments; and (4) that Minnesota's water's edge system of combined reporting for franchise tax purposes does not violate the Foreign Commerce Clause of the United States Constitution. On April 29, 2002, the Commissioner appealed the unitary issue to the Minnesota Supreme Court. On the same day, Amoco appealed the "in lieu" issue. The amount in controversy is approximately $30 million. Rulings adverse to the State, however, would result in substantial additional liabilities as to these and other taxpayers. A decision by the Minnesota Supreme Court can be expected in early 2003.

3. *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 1/90 — 1/96 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 (product test) and under the exemption in effect for later periods (tangible personal property test). 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 prior law claims are based on the 1997 Minnesota RSA 10 Tax Court decision, which was affirmed by an evenly divided Minnesota Supreme Court in 1998. The subsequent law claims are based on the theory of the U.S. West Communications case, which was decided against the taxpayer, as described below. The second claim, in the approximate amount of $2 million, is based on the theory that certain equipment sold by the taxpayer to Qwest was not sold within Minnesota and was not stored or used in Minnesota under the temporary storage definition of former Minn. Stat. § 297A.01, subd. 7. The total of the two claims is approximately $12 million. Trial will likely occur late in 2002 or in 2003.

4. *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 is scheduled to be heard on June 11, 2002.

5. *Danny's Tranny's, Inc., and all other similarly situated v. State of Minnesota et al.* Ramsey County District Court. On May 6, 2002 the District Court granted final approval to a class action settlement pursuant to which the State paid $25.1 million into a settlement account for distribution to class members. The deadline for filing claims is June 30, 2002.

6. *U.S. West Communications, Inc. v. Commissioner of Revenue; and Qwest Corporation, f/k/a U.S. West Communications, Inc. v. Commissioner of Revenue.* Minnesota Supreme Court. On March 7, 2002, the Minnesota Supreme Court affirmed the Tax Court's decision, without opinion, upon an evenly divided court. On April 15, 2002, the Minnesota Supreme Court denied Qwest's petition for rehearing. While this decision concludes the litigation with respect to Qwest's refund claims, because it is not binding as precedent, other telecommunications companies are expected to go forward and litigate their claims. The remaining claims, in excess of $10 million, will be heard by the Tax Court later in 2003.

7. *Great Lakes Gas Transmission, LP v. Commissioner of Revenue.* Minnesota Supreme Court. The Minnesota Supreme Court affirmed the Minnesota Tax Court's decision. Refunds of approximately $17 million were paid in February and March of 2002.

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 J.P. Morgan Securities, Inc. as Underwriters, for a price of $324,800,854.84 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 "Aaa" 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.

Pamela Wheelock
Commissioner of Finance
State of Minnesota

OFFICIAL STATEMENT SUPPLEMENT

STATE OF MINNESOTA

General Obligation Bonds

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FINANCIAL STATEMENTS

The general purpose financial statements for the State for the Fiscal Year ended June 30, 2001 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 the Debt Service Fund; for all other funds, such information is summarized by fund type. 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.

June 30, 2001 Financial Statement Update

The State of Minnesota implemented the Governmental Accounting Standards Board (GASB), Statement 33 "Accounting and Financial Reporting for Nonexchange Transactions" in the fiscal year ended June 30, 2001. GASB 33 requires governments to record revenues, net of estimated refunds that extend beyond the availability period. In preparing the restatement of the 2001 Comprehensive Annual Financial Report (CAFR) to comply with the new reporting model contained in GASB, Statement 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments," the Commissioner of Finance determined that $157 million in sales tax refunds associated with tax years prior to the fiscal year and settled subsequent close were not recognized as a liability in the 2001 CAFR. This liability should have been recorded as a result of implementing GASB Statement 33. These refunds relate mainly to reimbursements of sales tax on certain types of capital equipment, which are exempt from the sales tax. Corporations are required to pay the sales tax at the time of sale and request a reimbursement within three and one half years of the date of purchase, up to a maximum of twice per year.

The Commissioner of Finance has researched the accounting treatment of this liability. This resulted in a restatement of the fiscal year 2001 CAFR. A note was added to the restated CAFR to clarify the changes between the CAFR issued and the restatement. The restated CAFR is included in Appendix A.

The entire $157 million liability has been included in accounts payable, $5 million was reflected as a reduction to sales tax revenue, and $152 million was considered a change in accounting principle in the Accounting General Fund. These adjustments resulted in a decrease in Unreserved Fund Balance of the General Fund from $207 million to $50 million. This change does not have any effect on the budgetary basis.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2000 and prior years, are available from the Commissioner of Finance ("Commissioner") at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2002 will not be available until December 31, 2002. Revenues and expenditures on a budgetary basis for the eleven-month period ending May 31, 2002 with comparative data for the same period ending May 31, 2001 are summarized on pages S-8 and S-9.

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 "Previous Biennium." The biennium which began on July 1, 2001, and which will end on June 30, 2003, is referred to herein as the

"Current Biennium." The biennium which will begin on July 1, 2003 and which will end on June 30, 2005, 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 2001 Legislature in June 2001. 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 1999 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 1999 and 2000 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 2000 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 2000. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2000. In November 2000, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor for submission to the Legislature in January 2001. In February 2001, 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 2001. 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 2000, 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-10 to S-21 show in summary form the results of the Revenue and Expenditure Forecasts, the Governor's Recommendations to the Legislature and the Legislative changes made during the Previous 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 from the Cash Flow Account is governed by statute. The Cash Flow Account balance for the Current Biennium was reduced by the 2002 Minnesota Legislature from $350 million to zero. The 2002 Legislature made available the $1.1 billion balance in the Tobacco Endowment Funds for cash flow purposes.

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 and the allocation of surplus forecast balances to the Budget Reserve Account are governed by statute. The Budget Reserve Account balance was reduced by the 2002 Minnesota Legislature from $653 million to $319 million for the Current Biennium.

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, reforecasts are made throughout 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 DRI•WEFA of Lexington, Massachusetts. DRI•WEFA furnishes a monthly report which forecasts trends in economic growth and individual incomes across all segments of the national economy.

The DRI•WEFA 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 DRI•WEFA forecast. If the Council determines that the DRI•WEFA forecast is significantly more optimistic than the current consensus, the Commissioner of Finance will base the State forecast on a less optimistic scenario of national economic growth.

Forecasts of individual income tax receipts are based on DRI•WEFA forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The DRI•WEFA forecasts are then entered into an economic model of Minnesota developed by DRI•WEFA 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 are becoming 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. 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 realizations to move gradually toward an equilibrium level rather than adjust instantaneously to a shock to model variables. The model's forecast includes a decline of 31 percent in tax year 2001 and a further decline of 3 percent in tax year 2002, then an increase in realization of 20 percent in tax year 2003 which is incorporated in the Minnesota income tax forecast.

Corporate income tax receipts are forecast using DRI•WEFA'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 forementioned 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 2002 DRI•WEFA Control Forecast, the scenario which DRI•WEFA considered to be the most likely at the time it was made, was the baseline for the February 2002 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. DRI•WEFA estimates potential GDP growth at 3.5 percent over the 2000 to 2003 period. The growth rates for 2001 through 2003 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.

DRI•WEFA FEBRUARY 2002
GROSS DOMESTIC PRODUCT (GDP)
CONTROL FORECAST
(Chained Rates of Growth)

	Calendar Year 1999 Actual %	Calendar Year 2000 Actual %	Calendar Year 2001 Forecast %	Calendar Year 2002 Forecast %	Calendar Year 2003 Forecast %
REAL GDP Growth Rate	4.1	4.1	1.1	1.0	4.0
GDP DEFLATOR (Inflation)	1.4	2.3	2.2	1.2	1.9
NOMINAL GDP Growth Rate	5.5	6.5	3.3	2.3	6.0

A report is published with each forecast and is available from the Commissioner of Finance upon request or www.finance.state.mn.us. The November 2002 revenue and expenditure forecast is scheduled for release in early December 2002. The November 2002 DRI•WEFA Control Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

Economic Update

The Commissioner of Finance believes that final personal income tax revenue for tax year 2001 will be materially lower than was estimated in the February 2002 revenue forecast. Processing of timely final personal income payments and payments accompanying extension requests has largely been completed and such payments are $200 million less than projected. While refund return processing and payments will continue through at least mid-July, the Commissioner of Finance is now estimating that refund payments will exceed the amount forecast in February 2002 by $140 million.

While the full impact of this reduction in tax year 2001 future revenues will not be determined until processing of timely returns is complete, much of this revenue reduction is expected to be ongoing. Department of Finance economists attribute the reduction in final revenue to an even larger decline in capital gains realizations than the 31 percent decline included in the forecast and to a larger than anticipated reduction in bonuses and stock option income during tax year 2001. The Commissioner of Finance anticipates that when the lower than projected final individual income tax revenue for tax year 2001 currently estimated at $340 million is incorporated into the revenue forecast in November 2002, projected state revenues for the remainder of the Current Biennium and for the Next Biennium will be reduced. For the effects on the Current Biennium budget see page S-10.

Sources of Revenue Forecast Changes February 2001 to February 2002

At the close of the June 2001 special legislative session, Minnesota's net non-dedicated revenues for the Current Biennium were projected to total $27.5 billion. That revenue estimate was based on the State's February 2001 revenue forecast adjusted for tax law changes enacted during the 2001 legislative sessions. The November 2001 revenue forecast reduced projected revenues to $25.4 billion, $2.1 billion (7.6 percent) below end-of-session estimates. Expected revenues were reduced by an additional $307 million in the February 2002 revenue and expenditure forecast. Since the close of the 2001 legislative session, expected net non-dedicated revenues in the Current Biennium have been reduced by a total of $2.4 billion or 8.8 percent.

Successively lower projections for individual income tax receipts accounted for more than 53 percent of the decline in forecast revenues from end-of-session estimates. A weaker outlook for sales tax receipts accounted for an additional 30 percent of the decline, and further declines in net corporate tax collections, for more than 21 percent of the decline. The forecasts for the motor vehicle sales tax and other taxes and receipts all increased by modest amounts from end-of-session estimates.

Much, but not all, of the reduction in revenues is due to successively more pessimistic national economic forecasts. In February 2001 DRI•WEFA, Minnesota's national economic consultant, was forecasting nominal GDP growth of 4.7 percent in Fiscal Year 2002, and 6.6 percent in Fiscal Year 2003. During the Current Biennium nominal GDP growth was expected to average 5.6 percent per year. By February 2002, the national economic outlook was less optimistic, with nominal GDP growth now projected to average just 3.9 percent for the Current Biennium.

The decline in the outlook for nominal GDP growth understates the impact on state revenues, however. The forecast for before-tax corporate profits in calendar year 2002 dropped by more than 25 percent between February 2001 and February 2002. Before tax corporate profits is the principal variable used in forecasting state corporate franchise tax revenues. Expected growth in the stock market, the key variable used to determine growth in capital gains realizations, also showed a major shift. The February 2001 DRI•WEFA Control anticipated that the Standard & Poor's 500 Index would average 1,640 during the final quarter of the Current Biennium. In the February 2002 forecast DRI•WEFA's stock market forecast had been reduced by nearly 25 percent to 1,232. The resulting decline in projected capital gains realizations accounted for more than $450 million of the reduction in the income tax forecast.

The other major source of the decline in projected individual income tax revenues was a substantial decline in expected wage growth. The February 2001 forecast projected wage and salary incomes to grow at a 5.1 percent annual rate in Minnesota in 2001 and by 5.7 percent in calendar year 2002. Minnesota Department of Finance economists now believe that wage and salary growth, including performance pay items such as bonuses and stock options, grew by just 3.5 percent in calendar year 2001, based on the growth in State withholding receipts. For calendar year 2002, annual wage and salary growth of just 2.1 percent is projected. In both instances the slow growth rate is attributable to an apparently large decline in the amount of bonuses paid and an even larger drop in the value of stock options exercised. Performance based compensation such as bonuses and stock options appears to have increased by more than 150 percent from levels observed in 1995. The decline in expected wage growth for tax years 2001 through 2003 reduced the individual income tax forecast by about $650 million.

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, 1999 through 2001, and for the additional time periods shown. For the Fiscal Years ended June 30, 1999 through 2001 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 eleven-month periods ending May 31, 2001 and May 31, 2002 such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2001 and 2002, 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 1,2000 through May 31, 2001 (1)	July 1,2001 through May 31, 2002 (1)
	1999	2000	2001		
UNRESTRICTED REVENUES:					
Income Tax - Individual	$ 6,204,274	$ 6,458,103	$ 6,735,631	$ 6,146,290	$ 5,784,989
Income Tax - Corporation..........................	883,302	938,396	868,511	771,756	618,843
Sales Tax (2)	2,330,834	3,307,708	3,225,935	3,529,394	3,499,122
Inheritance and Gift Tax..........................	58,695	82,509	53,727	49,926	64,184
Liquor, Wine and Malt Beverage Tax.......	61,551	60,356	61,724	50,799	52,184
Cigarette and Tobacco Tax	186,012	175,089	179,771	151,746	152,653
Mining Taxes..	2,307	2,292	2,190	2,190	165
Gross Earnings Taxes.............................	174,351	171,130	192,000	154,887	134,521
Motor Vehicle Excise Tax........................	498,635	521,547	545,979	485,689	404,239
Income Reciprocity Tax...........................	40,782	45,584	42,991	42,610	47,899
Department Earnings (3)	119,734	120,752	124,731	111,659	191,087
Investment Income..................................	219,586	190,573	197,781	168,960	74,417
Tobacco Settlement…………………………	-	104,926	130,254	116,112	154,767
All Other Revenues (4)	398,403	364,309	568,746	503,192	655,999
TOTAL UNRESTRICTED REVENUES….	$ 11,178,466	$ 12,543,274	$ 12,929,971	$ 12,285,210	$ 11,835,069
RESTRICTED REVENUES..............................	525,412	595,068	537,407	509,388	495,988
LESS REVENUE REFUNDS:					
Income Tax - Individual	$ 899,097	$ 866,777	$ 810,653	$ 708,742	$ $696,870
Income Tax - Corporation......................	105,020	104,153	158,809	135,214	156,902
Sales Tax..	203,791	195,335	236,056	217,629	215,091
All Other..	14,898	16,195	16,687	8,942	8,391
TOTAL REFUNDS.................................	$ 1,222,806	$ 1,182,460	$ 1,222,205	$ 1,070,527	$ 1,077,254
NET REVENUES...............................	$ 10,481,072	$ 11,955,882	$ 12,245,173	$ 11,724,071	$ 11,253,803

(1) For Fiscal Years 1999, 2000 and 2001, the schedule of revenues includes all revenues for the fiscal year, including revenue accurals at June 30. For the eleven-month periods ended May 31, 2001 and 2002, only current receipts have been included.

(2) Sales Tax Revenues decreased in 1999 and 2000 due to 1999 Legislative action which provided a sales tax rebate of $1.3 billion in Fiscal Year 1999 and a sales tax rebate of $624 million in Fiscal Year 2000.

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

(4) 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 Acccounting General Fund.

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, 2000 through May 31, 2001(1)	July 1, 2001 through May 31, 2002 (1)
	1999	2000	2001		
EXPENDITURES:					
Personal Services	$ 1,445,970	$ 1,572,572	$ 1,624,757	$ 1,398,308	$ 1,498,825
Purchased Services	458,327	483,177	543,563	479,279	462,181
Materials and Supplies	108,441	106,532	116,170	98,500	91,183
Capital Outlay:					
Equipment	67,368	52,360	63,981	49,548	38,687
Real Property	7,408	6,241	8,418	7,051	34,849
Grants and Subsidies:					
Individuals (2)	2,280,046	2,450,527	2,571,957	2,314,311	2,639,083
Municipalities and Towns	803,980	814,144	794,997	769,733	783,072
Counties	752,426	773,891	727,640	667,880	638,484
School Districts (3)	3,970,847	4,402,847	4,715,898	4,166,286	4,297,586
Private Organizations	186,300	191,224	207,061	190,039	176,606
University of Minnesota	435,065	436,853	503,652	453,287	471,090
Other	166,421	171,820	185,945	158,448	178,837
TOTAL EXPENDITURES	$ 10,682,599	$ 11,462,188	$ 12,064,039	$ 10,752,670	$ 11,310,483
NET TRANSFERS OUT (4)	411,364	593,660	807,844	797,268	454,730
TOTAL EXPENDITURES and NET TRANSFERS OUT	$ 11,093,963	$ 12,055,848	$ 12,871,883	$ 11,549,938	$ 11,765,213

(1) For Fiscal Years 1999, 2000 and 2001, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For the eleven-month periods ended May 31, 2001 and 2002, only current year expenditures have been included.

(2) Department of Human Services Basic Health Care Grants (MA, GAMC) from the eleven-month periods ended May 31, 2001 and 2002 increased by $333 million

(3) Grants and subsidies to School Districts increased from Fiscal Year 1999 to Fiscal Year 2000 due partially to a new Education Homestead Credit authorized by 1999 Legislative action.

(4) Net Transfers Out increased in Fiscal Year 1999 to Fiscal Year 2000 due to several new projects. Net Transfers Out increased in Fiscal Year 2000 to Fiscal year 2001 due to a one-time transfer of approximately $130 million for transportation funding and for capital projects. In addition, approximately $160 million was trasferred to the Highway User Tax Distribtion (HUTD) Fund to replace the reduction in Motor Vehicle Registration Tax. Net Transfers Out decreased from the eleven-month periods ended May 31, 2001and 2002 due to one time transportation projects and a transfer to HUTD fund of approximately $260 million.

BUDGET — CURRENT BIENNIUM

November 2000 Forecast — Current Law

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

CURRENT 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 Current Biennium were forecast to total $27.848 billion, up 16.5 percent from levels projected in the November 2000 forecast for the Previous 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 Previous 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 Current Biennium were estimated to total $26.125 billion, or $1.526 billion more than the November 2000 estimate for the Previous Biennium. Estimated inflation accounted for $736 million of the forecast growth in spending over the Previous Biennium.

COMPARISON OF CURRENT BIENNIUM
TO PREVIOUS 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 Current 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:

CURRENT 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 Current Biennium. Current resources, total resources less the balance from the Previous Biennium, in the January 2001 Governor's recommendation would have increased by $3.629 billion (15.3 percent) over the Previous Biennium.

The Governor included major tax reform proposals in his January 2001 recommendation. Proposed tax reductions and tax reform totaled $822 million in the Current Biennium. These reductions were offset in part by increased revenues of $470 million from a proposed statewide business property tax levy. All other Accounting General Fund revenues were reduced by $102 million from the November 2000 forecast. The Governor proposed to re-direct the remaining two years of one-time tobacco settlement revenues to endowment funds resulting in a $334 million reduction in Accounting General Fund revenues.

Expenditure Changes Proposed in the Governor's Budget:

The January 2001 Governor's recommendation for the Current 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 Previous Biennium.

The largest single increase proposed, $1.389 billion over the November 2000 forecast, would have occurred in tax reform and relief. Property taxes would have been reduced by increasing state spending for K-12 education and by increasing state aids to cities, towns and counties. The changes proposed by the Governor for property tax reform and relief would have increased state spending in the K-12 education and local aid programs, thereby having the effect of reducing local property taxes.

Other new spending initiatives proposed by the Governor totaled $709 million. The Governor proposed to dedicate a portion of the motor vehicle sales tax rather than make an appropriation to the State Trunk Highway Fund to replace revenue resulting from the lower motor vehicle registration tax.

The Governor also recommended increasing the Budget Reserve Account from $622 million to $700 million by the end of the Current Biennium. He recommended that interest earned on cash balances in the Budget Reserve Account be deposited into the Budget Reserve Account, allowing it to grow by $78 million in the Current Biennium.

Next Biennium:

Based upon the Governor's budget recommendations, the planning estimates for the Next 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 Current Biennium in February 2001. The February 2001 Current Biennium forecast of resources, expenditures, and fund balances, without regard to the Governor's January 2001 recommendation, is detailed below:

CURRENT 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 Previous Biennium. Forecast revenues for the Current 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 Current 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 Current Biennium resources, expenditures, and fund balances based on the March 2001 Governor's Budget Recommendation is detailed below:

CURRENT 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

Additional Revenue Changes Proposed by the Governor:

The March 2001 Governor's recommendation made a number of changes to his tax proposals based on the lowered forecast in February 2001. The most significant of these changes included a modification of the Governor's proposal for individual income tax rate reductions that produced a savings of $213 million. The proposal to reduce the motor vehicle registration tax was postponed for one year which produced a savings of $84 million. There were also a number of minor changes and technical corrections to the January 2001 Governor's recommendation.

Additional Expenditure Changes Proposed by the Governor:

The March 2001 Governor's recommendation included withdrawing a proposal to shift the local aids payment schedule at a one-time savings of $255 million. The Governor's revised recommendations also included a variety of minor changes and technical corrections to expenditures, compared to the January 2001 Governor's recommendation.

Next Biennium:

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

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.

CURRENT 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 Previous Biennium.

Property tax changes also removed property tax levies for local transit operations and dedicated a portion of future motor vehicle sales tax revenues for that purpose. When combined with changes dedicating motor vehicle sales tax revenues to offset previously enacted motor vehicle license reductions, a total of 54 percent of this Accounting General Fund revenue source will be deposited directly to existing highway and newly created transit funds beginning in Fiscal Year 2003. These changes are reflected as a reduction in expected Accounting General Fund revenues.

The Legislature also followed the Governor's recommendation to set aside remaining one-time tobacco settlement revenues totaling $343 million into a new endowment fund. (See "Tobacco Settlement," page S-25.) The endowment was expected to provide an additional $20 million annually for the Academic Health Center at the University of Minnesota. These funds are not included in the Accounting General Fund and are separately invested with the investment income available for program expenditures.

Other miscellaneous changes and technical corrections, including adopted conformity to 2000 and 2001 federal tax law changes also affected the level of Accounting General Fund resources.

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 Previous 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 Previous Biennium.

Spending changes that were enacted:

— K-12 education funding was increased by $646 million (8.0 percent). In addition to the normal biennial growth in pupil units and formula inflation, the enacted budget provided for an increase in the general education formula of 2.6 percent per year, a biennial increase of $285 million. The Legislature also adopted provisions that created pilot programs to link teacher compensation to student achievement, accountability audits to allow comparison of district finances and student performance, and requirements that school district budgets be structurally balanced when negotiating labor contracts.

When these changes are combined with the accompanying increases in K-12 education spending associated with the takeover of the local K-12 general education levy, its share of Accounting General Fund spending would increase from 32.2 percent in Fiscal Year 2001 to 40.0 percent by Fiscal Year 2003.

— Health, human services and corrections programs would grow $1.076 billion (17.4 percent) over the Previous Biennium. Long-term care changes provided for significant reductions in the number of nursing home beds in the state while funding a 3.0 percent annual increase in provider rates. Health insurance programs were expanded to about 18,000 more Minnesota children and 4,000 parents, and funding was approved to adjust welfare time limits so that about one-half of Minnesota welfare recipients approaching the five year limit could continue to receive benefits.

— Higher education funding and financial aid would grow $203 million (7.7 percent) over the Previous Biennium.

— State agencies' funding for salaries was increased 3.0 percent per year.

Reserves, Future Forecast Contingencies:

The Legislature also adopted several changes governing State reserves and future forecast allocations:

— The Accounting General Fund Budget Reserve Account was increased from $622 million to $653 million. Combined with the $350 million Cash Flow Account, the total represented 6.8 percent of forecast Fiscal Year 2003 expenditures.

— The general contingent account was increased from $200,000 in the Previous Biennium to $6 million in the Current Biennium.

— Previously enacted laws designating the allocation of 60 percent of future forecast positive Unrestricted Accounting General Fund balances to a Property Tax Reform Account were repealed.

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

CURRENT 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 Current Biennium in November 2001.

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

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

Total revenues were expected to be $2.095 billion lower than previously estimated. Corporate tax revenues showed the largest percentage decline, down 28% ($470 million) from estimates made earlier in the year. Projected individual income tax receipts were down 7% ($873 million) and projected sales tax receipts were down 10% ($829 million). Motor vehicle sales tax receipts estimates increased by $41 million, and estimates of all other revenues increased by $35 million.

The forecast of expenditures showed little change from end of 2001 session estimates. Total expenditures were forecast to be $400 million higher for the Current Biennium. Of that amount, $315 million were expenditures carried forward from the Previous Biennium. The remaining increase in expenditures was due in part to additional pupil units and an increase in local referenda that created a $75 million increase in K-12 expenditures. In addition, there was a $42 million increase in the Health and Human Services expenditures. These increases were offset by an expected decrease of $22 million in Debt Service costs and decreases in all other spending of $10 million.

January 2002 Governor's Budget Recommendations

In January 2002 the Governor submitted a proposed supplemental budget to the Legislature for the Current 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:

CURRENT 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 Current 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.

The Governor recommended that tax changes totaling $397 million be enacted to solve twenty percent of the deficit forecast for the Current Biennium. Major components of the January 2002 Governor's recommendation were a five cent per gallon gasoline tax increase, indexed to inflation, a twenty-nine cents per pack increase in cigarette taxes and corporate and individual income tax changes including an estate tax reduction.

In total, the recommended tax changes were expected to increase Accounting General Fund resources $397 million during the Current Biennium. The five-cent per gallon increase in the gasoline tax was based on an effective date of March 1, 2002. The increase was expected to generate $199 million in additional Highway User Tax Distribution Fund revenues. The Governor proposed reducing the current Accounting General Fund dedication of a portion of motor vehicle sales tax revenues to the Highway User Tax Distribution Fund by $194 million. The Governor's proposal to increase the cigarette tax from forty-eight to seventy-seven cents per pack had an effective date of March 1, 2002. Taxes on other tobacco products were also recommended to increase from thirty-five to forty-nine percent of the wholesale price. These recommendations were expected to generate $123 million during the Current Biennium. Individual and corporate tax recommendations were less significant — accounting for $59 million of the proposed budget solution. Repealing income tax reciprocity with the State of Wisconsin was expected to increase revenues by $30 million and an increase in the minimum corporate tax fees paid by businesses was expected to increase revenues by $25 million.

Additionally the Governor recommended selected sales tax base expansions effective July 1, 2003. The proposal included extending sales taxes to motor vehicle repairs, legal services excluding business-to-business, papers and magazines, institutional meals and telemarketing calls. These proposals, however, were not expected to have a fiscal impact on the Current Biennium. The sole exception was a recommendation to repeal the sales tax exemption for school districts. This proposal was expected to increase revenues $21 million during the Current Biennium.

Expenditure Changes Proposed in the Governor's Budget:

The January 2002 Governor's recommendation for the Current 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 Current Biennium.

The expenditure reductions proposed by the Governor varied by major spending category. Proposed reductions to K-12 education amounted to $92 million or a 0.9 percent reduction. Higher education was reduced $71 million or 2.5 percent. Local Government Aids were reduced $146 million or 5.2 percent. Health and human services spending was reduced $98 million or 1.5 percent. All other spending categories accounted for $293 million of the proposed reduction or 5.3 percent. Most state agency operating budgets were reduced between 5 and 10 percent.

One-time Actions Proposed by the Governor:

The Governor's recommendation included two one-time adjustments. A $245 million appropriation made in the 2000 Legislative session to the Department of Transportation for projects along interregional corridors and to alleviate bottlenecks was reduced as an Accounting General Fund expenditure. The Governor proposed that an equivalent amount of Trunk Highway bonds be issued to fund these projects. Additionally the Governor recommended a one-time transfer of $95 million from the Assigned Risk Plan to the Accounting General Fund. As of June 2001, the Assigned Risk Plan reported a surplus of $170 million.

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 Next Biennium.

February 2002 Forecast - Current Law

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

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

CURRENT 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 Account General Fund is a deficit of $2.289 billion which is $336 million greater than the deficit forecast in November 2001. Revenues are forecast to be $301 million lower than the November 2001 forecast, and expenditures are 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 Current Biennium. The February 2002 revised Governor's budget recommendation for the Current Biennium is detailed below:

CURRENT 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

The February 2002 Governor's recommendation supplemented his January 2002 recommendations and eliminated the additional forecasted $333 million deficit. The Governor recommended changes totaling $335 million. First, the Governor recommended that the Tax Relief Account balance be eliminated effective June 30, 2002 and that the $158 million balance in the account be transferred to the Accounting General Fund. This changed the Governor's original recommendation that this amount be transferred to the Budget Reserve Account on July 1, 2003. The Governor also withdrew his recommendation to change payment of a portion of the local government aid payments from July to March. This recommendation had the effect of reducing recommended Fiscal Year 2003 spending by $173 million.

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 Current Biennium.

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

CURRENT 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 Current 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 Next Biennium.

The legislation balanced projected revenues and expenditures for the Current 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 highlighted below. within each of these components are discussed in more detail 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. A transfer of $250 million from excess balances in the Workers Compensation Fund will occur July 1, 2002. A $134 million surplus in the Assigned Risk Plan will also be transferred to the Accounting General Fund. Both of these funds reported policy surpluses in excess of these amounts.

Expenditures:

Total expenditures were reduced by $925 million for the Current 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.

One-time capital funding of $40 million for busway construction and $129 million in tax increment finance grant funds were cancelled. $75 million of Accounting General Fund appropriations for various capital projects were cancelled. The Legislature authorized an equivalent amount of general obligation bonding to fund these projects.

The expenditure reductions varied by major spending category. Reductions to K-12 education finance amounted to $14 million or a 0.1 percent reduction. Higher education was cut $49 million or 0.7 percent. Health and human services spending was reduced $109 million or 1.8 percent. All other spending categories were reduced by $115 million. While individual state agency operating budget reductions varied, most state agency operating budgets were cut between five and fifteen percent. A state hiring freeze and professional-technical contract moratorium through June 30, 2003 were enacted into law to reduce spending by $58 million. No reductions were made to state local aid and property tax relief programs.

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 Current 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. The most significant of these occurs in education finance. Education aid payments for K-12 and family and early childhood education were changed from a payment schedule with a ten percent final payment to a payment schedule with a seventeen percent final payment, reducing Current Biennium costs by $438 million. A change was made in the estimated entitlement used for special education excess cost aid. This reduced Current Biennium costs by $26 million. Offsetting these savings was an $18 million cash advance to school districts.

The payment schedule for State community social service act grants to counties was also changed reducing Current Biennium costs $37 million. The June sales tax acceleration that requires remitters to advance a portion of their July tax payment to June was increased from 62 percent to 75 percent. This is expected to result in an additional $26 million in the Current Biennium.

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.

Next Biennium:

The planning estimates for the Next 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.

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 2002 legislative session estimates.
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 2002 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2002	Fiscal Year 2003	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	1,574,200	873,096	1,574,200
Net Non-dedicated Revenues	12,386,639	12,930,463	25,317,102
Dedicated Revenues	48,385	44,476	92,861
Transfers From Other Funds	49,811	319,360	369,171
Prior Year Adjustments	(127,257)	10,100	(117,157)
Subtotal Current Resources	12,357,578	13,304,399	25,661,977
Total Revenues Plus Prior Year Ending Balance	13,931,778	14,177,495	27,236,177
Authorized Expenditures & Transfers			
Education Finance	4,331,316	5,467,494	9,798,810
Family & Early Childhood Education	239,741	239,433	479,174
Property Tax Aids & Credits	1,770,806	1,570,207	3,341,013
Higher Education	1,390,983	1,416,858	2,807,841
Health, Human Services & Corrections	3,521,359	3,782,365	7,303,724
Environment & Agriculture	267,200	249,296	516,496
Economic Development	197,956	193,393	391,349
Transportation & Public Safety	588,733	367,727	956,460
State Government	429,428	289,869	719,297
Debt Service & Borrowing	285,575	327,657	613,232
Capital Projects	0	(75,385)	(75,385)
Cancellation Adjustment	(12,800)	(15,000)	(27,800)
Subtotal Expenditures & Transfers	13,010,297	13,813,914	26,824,211
Dedicated Revenue Expenditures	48,385	44,476	92,861
Total Expenditures and Transfers	13,058,682	13,858,390	26,917,072
Unreserved Balance	873,096	319,105	319,105
Budget Reserve	0	319,105	319,105
Tax Relief Account	158,148	0	0
Unrestricted Balance	714,948	0	0

(1) On a budgetary basis, 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 Current Biennium.

CURRENT BIENNIUM
ACCOUNTING GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
END OF 2002 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2002	Fiscal Year 2003	Current Biennium
Net Non-dedicated Revenues:			
Income Tax - Individual	5,733,200	6,049,400	11,782,600
Income Tax - Corporate	529,540	628,250	1,157,790
Sales Tax	3,744,470	3,869,132	7,613,602
Motor Vehicle Sales Tax	418,228	274,401	692,629
Statewide Property Tax	296,000	594,851	890,851
Estate Tax	65,000	65,000	130,000
Liquor, Wine & Beer	59,000	63,117	122,117
Cigarette & Tobacco	161,076	175,830	336,906
Mining	1,544	1,350	2,894
Mortgage Registry Tax	122,056	85,730	207,786
Deed Transfer Tax	78,044	71,170	149,214
Gross Earnings Taxes	205,750	221,150	426,900
Lawful Gambling Taxes	58,377	58,669	117,046
Medical Assistance Surcharges	135,037	138,422	273,459
Income Tax Reciprocity	47,899	54,845	102,744
Tobacco Settlements	149,614	151,592	301,206
Investment Income	75,000	40,000	115,000
DHS RTC Collections	68,153	62,175	130,328
Lottery Revenue	28,887	28,887	57,774
Departmental Earnings	187,159	192,080	379,239
All Other Nondedicated Revenue	256,299	137,319	393,618
Tax and Non-Tax Refunds	(33,694)	(32,907)	(66,601)
Total Net Non-dedicated Revenues	12,386,639	12,930,463	25,317,102

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 2002 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 $276. 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 $18,710	5.35 percent
on all over $18,710, but not over $61,460	7.05 percent
on all over $61,460	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $27,350	5.35 percent
on all over $27,350, but not over $108,661	7.05 percent
on all over $108,661	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 $23,040	5.35 percent
on all over $23,040, but not over $92,561	7.05 percent
on all over $92,561	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 entered into a settlement of a lawsuit which it had initiated against several tobacco companies. The settlement requires the defendant tobacco companies to pay to the State an amount of $6.1 billion over a period of 25 years. This settlement will produce additional annual calendar year revenue to the State ranging from a low of approximately $204 million to a high of approximately $418 million.

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of 11,914 miles of highways, 4,678 bridges, and 974 maintenance, enforcement, service, and administrative buildings at 397 sites. Minnesota has 914 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is 132,252 miles.

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

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal and interest on trunk highway bonds. Article XIV provides that the payment of the principal and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula may be made within six years of the last previous change. The next time this distribution formula may be changed is in the 2004 legislative session.

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, drivers license fees, investment income, and miscellaneous fees and reimbursements.(1)

A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the state and includes gasoline, diesel fuel, and other special fuels. For gasoline and diesel fuel the current tax is twenty cents per gallon; this rate was enacted in 1988. For some special fuels the rate is different and is based on the equivalent energy content of the fuel compared to gasoline.

Revenues from motor fuels taxes are forecast to generate an estimated $609 million in Fiscal Year 2002, after refunds, collection costs and other transfers (e.g., estimated revenues from taxes paid on non-highway fuel transferred to other state accounts). Revenues are estimated to increase at a rate from 2.0% to 2.5% annually due to increased vehicle miles traveled, offset slightly by increases in fuel efficiency of the entire fleet of vehicles.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25% times the original value of the vehicle, with all but the $10 portion of the tax being decreased in accordance with a statutory schedule. However, the maximum tax for the first renewal is $189 and for subsequent renewals is $99. The minimum tax is $35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being $1,760 for trucks registered at 80,000 pounds that are less than 9 years old. Trucks registered at a rate greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes will generate an estimated $467 million in Fiscal Year 2002, after refunds and collection costs.

The State of Minnesota has a sales tax of 6.5% on motor vehicles. Except for Fiscal Years 1985, 1988, 1989, and 1990, all of the revenue from the motor vehicle sales tax has been deposited into the

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(1) Trunk Highway revenues were forecast as part of the February 2002 Revenue and Expenditure Forecast.

Accounting General Fund. Action by the 2000 and 2001 Legislatures changed this policy. In Fiscal Year 2002, 30.86% of the revenue from this tax will be deposited into the Highway User Tax Distribution Fund; it is estimated that this will be $186.7 million. In Fiscal Year 2003 and thereafter 32% of the revenue from this tax will be deposited into the Highway User Tax Distribution Fund; it is estimated that this will be $189.9 million in Fiscal Year 2003.

The 2000 Legislature authorized $100 million of Trunk Highway Bonds, of which $55 million has been issued to date, which may be used for "reconstruction and replacement of key bridges on the state trunk highway system; for construction, improvement, and maintenance of the interregional corridor system as identified by the commissioner [of transportation]; for the improvement of highways classified as bottlenecks by the commissioner [of transportation]; for providing highway-related advantages for transit; and for acquisition of properties necessary to locate, construct, reconstruct, improve, and maintain the trunk highway system." This authorization provides that no more than $14,000,000 of the bonds may be spent for program delivery (program delivery consists of engineering work by both consultants and Mn/DOT staff needed to prepare plans and specifications used to solicit bids for construction contracts, construction contract supervision and inspection, and a variety of other project-specific support activities). Mn/DOT has determined and the Commissioner of Finance has concurred that the bond proceeds will be used as shown in Appendix C.

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

CURRENT BIENNIUM
TRUNK HIGHWAY FUND
ESTIMATES OF REVENUES AND EXPENDITURES
($ in Thousands)

	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2003	Current Biennium
Beginning Fund Balance	$ 180,902	$ 116,926	$ 180,902
Forecast Revenues			
Motor Fuel Tax	358,665	366,548	725,213
Motor Vehicle Tax	280,251	290,076	570,327
Motor Vehicle Sales Tax	109,950	111,825	221,775
Federal Aid Agreements	311,000	336,000	647,000
Drivers License	25,196	25,197	50,393
Investment Income	14,813	14,813	29,626
Other Miscellaneous Income	53,546	39,357	92,903
Bond Proceeds	55,000	15,100	70,100
Prior Year Accounting Adjustments	(55,600)	22,500	(33,100)
Total Revenues	$1,152,821	$1,221,416	$2,374,237
Estimated Expenditures			
State Roads			
State Road Construction	$ 650,046	$ 595,980	$1,246,026
Highway Debt Service	18,954	25,492	44,446
Program Support	80,136	81,596	161,732
Program Delivery	97,763	99,616	197,379
Operations	219,863	224,852	444,715
General Support	51,712	52,673	104,385
Buildings	7,716	0	7,716
Other State Agencies	90,606	98,500	189,106
Total Expenditures	$1,216,796	$1,178,709	$2,395,505
Ending Fund Balance	$ 116,926	$ 159,634	$ 159,634

Capital Needs of the Trunk Highway System

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

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

Minnesota's 2000 Legislature appropriated $359 million to begin addressing these needs. $177.5 million was designated for work on interregional corridors outside the seven county metropolitan area, and $177.5 million was designated for work on removing bottlenecks on freeways and expressways within the seven county metropolitan area. The remaining $5 million was allocated for bus transit ways or highway-related transit advantages projects. These appropriations are available until the end of Fiscal Year 2003 and if not used the balances will be cancelled and the amounts deposited to the Trunk Highway Fund.

CURRENT BIENNIUM
TRUNK HIGHWAY IMPROVEMENT PROGRAM
($ in Millions)

Improvement Category	Trunk Highway Funds and Federal Funds	Bond Funds	Total
Major Construction	$ 462.9	$33.3	$ 496.2
Reconstruction	126.7	0.0	126.7
Bridge Reconstruction	49.1	0.0	49.1
Bridge Repair	30.8	0.0	30.8
Reconditioning	60.1	0.0	60.1
Resurfacing	108.1	0.0	108.1
Road Repair	32.7	0.0	32.7
Traffic Management and ITS	54.8	0.0	54.8
Safety	38.7	0.0	38.7
Municipal Agreements	34.3	0.0	34.3
Right of Way	117.3	29.6	146.9
Miscellaneous	124.2	0.0	124.2
Program Delivery	0.0	9.5	9.5
Total	$1,239.7[(1)]	$72.4	$1,312.1

(1) The total expenditures, excluding the amount provided by bond funds, consisted of $572.6 million of highway user tax revenues and $667.2 million of federal funds.

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 1999 through 2001, and for the additional time periods shown. For the Fiscal Years ended June 30, 1999 through 2001 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 eleven-month periods ending May 31, 2001 and May 31, 2002 such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2001 and 2002, 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 current generally accepted accounting principles for reporting purposes.

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

	Fiscal Year Ended June 30(1)			July 1, 2000 Through	July 1, 2001 Through
	1999	2000	2001	May 31, 2001	May 31, 2002
Revenues:					
Taxes:(2)					
Motor Fuel	$ 360,506	$ 364,561	$ 378,386	$ 339,403	$309,102
Motor Vehicle	346,499	371,562	297,897	263,967	254,381
Less: Revenue Refunds	(33,221)	(34,703)	(43,558)	(41,909)	(32,565)
Net Taxes	$ 673,784	$ 701,420	$ 632,725	$ 561,461	$530,918
Accounting General Fund Appropriation(2)			88,234	80,882	
Motor Vehicle Sales Tax2					$ 91,640
Federal Grants	287,922	318,729	390,978	280,860	269,532
Drivers License	20,938	21,751	22,121	19,427	20,119
Penalties & Fines	6,915	7,817	5,142	3,070	3,149
Investment Income	15,699	16,446	19,043	16,881	9,895
Bond Proceeds			30,000	30,000	25,000
Other Revenue	30,233	30,290	40,733	37,724	36,773
TH Revenue Refunds	(2,332)	(2,351)	(2,260)	(2,223)	(2,117)
Total Revenues	**$1,033,159**	**$1,094,102**	**$1,226,716**	**$1,028,082**	**$984,908**

(1) For Fiscal Years 1999, 2000, and 2001, the schedule of revenues includes all revenue for the Fiscal Year, including accruals at June 30.

(2) These amounts represent the Trunk Highway Fund portion of the Motor Fuel and Motor Vehicle Taxes, and the Accounting General Fund Appropriation to the Highway User Tax Distribution Fund.

STATE OF MINNESOTA
TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF EXPENDITURES AND TRANSFERS TO OTHER FUNDS
($ in Thousands)

	Fiscal Year Ended June 30(1) 1999	2000	2001	July 1, 2000 Through May 31, 2001(1)	July 1, 2001 Through May 31, 2002(1)
Expenditures:					
Personal Services	$ 327,599	$ 347,821	$ 365,305	$310,671	$325,451
Purchased Services	108,196	100,734	116,315	73,726	64,741
Materials and Supplies	67,484	49,647	70,899	46,399	40,151
Capital Outlay:					
Equipment	37,853	23,138	39,510	18,894	13,753
Capital Outlay & Real Property(2)	495,246	481,682	702,220	157,339	97,530
Grants and Subsidies:					
Individuals	41	28	22	18	19
Counties	234	312	121	121	268
School Districts	21	21	0	0	5
Private Organizations	1,413	628	0	0	9
Other	733	865	687	622	621
Total Expenditures	$1,038,819	$1,004,876	$1,295,079	$607,790	$542,548
Transfers:					
Debt Service	5,149	3,744	6,352	6,352	7,449
Other Transfers	1,054	(3,282)	(2,429)	(3,488)	3,987
Net Transfers	$ 6,203	$ 462	$ 3,923	$ 2,864	$ 3,462
Total Expenditures and Net Transfers Out	**$1,045,022**	**$1,005,338**	**$1,299,002**	**$610,654**	**$546,010**

(1) For Fiscal Years 1999, 2000 and 2001, the schedule of expenditures includes all expenditures for the respective fiscal years, plus encumbrances outstanding as of June 30. For the eleven-month periods ended May 31, 2001 and 2002, only current year expenditures have been included.

(2) Because construction contracts typically span into future fiscal years, and are encumbered in their entirety in the appropriate fiscal year, materially large amounts of encumbrances exist at the end of a fiscal year. Encumbrances have therefore been included in Capital Outlay and Real Property totals for all time periods.

MINNESOTACARE® PROGRAM

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

The program is not part of the 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.

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, 2001	$288
Revenues	449
Total Resources	737
Expenditures	578
Projected Unreserved Balance at June 30, 2003	$159
Premium and IBNR Reserve Account	0
Federal Reserves	0
Projected Unrestricted Balance at June 30, 2003	$159

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 Children, Families and Learning 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 Children, Families and Learning that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Commissioner of Children, Families and Learning 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 Children, Families and Learning 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 Children, Families and Learning.

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 June 18, 2002, there were approximately $344 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 Children, Families and Learning, 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 June 18, 2002 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 $8.8 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 June 18, 2002 is about $763 million, with the maximum amount of principal and interest payable in any one month being $307 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 June 1, 2002, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2022, is approximately $4.1 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 June 1, 2002 is $396,341 with the maximum amount of principal and interest payable in any one month being $321,289. 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.

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APPENDIX A

State Financial Statements
For the Fiscal Year
Ended June 30, 2001

APPENDIX A
Table of Contents

GENERAL PURPOSE FINANCIAL STATEMENTS

Independent Auditor's Report

Members of the Legislature

The Honorable Jesse Ventura, Governor

Ms. Pamela Wheelock, Commissioner of Finance

We have audited the accompanying general purpose financial statements of the State of Minnesota as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Public Facilities Authority, Metropolitan Council, Minnesota Technology Incorporated, Higher Education Services Office, Minnesota Partnership for Action Against Tobacco, Housing Finance Agency, Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, and University of Minnesota, which represent 98 percent of the assets and 99 percent of the revenues of the 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 discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Minnesota as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 15 to the general purpose financial statements, the State of Minnesota implemented two Governmental Accounting Standards Board (GASB) statements during the year ended June 30, 2001. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36 *Recipient Reporting for Certain Nonexchange Revenues, an amendment to GASB Statement No. 33*, establish accounting and financial reporting standards to guide state and local governments' decisions about *when* (in what fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return.

As discussed in Note 23, a liability for sales tax refunds of $157 million was discovered subsequent to the issuance of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. Portions of the general purpose financial statements have been restated to reflect this subsequent discovery. Note 23 discloses the full impact of this liability on the financial statements and the related notes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2001, on our consideration of the State of Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 7, 2001, except for Note 23, as to which the date is June 14, 2002

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2001
(IN THOUSANDS)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE
ASSETS AND OTHER DEBITS				
Cash and Cash Equivalents	$ 2,881,430	$ 1,736,930	$ 338,174	$ 263,052
Investments	20,480	10,506	-	133,191
Accounts Receivable	571,281	181,966	-	-
Settlement Receivable	-	-	-	-
Interfund Receivables	86,394	82,347	3,525	-
Due from Other Governmental Units	-	-	-	-
Due from Primary Government	-	-	-	-
Due from Component Units	1,784	354	-	51,979
Accrued Investment/Interest Income	49,439	38	-	2,320
Federal Aid Receivable	-	595,006	-	-
Inventories	-	11,650	-	-
Grant Advances	-	-	1,576	-
Food Stamps	-	418	-	-
Deferred Costs	-	-	-	-
Restricted Assets:				
Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Loans Receivable	-	-	-	-
Interfund Receivables	-	-	-	-
Due from Other Governmental Units	-	-	-	-
Other Restricted Assets	-	-	-	-
Loans and Notes Receivable	5,279	93,979	92,089	-
Advances to Other Funds	3,100	-	-	-
Securities Lending Collateral	859,743	331,847	-	57,568
Fixed Assets (Net)	-	-	-	-
Other Assets	-	250	-	-
Amount Available for Debt Service	-	-	-	-
Amount to be Provided for Debt Service	-	-	-	-
Total Assets and Other Debits	$ 4,478,930	$ 3,045,291	$ 435,364	$ 508,110
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Warrants Payable	$ -	$ -	$ -	$ -
Accounts Payable	2,107,649	685,916	44,882	49
Interfund Payables	27,774	159,048	443	-
Payable to Other Governmental Units	-	-	-	-
Due to Component Units	101,490	3,917	16,205	-
Due to Primary Government	-	-	-	-
Deferred Revenue	202,758	46,376	-	-
Payable from Restricted Assets:				
Accounts Payable	-	-	-	-
Interfund Payables	-	-	-	-
General Obligation Bonds Payable	-	-	-	-
Revenue Bonds Payable	-	-	-	-
Accrued Bond Interest Payable	-	-	-	-
Other Payable from Restricted Assets	-	-	-	-
General Obligation Bonds Payable	-	-	-	-
Loans and Notes Payable	-	-	-	-
Revenue Bonds Payable	-	-	-	-
Grants Payable	-	-	-	-
Claims Payable	-	-	-	-
Compensated Absences Payable	-	-	-	-
Advances from Other Funds	-	-	-	-
Workers Compensation Liability	-	-	-	-
Securities Lending Collateral	859,743	331,847	-	57,568
Funds Held in Trust	-	-	-	-
Other Liabilities	-	31	-	-
Total Liabilities	$ 3,299,414	$ 1,227,135	$ 61,530	$ 57,617
Equity and Other Credits:				
Contributed Capital	$ -	$ -	$ -	$ -
Investment in General Fixed Assets	-	-	-	-
Retained Earnings:				
Reserved Retained Earnings	-	-	-	-
Unreserved Retained Earnings	-	-	-	-
Fund Balances:				
Reserved for Encumbrances	148,865	172,771	-	-
Budgetary Reserve	972,000	150,000	-	-
Other Reserved Fund Balances	8,379	230,498	282,696	450,493
Unreserved Fund Balances:				
Designated Fund Balances	50,272	773,794	-	-
Undesignated Fund Balances	-	491,093	91,138	-
Total Equity and Other Credits	$ 1,179,516	$ 1,818,156	$ 373,834	$ 450,493
Total Liabilities, Equity and Other Credits	$ 4,478,930	$ 3,045,291	$ 435,364	$ 508,110

The notes are an integral part of the financial statements.

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		PRIMARY GOVERNMENT	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATION	TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
$ 86,876	$ 129,973	$ 4,390,783	$ -	$ -	$ 9,827,218	$ 1,208,919
19,346	20,639	40,000,551	-	-	40,204,713	1,624,969
26,202	37,526	134,507	-	-	951,482	337,660
-	-	-	-	-	-	51,000
6,613	-	73,436	-	-	252,315	3,206
-	-	-	-	-	-	4,432
-	-	-	-	-	-	121,891
-	-	-	-	-	54,117	-
374	413	146,002	-	-	198,586	31,102
-	-	147	-	-	595,153	65,422
18,670	1,330	-	-	-	31,650	35,974
-	-	-	-	-	1,576	-
-	-	-	-	-	418	-
604	1,862	-	-	-	2,466	16,386
-	-	-	-	-	-	605,999
-	-	-	-	-	-	308,191
-	-	-	-	-	-	783,920
-	-	-	-	-	-	4,237
-	-	-	-	-	-	19,767
-	-	-	-	-	-	41,457
36,329	-	23,664	-	-	251,340	2,194,240
-	-	-	-	-	3,100	-
6,278	28,030	3,650,994	-	-	4,934,460	153,077
93,018	36,581	45,112	3,322,006	-	3,496,717	2,883,853
703	-	-	-	-	953	1,011
-	-	-	-	232,230	232,230	36,930
-	-	-	-	4,460,332	4,460,332	163,461
$ 295,013	$ 256,354	$ 48,465,196	$ 3,322,006	$ 4,692,562	$ 65,498,826	$ 10,697,104
$ -	$ -	$ 363,591	$ -	$ -	$ 363,591	$ -
30,872	71,609	1,419,927	-	-	4,360,904	277,502
12,816	2,537	49,697	-	-	252,315	7,271
-	-	-	-	-	-	309
-	-	279	-	-	121,891	-
-	-	-	-	-	-	71,218
3,293	2,842	10,182	-	-	265,451	62,114
4,905	-	-	-	-	4,905	38,153
-	-	-	-	-	-	172
-	-	-	-	-	-	43,890
-	-	-	-	-	-	688,193
-	-	-	-	-	-	72,027
1,463	-	-	-	-	1,463	113,472
4,440	-	-	-	2,588,155	2,592,595	759,955
1,965	30,160	-	-	6,483	38,608	364,678
1,410	-	29,000	-	16,100	46,510	2,091,667
-	-	-	-	-	-	9,376
-	-	-	-	1,626,143	1,626,143	352,953
8,175	4,010	1,962	-	302,109	316,256	64,090
-	3,100	-	-	-	3,100	-
-	-	-	-	127,189	127,189	-
6,278	28,030	3,650,994	-	-	4,934,460	153,077
-	-	33,433	-	-	33,433	103,457
1,532	-	1,161	-	26,383	29,107	19,710
$ 77,149	$ 142,288	$ 5,560,226	$ -	$ 4,692,562	$ 15,117,921	$ 5,293,284
$ 29,334	$ 6,139	$ -	$ -	$ -	$ 35,473	$ 1,060,493
-	-	-	3,322,006	-	3,322,006	1,130,533
-	90,108	-	-	-	90,108	777,297
188,530	17,819	-	-	-	206,349	786,163
-	-	9,352	-	-	330,988	7,811
-	-	-	-	-	1,122,000	-
-	-	42,100,586	-	-	43,072,652	905,124
-	-	742,918	-	-	1,566,984	508,901
-	-	52,114	-	-	634,345	227,498
$ 217,864	$ 114,066	$ 42,904,970	$ 3,322,006	$ -	$ 50,380,905	$ 5,403,820
$ 295,013	$ 256,354	$ 48,465,196	$ 3,322,006	$ 4,692,562	$ 65,498,826	$ 10,697,104

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE
Net Revenues:				
Individual Income Taxes	$ 5,924,978	$ -	$ -	$ -
Corporate Income Taxes	709,702	-	-	-
Sales Taxes	2,989,879	23,090	-	2,125
Motor Vehicle License Taxes	987	466,398	-	-
Fuel Taxes	-	611,528	-	-
Other Taxes	1,399,835	362,935	-	2,523
Tobacco Settlement	130,254	-	-	-
Federal Revenues	50,146	4,445,366	-	-
Licenses and Fees	179,635	202,807	-	-
Care and Hospitalization Revenues	82,453	885	-	-
Tuition and Student Fees	343,551	17,326	-	-
Departmental Services	43,198	160,230	-	-
Investment/Interest Income	197,781	89,152	461	34,960
Deferred Compensation Contributions	-	-	-	-
Securities Lending Income	38,101	16,952	-	5,187
Other Revenues	154,673	113,647	15	3,061
Net Revenues	$ 12,245,173	$ 6,510,316	$ 476	$ 47,856
Expenditures:				
Current:				
Protection of Persons and Property	$ 164,103	$ 141,073	$ 281	$ -
Transportation	22,992	470,610	4,326	-
Resource Management	130,726	207,730	31,704	-
Economic and Manpower Development	90,347	163,010	81	-
Education	1,015,171	97,545	12,997	-
Health and Social Services	538,595	334,340	695	-
General Government	299,819	39,330	24,937	37
Securities Lending Rebates and Fees	37,542	16,702	-	5,111
Total Current Expenditures	$ 2,299,295	$ 1,470,340	$ 75,021	$ 5,148
Capital Outlay	18,467	533,136	99,141	-
Debt Service	38,205	10,276	68	412,563
Grants and Subsidies	8,991,908	4,160,147	84,417	-
Deferred Compensation Withdrawals	-	-	-	-
Total Expenditures	$ 11,347,875	$ 6,173,899	$ 258,647	$ 417,711
Excess of Revenues Over (Under) Expenditures	$ 897,298	$ 336,417	$ (258,171)	$ (369,855)
Other Financing Sources (Uses):				
General Obligation and Revenue Bonds	$ -	$ 46,490	$ 250,500	$ 4,180
Operating Transfers-In	104,605	1,088,325	111,403	371,453
Operating Transfers to Debt Service	(351,269)	(9,397)	(10,732)	-
Other Operating Transfers-Out	(484,218)	(1,286,796)	(5,369)	-
Transfers-In from Primary Government	-	-	-	-
Transfers-Out to Primary Government	-	-	-	-
Transfers-In from Component Units	127,171	325,000	-	10,858
Transfers-Out to Component Units	(920,297)	(33,396)	(110,275)	-
Capital Leases	4,893	8,310	-	-
Proceeds of Refunding Bonds	-	3,710	-	-
Payment to Refunded Bonds Escrow Agent	-	(3,674)	-	-
Net Other Financing Sources (Uses)	$ (1,519,115)	$ 138,572	$ 235,527	$ 386,491
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (621,817)	$ 474,989	$ (22,644)	$ 16,636
Fund Balances, Beginning, as Reported	$ 1,954,722	$ 1,342,319	$ 396,478	$ 433,857
Prior Period Adjustments	-	(5,439)	-	-
Change in Accounting Principle	(152,000)	8,217	-	-
Change in Fund Structure	(2,160)	-	-	-
Fund Balances, Beginning, as Restated	$ 1,800,562	$ 1,345,097	$ 396,478	$ 433,857
Residual Equity Transfers-In	771	354	-	-
Residual Equity Transfers-Out	-	-	-	-
Change in Inventory	-	(2,284)	-	-
Fund Balances, Ending	$ 1,179,516	$ 1,818,156	$ 373,834	$ 450,493

The notes are an integral part of the financial statements.

FIDUCIARY FUND TYPE EXPENDABLE TRUST	PRIMARY GOVERNMENT TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
$ -	$ 5,924,978	$ -
-	709,702	-
-	3,015,094	-
-	467,385	-
-	611,528	-
336,780	2,102,073	50,836
229,959	360,213	3,300
19,183	4,514,695	6,267
-	382,442	-
-	83,338	-
-	360,877	-
-	203,428	-
(23,748)	298,606	8,627
93,937	93,937	-
15,110	75,350	1,412
55,239	326,635	63,862
$ 726,460	$ 19,530,281	$ 134,304
$ 232	$ 305,689	$ -
7,678	505,606	57,280
5,775	375,935	32,026
6,428	259,866	12,695
12,385	1,138,098	3,158
969	874,599	42,248
571	364,694	39,799
14,479	73,834	1,403
$ 48,517	$ 3,898,321	$ 188,609
1,278	652,022	9,902
-	461,112	30,315
1,046,513	14,282,985	161,035
87,193	87,193	-
$ 1,183,501	$ 19,381,633	$ 389,861
$ (457,041)	$ 148,648	$ (255,557)
$ -	$ 301,170	$ 56,065
582,923	2,258,709	4,283
-	(371,398)	-
(19,723)	(1,796,106)	(6,736)
-	-	213,992
-	-	(9,952)
-	463,029	-
(22,463)	(1,086,431)	-
-	13,203	-
-	3,710	-
-	(3,674)	-
$ 540,737	$ (217,788)	$ 257,652
$ 83,696	$ (69,140)	$ 2,095
$ 2,932,942	$ 7,060,318	$ 508,484
-	(5,439)	-
101,393	(42,390)	-
-	(2,160)	-
$ 3,034,335	$ 7,010,329	$ 508,484
-	1,125	-
-	-	(22,024)
-	(2,284)	-
$ 3,118,031	$ 6,940,030	$ 488,555

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND AND APPROPRIATED SPECIAL REVENUE FUNDS BUDGETARY BASIS

YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
Net Revenues:						
Individual Income Taxes	$ 5,884,200	$ 5,904,466	$ 20,266	$ -	$ -	$ -
Corporate Income Taxes	787,323	728,971	(58,352)	-	-	-
Sales Taxes	3,053,242	2,992,014	(61,228)	25,048	23,090	(1,958)
Motor Vehicle License Taxes	-	-	-	445,890	454,553	8,663
Fuel Taxes	-	-	-	613,704	611,093	(2,611)
Tobacco Taxes	-	-	-	7,166	7,059	(107)
Other Taxes	1,389,867	1,418,321	28,454	292,153	303,768	11,615
Federal Revenues	-	-	-	391,144	406,227	15,083
Licenses and Fees	-	-	-	60,763	61,725	962
Care and Hospitalization Revenues	21,991	27,029	5,038	-	-	-
Tuition and Student Fees	295,688	312,442	16,754	-	-	-
Departmental Services	58,286	37,307	(20,979)	105,976	87,889	(18,087)
Investment/Interest Income	181,000	200,223	19,223	63,383	71,506	8,123
Other Revenues	486,466	738,275	251,809	46,776	61,483	14,707
Net Revenues	$ 12,158,063	$ 12,359,048	$ 200,985	$ 2,052,003	$ 2,088,393	$ 36,390
Expenditures:						
Protection of Persons and Property	$ 231,305	$ 222,188	$ 9,117	$ 101,425	$ 100,620	$ 805
Transportation	71,227	40,020	31,207	1,260,254	1,145,004	115,250
Resource Management	211,174	210,007	1,167	186,225	179,020	7,205
Economic and Manpower Development	232,342	221,667	10,675	155,584	153,924	1,660
Education	6,057,301	5,951,085	106,216	239	239	-
Health and Social Services	3,339,567	3,302,278	37,289	211,513	190,909	20,604
General Government	1,709,790	1,630,823	78,967	21,775	17,038	4,737
Total Expenditures	$ 11,852,706	$ 11,578,068	$ 274,638	$ 1,937,015	$ 1,786,754	$ 150,261
Excess of Revenues Over (Under) Expenditures	$ 305,357	$ 780,980	$ 475,623	$ 114,988	$ 301,639	$ 186,651
Other Financing Sources (Uses):						
General Obligation Bonds	$ -	$ -	$ -	$ 100,100	$ 30,000	$ (70,100)
Operating Transfers-In	239,589	265,311	25,722	891,959	897,064	5,105
Operating Transfers to Debt Service	(315,087)	(315,087)	-	(6,420)	(6,420)	-
Other Operating Transfers-Out	(448,014)	(448,014)	-	(1,246,137)	(1,246,137)	-
Transfers-In from Component Units	-	-	-	325,000	325,000	-
Transfers-Out to Component Units	(920,297)	(920,297)	-	(3,187)	(3,187)	-
Net Other Financing Sources (Uses)	$ (1,443,809)	$ (1,418,087)	$ 25,722	$ 61,315	$ (3,680)	$ (64,995)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (1,138,452)	$ (637,107)	$ 501,345	$ 176,303	$ 297,959	$ 121,656
Fund Balances, Beginning, as Reported	$ 2,248,221	$ 2,248,221	$ -	$ 716,921	$ 716,921	$ -
Prior Period Adjustments	-	(15,696)	(15,696)	-	16,351	16,351
Fund Balances, Beginning, as Restated	$ 2,248,221	$ 2,232,525	$ (15,696)	$ 716,921	$ 733,272	$ 16,351
Budgetary Fund Balances, Ending	$ 1,109,769	$ 1,595,418	$ 485,649	$ 893,224	$ 1,031,231	$ 138,007
Less: Appropriation Carryover	-	448,885	(448,885)	-	416,547	(416,547)
Less: Budgetary Reserve	972,000	972,000	-	150,000	150,000	-
Undesignated Fund Balances, Ending	$ 137,769	$ 174,533	$ 36,764	$ 743,224	$ 464,684	$ (278,540)

The notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	PRIMARY GOVERNMENT	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
Operating Revenues:					
Net Sales	$ 423,209	$ 17,411	$ 15,036	$ 455,656	$ 21,418
Interest Income	1,088	-	-	1,088	171,144
Investment Income	-	-	(14,345)	(14,345)	104,532
Rental and Service Fees	128,978	128,816	-	257,794	199,040
Insurance Premiums	17,628	450,678	-	468,306	31,321
Other Income	5,333	6,168	32	11,533	7,752
Total Operating Revenues	$ 576,236	$ 603,073	$ 723	$ 1,180,032	$ 535,207
Less: Cost of Goods Sold	297,192	12,275	-	309,467	-
Gross Margin	$ 279,044	$ 590,798	$ 723	$ 870,565	$ 535,207
Operating Expenses:					
Interest and Financing Costs	$ -	$ -	$ -	$ -	$ 160,645
Purchased Services	72,999	128,920	121	202,040	68,896
Salaries and Fringe Benefits	95,338	37,570	6,060	138,968	196,555
Claims	16,119	384,993	-	401,112	(5,920)
Depreciation	8,789	11,967	-	20,756	71,289
Amortization	-	222	-	222	413
Supplies and Materials	11,152	6,159	-	17,311	23,895
Indirect Costs	2,515	3,148	-	5,663	18,622
Other Expenses	8,046	1,723	-	9,769	36,929
Total Operating Expenses	$ 214,958	$ 574,702	$ 6,181	$ 795,841	$ 571,324
Operating Income (Loss)	$ 64,086	$ 16,096	$ (5,458)	$ 74,724	$ (36,117)
Nonoperating Revenues (Expenses)					
Investment Income	$ 9,206	$ 10,417	$ -	$ 19,623	$ 54,579
Grants and Subsidies	1,290	-	-	1,290	183,255
Securities Lending Income	303	1,372	3,094	4,769	2,126
Other Nonoperating Revenues	694	-	-	694	82,965
Interest and Financing Costs	(3,704)	(1,497)	-	(5,201)	(21,941)
Rebate Costs	(3,036)	(6,326)	-	(9,362)	-
Grants, Aids and Subsidies	-	-	-	-	(216,449)
Securities Lending Rebates and Fees	(297)	(1,352)	(2,954)	(4,603)	(2,098)
Other Nonoperating Expenses	(409)	-	-	(409)	(80)
Gain (Loss) on Sale of Fixed Assets	8	173	128	309	(188)
Net Nonoperating Revenues (Expenses)	$ 4,055	$ 2,787	$ 268	$ 7,110	$ 82,169
Income Before Operating Transfers	$ 68,141	$ 18,883	$ (5,190)	$ 81,834	$ 46,052
Operating Transfers-In	5,560	2,376	-	7,936	2,455
Operating Transfers to Debt Service	(55)	-	-	(55)	-
Other Operating Transfers-Out	(61,119)	(13,562)	(24,405)	(99,086)	(2)
Transfers-In from Primary Government	-	-	-	-	104,657
Transfers-Out to Primary Government	-	-	-	-	(450,240)
Net Income (Loss)	$ 12,527	$ 7,697	$ (29,595)	$ (9,371)	$ (297,078)
Depreciation on Fixed Assets Acquired with Contributed Capital	352	-	-	352	34,275
Increase (Decrease) in Retained Earnings/Fund Balances	$ 12,879	$ 7,697	$ (29,595)	$ (9,019)	$ (262,803)
Retained Earnings/Fund Balances,Beginning	$ 175,651	$ 100,230	$ 593,852	$ 869,733	$ 1,826,263
Retained Earnings/Fund Balances, Ending	$ 188,530	$ 107,927	$ 564,257	$ 860,714	$ 1,563,460

The notes are an integral part of the financial statements

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS
AND DISCRETELY PRESENTED COMPONENT UNITS
YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	PRIMARY GOVERNMENT	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 595,090	$ 592,073	$ 15,072	$ 1,202,235	$ 364,484
Receipts from Loans	-	-	-	-	310,631
Repayments of Program Loans	-	-	-	-	61,576
Receipts from Other Revenue	4,768	5,252	-	10,020	110
Payments to Claimants	(262,184)	(382,893)	-	(645,077)	-
Payments to Suppliers	(171,199)	(148,369)	(122)	(319,690)	(145,925)
Payments to Employees	(97,862)	(38,728)	(111)	(136,701)	(217,969)
Payments for Loans	-	-	-	-	(470,058)
Payments to Other Service Providers	(6,336)	(1,716)	-	(8,052)	(34,655)
Net Cash Flows from Operating Activities	$ 62,277	$ 25,619	$ 14,839	$ 102,735	$ (131,806)
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 1,289	$ -	$ -	$ 1,289	$ 388,676
Grant Disbursements	(610)	-	-	(610)	(223,077)
Transfers-In	8,741	2,376	-	11,117	73,803
Transfers-Out	(61,984)	(13,562)	(28,832)	(104,378)	(435,002)
Advances to Other Funds	(575)	-	-	(575)	-
Advances From Other Funds	-	6,975	-	6,975	-
Rebate Costs	(1,955)	(4,427)	-	(6,382)	-
Proceeds from Bond Sales	-	-	-	-	472,506
Repayment of Debt	-	-	-	-	(397,587)
Bond Issuance Costs	-	-	-	-	(556)
Interest Paid	-	-	-	-	(150,743)
Repayments of Advances to Other Funds	75	28	-	103	-
Repayments of Advances from Other Funds	-	(5,703)	-	(5,703)	-
Net Cash Flows from Noncapital Financing Activities	$ (55,019)	$ (14,313)	$ (28,832)	$ (98,164)	$ (271,980)
Cash Flows from Capital and Related Financing Activities:					
Investment in Fixed Assets	$ (6,373)	$ (18,383)	$ -	$ (24,756)	$ (127,670)
Proceeds (Costs) of the Disposal of Fixed Assets	1,042	1,468	642	3,152	285
Capital Contributions	-	-	-	-	103,716
Proceeds from Capital Lease	-	10	-	10	-
Capital Lease Payments	(274)	(76)	-	(350)	-
Proceeds from Loans	-	16,988	-	16,988	-
Repayment of Loan Principal	(256)	(13,023)	-	(13,279)	-
Proceeds from Bond Sales	-	-	-	-	70,467
Repayment of Bond Principal	(27,683)	-	-	(27,683)	(76,185)
Interest Paid	(3,704)	(1,481)	-	(5,185)	(27,395)
Net Cash Flows from Capital and Related Financing Activities	$ (37,248)	$ (14,497)	$ 642	$ (51,103)	$ (56,782)
Cash Flows from Investing Activities:					
Proceeds from Sales & Maturities of Investments	$ 68,673	$ 2,496	$ 28,910	$ 100,079	$ 1,543,868
Purchase of Investments	(35,206)	(2,500)	(37,680)	(75,386)	(1,045,522)
Investment Earnings	9,365	9,576	63,383	82,324	156,332
Net Cash Flows from Investing Activities	$ 42,832	$ 9,572	$ 54,613	$ 107,017	$ 654,678
Net Increase (Decrease) in Cash & Cash Equivalents	$ 12,842	$ 6,381	$ 41,262	$ 60,485	$ 194,110
Cash and Cash Equivalents, Beginning, as Reported	$ 71,874	$ 123,592	$ 27,060	$ 222,526	$ 1,100,052
Change in Fund Structure	2,160	-	-	2,160	-
Cash and Cash Equivalents, Beginning, as Restated	$ 74,034	$ 123,592	$ 27,060	$ 224,686	$ 1,100,052
Cash and Cash Equivalents, Ending	$ 86,876	$ 129,973	$ 68,322	$ 285,171	$ 1,294,162

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS
AND DISCRETELY PRESENTED COMPONENT UNITS
YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	PRIMARY GOVERNMENT	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ 64,086	$ 16,096	$ (5,458)	$ 74,724	$ (36,117)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 9,104	$ 12,176	$ -	$ 21,280	$ 71,289
Amortization	-	222	-	222	413
Investment Income	-	-	14,345	14,345	(104,282)
Interest and Financing Costs	-	-	-	-	154,347
Loan Principal Repayments	4,477	-	-	4,477	78,904
Loans Issued	(6,261)	-	-	(6,261)	(228,259)
Provision for Loan Defaults	553	-	-	553	594
Customer Deposits	-	-	-	-	2,949
Net Nonoperating Revenues (Expenses)	219	-	-	219	831
Change in Assets and Liabilities:					
Accounts Receivable	(5,632)	(9,062)	4	(14,690)	(8,950)
Inventories	(4,226)	(154)	-	(4,380)	120
Other Assets	149	(330)	-	(181)	25,586
Accounts Payable	(1,164)	6,495	5,948	11,279	(25,583)
Deferred Revenue	348	(219)	-	129	(2,510)
Claims and Judgments Payable	-	-	-	-	(41,000)
Other Liabilities	624	395	-	1,019	(20,138)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ (1,809)	$ 9,523	$ 20,297	$ 28,011	$ (95,689)
Net Cash Flows from Operating Activities	$ 62,277	$ 25,619	$ 14,839	$ 102,735	$ (131,806)

Noncash Investing, Capital, and Financing Activities

Depreciation reported on the Statement of Cash Flows exceeds that reported on the Statement of Revenues, Expenses and Changes in Retained Earnings for the Enterprise and Internal Service Funds because a portion of the depreciation is included in the Cost of Goods Sold.

	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS
Depreciation on Fixed Assets Acquired with Contributed Capital	$ 352	$ -	$ -	$ 352	$ 34,275
Fixed Assets Acquired Through Leases	-	944	-	944	-
Addition of Long-Term Assets	-	-	-	-	2,270
Disposal of Fixed Assets	-	80	-	80	(45)
Change in Fair Value of Investments	339	-	(38,507)	(38,168)	(55,674)

Reconciliation of Cash and Cash Equivalents to the Combined Balance Sheet

Cash and Cash Equivalents for the Nonexpendable Trust Funds and the Component Units as of June 30, 2001, on the Combined Statement of Cash Flows is reconciled to the Cash and Cash Equivalents on the Combined Balance Sheet as follows

Cash and Cash Equivalents June 30, 2001
(In Thousands)

Fiduciary Funds:	
Pension Trust Funds	$ 2,509,364
Investment Trust Funds	25,291
Nonexpendable Trust Funds	68,322
Expendable Trust Funds	1,346,387
Agency Funds	441,419
Total Fiduciary Funds	$ 4,390,783
Component Units:	
Governmental Funds	$ 94,700
Proprietary Funds	1,294,162
University Fund	426,056
Total Component Units	$ 1,814,918

The notes are an integral part of the financial statements

COMBINED STATEMENT OF CHANGES
IN PLAN NET ASSETS
PENSION AND INVESTMENT TRUST FUNDS
YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	PENSION TRUST FUNDS			INVESTMENT TRUST	
	DEFINED BENEFIT	DEFINED CONTRIBUTION	TOTAL PENSION TRUST	SUPPLEMENTAL RETIREMENT	TOTAL
Additions:					
Contributions:					
Employer	$ 489,363	$ 27,744	$ 517,107	$ -	$ 517,107
Member	443,298	23,041	466,339	-	466,339
Contributions from Other Sources	2,610	-	2,610	-	2,610
Participating Plans	-	-	-	6,957	6,957
Total Contributions	$ 935,271	$ 50,785	$ 986,056	$ 6,957	$ 993,013
Net Investment Income:					
Investment Income	$ (2,936,294)	$ (83,245)	$ (3,019,539)	$ (35,286)	$ (3,054,825)
Less: Investment Expense	(28,337)	-	(28,337)	(285)	(28,622)
Net Investment Income	$ (2,964,631)	$ (83,245)	$ (3,047,876)	$ (35,571)	$ (3,083,447)
Securities Lending Revenues (Expenses):					
Securities Lending Income	$ 226,841	$ 2,309	$ 229,150	$ 2,284	$ 231,434
Borrower Rebates	(201,386)	(2,082)	(203,468)	(2,066)	(205,534)
Management Fees	(6,555)	(55)	(6,610)	(52)	(6,662)
Net Securities Lending Revenue	$ 18,900	$ 172	$ 19,072	$ 166	$ 19,238
Total Investment Income	$ (2,945,731)	$ (83,073)	$ (3,028,804)	$ (35,405)	$ (3,064,209)
Transfers From Other Funds	$ 8,331	$ 1,264	$ 9,595	$ -	$ 9,595
Other Additions	7,439	21,656	29,095	-	29,095
Total Additions	$ (1,994,690)	$ (9,368)	$ (2,004,058)	$ (28,448)	$ (2,032,506)
Deductions:					
Benefits	$ 1,978,848	$ -	$ 1,978,848	$ -	$ 1,978,848
Refunds/Withdrawals	40,395	61,498	101,893	15,099	116,992
Administrative Expenses	39,465	256	39,721	-	39,721
Transfers to Other Funds	2,395	7,200	9,595	-	9,595
Total Deductions	$ 2,061,103	$ 68,954	$ 2,130,057	$ 15,099	$ 2,145,156
Net Increase (Decrease)	$ (4,055,793)	$ (78,322)	$ (4,134,115)	$ (43,547)	$ (4,177,662)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 42,095,205	$ 850,078	$ 42,945,283	$ 455,061	$ 43,400,344
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 38,039,412	$ 771,756	$ 38,811,168	$ 411,514	$ 39,222,682

The notes are an integral part of the financial statements.

UNIVERSITY OF MINNESOTA
STATEMENT OF CHANGES
IN FUND BALANCES - CONSOLIDATED TOTALS
YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

		CONSOLIDATED TOTALS
Revenues and Other Additions:		
Unrestricted Revenues	$	721,212
Federal Appropriations		17,057
Transfers from Primary Government		729,358
Federal Grants and Contracts		308,056
State Grants and Contracts		35,967
Other Government Grants and Contracts		4,390
Private Gifts, Grants, and Contracts		271,866
Endowment Income		15,800
Investment Income		3,751
Realized Gains and Adjustments to Market Value, Net		(122,572)
Student Loan Interest		2,062
Expended for Plant Facilities		308,202
Retirement of Indebtedness		5,007
Other Additions		943
Total Revenues and Other Additions	$	2,301,099
Expenditures and Other Deductions:		
Education and General	$	1,722,137
Auxiliary Enterprises		156,065
Indirect Costs Recovered		68,428
Adjustments to Carrying Value of Loans		4
Administrative and Collection Costs		705
Expended for Plant Facilities		251,072
Transfer to Primary Government		2,837
Retirement of Indebtedness		5,007
Debt Incurred		7,445
Interest on Indebtedness		21,760
Depreciation of Investment in Plant		116,677
Disposal of Plant		12,719
Total Expenditures and Other Deductions	$	2,364,856
Net Increase for the Year	$	(63,757)
Fund Balance and Investment in Fixed Assets, Beginning, as Reported	$	2,328,035
Prior Period Adjustment		14,228
Change in Accounting Principle		2,553
Fund Balance and Investment in Fixed Assets, Beginning, as Restated	$	2,344,816
Fund Balance and Investment in Fixed Assets, Ending	$	2,281,059
Fund Balance and Investment in Fixed Assets:		
Investment in Fixed Assets	$	1,120,280
Fund Balance		1,160,779
Total	$	2,281,059

The notes are an integral part of the financial statements.

UNIVERSITY OF MINNESOTA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	UNRESTRICTED	RESTRICTED	TOTAL
Revenues and Transfers from Primary Government:			
Tuition and Fees	$ 305,801	$ -	$ 305,801
Federal Appropriations	-	17,057	17,057
Transfers from Primary Government	531,036	85,171	616,207
Federal Grants and Contracts	59,305	251,021	310,326
State Grants and Contracts	1,345	75,467	76,812
Other Government Grants and Contracts	677	4,451	5,128
Private Gifts, Grants and Contracts	14,734	239,719	254,453
Endowment Income	181	15,744	15,925
Investment Income	26,816	1,496	28,312
Realized Gains (Losses) and Adjustments to Market Value, Net	3,522	(107)	3,415
Sales and Services of Educational Activities	103,046	-	103,046
Sales and Services of Auxiliary Enterprises	205,785	-	205,785
Total Revenues and Transfers from Primary Government	$ 1,252,248	$ 690,019	$ 1,942,267
Expenditures and Mandatory Transfers:			
Education and General:			
Instruction	$ 449,184	$ 124,496	$ 573,680
Research	24,313	333,518	357,831
Public Service	36,249	119,090	155,339
Academic Support	189,367	44,493	233,860
Student Services	58,986	6,224	65,210
Institutional Support	96,613	6,020	102,633
Operation and Maintenance of Plant	128,781	415	129,196
Scholarship and Fellowships	45,601	58,787	104,388
Education and General Expenditures	$ 1,029,094	$ 693,043	$ 1,722,137
Mandatory Transfers for:			
Principal and Interest	$ 6,440	$ 81	$ 6,521
Student Aid Matching	803	(628)	175
Total Education and General	$ 1,036,337	$ 692,496	$ 1,728,833
Auxiliary Enterprises:			
Expenditures	$ 154,255	$ 1,810	$ 156,065
Mandatory Transfers for:			
Principal and Interest	960	-	960
Total Auxiliary Enterprises	$ 155,215	$ 1,810	$ 157,025
Total Current Expenditures and Mandatory Transfers	$ 1,191,552	$ 694,306	$ 1,885,858
Other Transfers, Additions (Deductions):			
Refunded to Grantors	$ -	$ (2,540)	$ (2,540)
Nonmandatory Transfers	(52,334)	2,365	(49,969)
Total Other Transfers, Additions (Deductions)	$ (52,334)	$ (175)	$ (52,509)
Prior Period Adjustment	$ 14,228	$ -	$ 14,228
Change in Accounting Principle	-	2,553	2,553
Net Increase (Decrease) for the Year	$ 22,590	$ (1,909)	$ 20,681

The notes are an integral part of the financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation

The reporting policies of the state of Minnesota conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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 of Minnesota (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.

- *Metropolitan Council (MC)* (governmental and proprietary fund types) - 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 council members are appointed by the governor with the chair responsible for the council activities. MC includes the Metropolitan Sports Facilities Commission as a component unit. MC's fiscal year ends December 31.

- *Minnesota Technology Incorporated (MTI)* (governmental fund type) - 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.

- *Higher Education Services Office (HESO*) (governmental and proprietary fund types) - 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.

- *Export Finance Authority (EFA)* (governmental fund type) - EFA aids and facilitates the financing of exports from the state. Excess revenue is transferred to the state's General Fund.

- *Agricultural and Economic Development Board (AEDB)* (governmental fund type) - 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)* (governmental fund type) - 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)* (governmental fund type) - 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.

- *Housing Finance Agency (HFA)* (proprietary fund type) - 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.

- *Public Facilities Authority (PFA)* (governmental and proprietary fund types) - 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.

- *Workers' Compensation Assigned Risk Plan (WCARP)* (proprietary fund type) - 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)* (proprietary fund type) - 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.

- *University of Minnesota (U of M)* (college and university fund type) - 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 12-member board of regents, which governs the U of M, but the state does not have direct authority over the U of M’s management. The state has issued debt for U of M capital projects.

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

Minnesota Technology Incorporated
400 Mill Place, 111 Third Avenue South
Minneapolis, Minnesota 55401

Public Facilities Authority
Department of Trade & Economic Development
500 Metro Square Bldg., 121 East Seventh Place
St. Paul, Minnesota 55101

Higher Education Services Office
1450 Energy Park Drive, Suite 350
St. Paul, Minnesota 55108

Agricultural & Economic Development Board
Dept. of Trade & Economic Development
500 Metro Square Bldg., 121 East Seventh Place
St. Paul, Minnesota 55101

Rural Finance Authority
Department of Agriculture
90 West Plato Boulevard
St. Paul, Minnesota 55107

Minnesota Partnership for Action Against Tobacco
590 Park Street
Suite 400
St. Paul, Minnesota 55103

Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

Export Finance Authority
Dept. of Trade & Economic Development
1000 World Center, 30 East Seventh Street
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

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

Classification of Funds

The financial activity of the state is organized using individual funds and account groups. 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 funds presented are classified as follows:

Governmental Funds - 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 the General Fund (which accounts for all financial resources except those required to be accounted for in another fund), special revenue, capital projects and debt service fund types. The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects). The capital project funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds. The Debt Service Fund accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.

Proprietary Funds - These funds account for all assets, liabilities and equities of the fund, and match revenues and expenses to determine net income and capital maintenance. The fund types included in this category are the enterprise and internal service funds.

Fiduciary Funds - 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 expendable and nonexpendable trust, pension and investment trust and agency fund types. Depending on their nature, fiduciary funds are classified as governmental (expendable trust funds) or proprietary funds (pension, investment and nonexpendable trust funds) for accounting measurement purposes. Agency funds are custodial in nature; thus, they do not measure results of operations.

Account Groups - These account for the fixed asset acquisitions and the general obligation long-term indebtedness for all governmental fund types.

Component Units - These account for the assets, liabilities and operations of discretely presented component units. Statements other than balance sheets are combined with statements of funds using a similar basis of accounting.

Basis of Accounting

All proprietary, pension, investment and nonexpendable trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized as they are 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.

All governmental, expendable trust and agency funds are accounted for using the modified accrual basis of accounting. The modified accrual basis of accounting includes the following recognition principles:

Revenues - Individual income, sales and unemployment compensation taxes and federal grants are the major revenue sources susceptible to accrual. Tax revenues 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. *Available* means the revenue is collectible by the close of the books in September. Similarly, 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. Federal grants collected on a reimbursement basis are recognized as revenue when reimbursable expenditures are incurred. 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.

Derived tax revenues are recognized in accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement requires that revenues be recognized in the accounting period when the underlying exchange, upon which the tax is based, has occurred. Derived tax revenues include sales, income, gasoline, medical providers and miscellaneous taxes, which are accrued in the fiscal period when the taxes become both measurable and available to finance state expenditures.

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 principal and interest on long-term debt, which are recorded when due. Grant expenditures are discussed separately.

Encumbrances - Encumbrance accounting is used for budgetary control and reporting purposes only. In the financial statements, encumbrances are recorded on the balance sheet as a reservation of fund balance to the extent of fund balance availability for completing the transactions in a subsequent year, except for those long-term commitments which rely significantly on future resources, as discussed in Note 10.

College and university type - College and university type (University of Minnesota) is accounted for on the accrual basis of accounting in accordance with accounting principles outlined in the American Institute of Certified Public Accountants' audit guide, Audits of Colleges and Universities, and guidelines suggested by the National Association of College and University Business Officers. Under these standards, two types of operating statements are prepared, which should not be combined with governmental or proprietary statements. Only the combined totals are presented for the statement of revenues, expenses and changes in fund balance.

The above guidelines normally permit recognition of revenues and receivables when the state appropriates funds. For consistency in reporting intra-entity transactions, the state does not apply this guideline to transactions between the primary government and the college and university type.

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 liability for compensated absences is reported in the General Long-Term Obligation Account Group. All other fund types report this liability as a liability of the specific fund.

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.

Inventories

Inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. There are exceptions to this. For the Trunk Highway Fund (special revenue), inventories are valued using the weighted-average cost. Northeast Minnesota Economic Protection (expendable trust) fund inventory consists of repossessed properties held for resale and are valued at market. Inventories for proprietary funds are expensed when consumed. 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 are presented in various enterprise funds as restricted assets. Such segregations are required by bond covenants and other external restrictions. 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", "Statement of Revenues, Expenses and Changes in Retained Earnings" or the "Statement of Changes in Plan Net Assets" as appropriate for the various fund types.

Fixed Assets

Governmental Fund Types - Fixed assets for these funds are reported in the General Fixed Assets Account Group. General fixed assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings for the general fixed assets was completed in 1985. Historical cost records for older fixed 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. Public domain (infrastructure) general fixed assets, such as highways, curbs, bridges and lighting systems, are not capitalized. Depreciation is not applied to the general fixed assets nor is interest capitalized during construction.

Proprietary and Fiduciary Fund Types - Fixed assets for these funds are stated at cost or, for donated assets, at fair value at date of acquisition. Fixed assets for these fund types are depreciated or amortized on a straight-line basis over the useful life of the assets. Estimated useful lives are as follows:

Buildings	40-50 years
Improvements (large)	20-50 years
Improvements (small)	3-10 years
Equipment	3-12 years

Depreciation on fixed assets acquired with resources externally restricted for that purpose is closed to contributed capital after being recognized in operations.

Depreciation reported on the Statement of Cash Flows exceeds depreciation expense reported on the Statement of Revenues, Expenses and Changes in Retained Earnings for enterprise and internal service funds because a portion of depreciation expense is included in the cost of goods sold amount.

General Long-Term Liabilities

All unmatured long-term indebtedness not reported in a proprietary or fiduciary fund is accounted for in the General Long-Term Obligation Account Group. Included among these liabilities are the non-current 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).

Deferred Costs

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. In the proprietary funds, these costs are deferred and amortized over the life of the bonds using the effective interest method or the straight-line method, which approximates the effective interest method. The deferred costs reported are primarily for bond issuance costs of the enterprise funds.

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 where 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 where participants have selected investment options provided by SBI is accounted for in the State Deferred Compensation Fund, an expendable trust 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.

Budgeting and Budgetary Control

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 in 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.

Memorandum Only Totals Column

The totals columns on the Combined Financial Statements are captioned "Memorandum Only" to indicate that the totals are presented only to facilitate financial analysis. The information in these columns does not present consolidated financial position, results of operations or cash flows.

Fund Name Change

Within the enterprise fund type, the Chemical Dependency Treatment Fund has been renamed the Behavioral Services Fund due to an increased scope of activity. Within the expendable trust fund type, the Reemployment Insurance Fund has been renamed the Unemployment Insurance Fund.

2. CASH AND INVESTMENTS

Cash and Cash Equivalents

The majority of the primary government's cash is held in the state treasury and commingled in state bank accounts while the majority of component unit cash is held in separate bank accounts. 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, including amounts reported as restricted assets at December 31, 2000 or June 30, 2001, whichever is applicable (in thousands). Cash with the U.S. Treasury is available for the cash demands of the Unemployment Insurance Fund (expendable trust fund).

Carrying Amount	Primary Government	Component Units
Cash in Bank	$ 89,428	$ 11,063
Cash on Hand and Imprest Cash	2,449	-
Cash with Fiscal Agent	13,793	-
Cash with U.S. Treasury	556,610	-
Cash Equivalent Investments:		
Cash Management Investment Pools	9,073,196	159,315
Cash Equivalent Investments	91,742	1,644,540
Total Cash and Cash Equivalents	$ 9,827,218	$ 1,814,918

Deposits

At June 30, 2001, the primary government's bank balance was $80,028,000. For component units at December 31, 2000 or June 30, 2001, whichever is applicable, the bank balances were $28,876,000. 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. MnSCU bank balances increase significantly at the beginning of the fall and spring semesters resulting in under collateralized balances. Under collateralized MnSCU balances reached a maximum of $13.6 million in January 2001.

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 Statute, SBI has the authority to enter into, and has entered into, derivative transactions including put and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. Any agreements for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or security. As of June 30, 2001, the state's exposure to market risk is minimal as the derivatives outstanding represent approximately one percent of the total investment balance.

Primary Government
Investments at June 30, 2001
(In Thousands)

Investment Type		Fair Value
Repurchase Agreements	$	334,219
Commercial Paper		4,027,428
Short Term Corporate Notes		2,900
U.S. Treasury Obligations		1,496,406
Mortgaged Backed		6,644,062
Corporate Obligations		5,060,069
Foreign & Other Obligations		488,433
Corporate Stocks		25,229,531
Other Equity		3,060,210
Total Investments in Risk Category 1	$	46,343,258
Trustee Managed Pools (not categorized)		3,026,393
Total Investments	$	49,369,651

Component Units
Investments at December 31, 2000 and June 30, 2001
(In Thousands)

Investment Type		Fair Value
Repurchase Agreements	$	223,638
Commercial Paper		453,630
U.S. Treasury Obligations		570,969
Mortgaged Backed		500,388
Corporate Obligations		978,499
Municipal and Other Obligations		115,266
Corporate Stocks		668,325
Other Equity		48,627
Total Investments	$	3,559,342
Trustee Managed Pools/Mutual Funds		177,673
Total Investments	$	3,737,015

The previous tables show the state's investments, including cash equivalents, at their carrying and fair values. 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, 2001
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 1,434,148	$ 3,655,809
Collateral Held	$ 1,452,041	$ 4,448,469
Average Duration	47 days	73 days
Average Weighted Maturity	47 days	529 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, 2001, 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.

3. CAMBRIDGE BANK LITIGATION FUNDS

Revenue bonds were issued to satisfy the claims and judgments resulting from litigation. The Cambridge Litigation Revenue Fund, the Cambridge Litigation Revenue Bond Fund and the Cambridge Litigation Revenue Bond Debt Service Fund are used to record revenues, bond proceeds, claims and judgments and debt service payments. These funds are presented as part of the General Fund and the Debt Service Fund (governmental funds).

The General Fund, as presented herein, includes the Cambridge Litigation Revenue Fund and the Cambridge Litigation Revenue Bond Fund, which were established and maintained in the state treasury and on the state's books and records as a separate special revenue fund, pursuant to Minnesota Statutes, Section 16A.67. The Cambridge Litigation Revenue Fund and the Cambridge Litigation Revenue Bond Fund were established by the Commissioner of Finance's order dated May 1, 1996, which was entitled "Order of the Minnesota Commissioner of Finance for Issuance and Sale of $200,000,000 state revenue bonds, Series 1996A" (the "Order"). The funds are required to be maintained until the state revenue bonds, Series 1996A, and any other revenue bonds hereafter issued and made payable from the Cambridge Litigation Revenue Bond Fund (the "Revenue Bonds") are paid or discharged in accordance with the Order. The Cambridge Litigation Revenue Fund is used to record receipts of certain non-tax revenues (comprising departmental earnings, medical payments and non-dedicated lottery revenues, all as defined in the Order), revenue bond proceeds and investment earnings, and the disbursement of revenue bond proceeds to pay costs of a judgment against the state and related claims described below, and the transfer of revenues and investment earnings first to the Cambridge Litigation Revenue Bond Debt Service Fund to pay debt service on the revenue bonds, and second to the General Fund to pay costs of state government.

The terms, departmental earnings, medical payments and non-dedicated lottery revenues are defined in the Order substantially as follows:

- *Departmental Earnings* are certain license fees, service fees and other charges imposed by or pursuant to the state law, which are collected from the general public and regulated businesses and professions. The use of these fees is not otherwise restricted by federal law and is not determined to constitute a tax of statewide application on any class of property, income, transaction or privilege. In addition, these fees, penalties and interest may not be dedicated to another fund.
- *Medical Payments* are all amounts paid to the state by non-state resources for payment, or as reimbursement for payment by the state from its General Fund, of costs incurred for the care and treatment of mentally ill and developmentally disabled persons at regional treatment centers.
- *Non-dedicated Lottery Revenues* are all lottery net income not dedicated and required by the State Constitution, Article XI, Section 14 to be transferred to the Environment and Natural Resources Trust Fund (expendable trust fund).

For the fiscal year ended June 30, 2001, the funding received by and transferred from the Cambridge Litigation Revenue Fund, including revenues, investment earnings and the moneys received by and disbursed from the Cambridge Litigation Revenue Bond Fund, were as follows:

Cambridge Litigation Revenue Bond Fund

(In Thousands)

Net Revenues:	
License and Fees	$ 104,667
Care & Hospitalization	58,359
Department Services	29,992
Penalties & Fines	1,545
Investment/Interest Income	575
Net Revenues	$ 195,138
Other Financing Sources (Uses):	
Operating Transfers	$ 30,084
Transfers to Debt Service and General Funds	(215,483)
Net Other Financing Sources (Uses)	$ (185,399)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 9,739

The 1997 legislature appropriated $16,600,000 from the General Fund to pay any additional claims. The total remaining claims have been paid by the General Fund as of June 30, 2001. The principal and interest on claims paid during fiscal year 2001 totaled $872,000 and $1,206,000 respectively.

The Cambridge Litigation Revenue Fund and the Cambridge Litigation Revenue Bond Fund, while maintained and administered as separate funds on the official books and records of the state as covenanted and agreed in the Order, have been presented as part of the General Fund for financial reporting purposes for the following reasons. First, the purpose for which the revenue bonds were issued is to fund a portion of the judgment entered against the state in Cambridge State Bank vs. James, 514 N.W.2d 565 (Minn. 1994) and related claims, wherein the Minnesota

Supreme Court held that certain banks were entitled to a refund of taxes paid on income from federal obligations. The judgment and related claims are obligations of the General Fund and have been recorded as an accrued liability in the General Long-Term Obligation Account Group. Second, the revenues appropriated to the Cambridge Litigation Revenue Fund, prior to the establishment of the Cambridge Litigation Revenue Fund, have been revenues of the General Fund. Third, revenues appropriated to the Cambridge Litigation Revenue Fund, which are not required to be transferred to the Cambridge Litigation Revenue Bond Debt Service Fund to pay debt service on the revenue bonds, are required to be and have been transferred to the General Fund, and once so transferred, are available only for General Fund purposes.

4. INTERFUND ACTIVITY

Primary Government

Primary Government Interfund receivables and payables at June 30, 2001, including the current portion of interfund advances, are summarized as follows (in thousands):

Primary Government

Fund	Receivables	Payables
General Fund	$ 86,394	$ 27,774
Special Revenue Funds:		
Trunk Highway	$ 47,141	$ -
Highway User Tax Distribution	11,725	86,783
Federal	4,640	46,251
Maximum Effort School Loan	-	192
Natural Resources	9,488	-
Health Care Access	1,040	11,674
Environmental	-	1,200
Miscellaneous Special Revenue	8,313	12,948
Total Special Revenue Funds	$ 82,347	$ 159,048
Capital Projects Funds:		
General Projects	$ 3,525	$ -
Transportation	-	28
Building	-	415
Total Capital Projects Funds	$ 3,525	$ 443
Enterprise Funds:		
State Colleges & Universities Revenue	$ 1,572	$ 869
State Lottery	-	11,080
Colleges & Universities Enterprise Act.	4,514	700
Private Employers Insurance	-	167
Enterprise Activities	527	-
Total Enterprise Funds	$ 6,613	$ 12,816
Internal Service Funds:		
State Printer	$ -	$ 527
Central Motor Pool	-	1,995
Plant Management	-	15
Total Internal Service Funds	$ -	$ 2,537

Fund	Receivables	Payables
Fiduciary Funds:		
Pension Trust Funds:		
Defined Benefit Pension Funds:		
Public Employees Retirement	$ 1,134	$ 824
Public Employees Correctional	90	454
Police and Fire	730	595
State Employees Retirement	2,396	427
State Patrol Retirement	1	89
Correctional Employees Retirement	115	239
Judicial Retirement	-	40
Elective State Officers	202	1
Legislative Retirement	6,989	29
Defined Contribution Funds:		
Unclassified Employees Retirement	311	2,000
Public Employees Retirement	4	85
Nonexpendable Trust Fund:		
Permanent School	-	12,147
Expendable Trust Funds:		
Municipal State-Aid Street	6,483	-
County State-Aid Highway	24,785	-
Endowment School	6,198	-
Endowment	1,878	2,469
Environment & Natural Resources	4,411	-
Medical Education And Research	5,072	-
Tobacco Use Prevention	7,932	-
Unemployment Insurance	-	4,016
Agency Fund:		
Miscellaneous Agency	4,705	26,282
Total Fiduciary Funds	$ 73,436	$ 49,697
Total Primary Government	$ 252,315	$ 252,315

The noncurrent portion of interfund advances for the primary government at June 30, 2001 is summarized as follows (in thousands):

	Advances to Other Funds	Advances from Other Funds
General Fund	$ 3,100	$ -
Internal Service Fund:		
Central Motor Pool	-	3,100
Total All Funds	$ 3,100	$ 3,100

Component Units

Interfund receivables and payables at June 30, 2001, within component units and between the primary government and component units, are summarized as follows (in thousands):

Component Units

Fund	Receivables	Payables
Governmental Funds:		
Metropolitan Council	$ 1,677	$ 7,271
Proprietary Funds:		
Metropolitan Council-Unrestricted	1,529	-
Metropolitan Council-Restricted	4,237	172
Totals	$ 7,443	$ 7,443

Primary Government and Component Units

Fund	Due from	Due to
Component Units		
Proprietary Funds:		
Workers' Compensation		
Assigned Risk Plan	$ -	$ 17,101
College and University Funds:		
University of Minnesota	121,356	51,979
Governmental Funds:		
Minnesota Technology Incorporated	535	900
Higher Education Services Office	-	113
Export Finance Authority	-	1,125
Total Component Units	$ 121,891	$ 71,218
Primary Government		
Govenmental Funds:		
General Fund	$ 1,784	$ 101,490
Federal Fund	-	2,730
Health Care Access Fund	-	495
Minnesota Resources Fund	-	36
Environmental Fund	-	52
Miscellaneous Special Revenue Fund	354	604
General Projects Fund	-	592
Building Fund	-	15,613
Environment and Natural Resources Fund	-	279
Debt Service Fund	51,979	-
Total Primary Government	$ 54,117	$ 121,891
Total	$ 176,008	$ 193,109

Due to primary government exceeds due from component units by $17,101,000 for the Workers' Compensation Assigned Risk Plan because the plan's fiscal year end differs from the primary government.

Transfers-out to component units exceeds transfers-in from primary government by $38,424,000. Of this amount, $15,000,000 and $23,424,000 were reported as transfers-out to component units in the General Fund and Building Fund (capital project fund), respectively, and recorded as contributed capital in the Public Facilities Authority Fund (proprietary fund type) and Metropolitan Council (proprietary fund type).

Residual equity transfers-out exceed similar transfers-in by $20,899,000 because of differing reporting focuses for Metropolitan Council proprietary and governmental fund types. These residual equity transfers from governmental fund types are reported as part of the increase to contributed capital in the proprietary fund types.

5. LOANS, NOTES AND FINANCING LEASES RECEIVABLE

Loans, notes and financing leases receivable, net of allowances for possible losses, as of June 30, 2001, consisted of the following (in thousands):

	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Fund	Fiduciary Fund
Student Loan Program	$ 137	$ -	$ -	$ 36,329	$ -
Economic Development	276	7,368	82,624	-	22,901
School Districts	-	15,468	-	-	-
Energy	-	1,446	7,111	-	-
Agricultural	3,360	31,360	2,307	-	-
Transportation	-	24,944	-	-	763
Resources	1,481	11,499	47	-	-
Other	25	1,894	-	-	-
Total	$ 5,279	$ 93,979	$ 92,089	$ 36,329	$ 23,664

	Component Units	
	Non-restricted	Restricted
Metropolitan Council (Governmental)	$ 17,155	$ -
Agricultural and Economic Development Board	22,644	-
Rural Finance Authority	55,132	-
Housing Finance Authority	1,714,341	-
Public Facilities Authority (Proprietary)	-	783,920
Higher Education Services Office (Proprietary)	319,190	-
University of Minnesota	65,778	-
Total	$ 2,194,240	$ 783,920

6. FIXED ASSETS

Primary Government

Summary of Changes in General Fixed Assets
(In Thousands)

	Beginning Balances	Additions	Deductions	Completed Construction	Other Adjustments	Ending Balances
Land	$ 338,826	$ 8,870	$ 3,134	$ -	$ (1,317)	$ 343,245
Buildings	2,246,489	29,783	27,037	155,286	(132,733)	2,271,788
Equipment	500,699	43,136	24,705	-	(145,103)	374,027
Construction in Progress	359,877	132,986	-	(155,286)	(4,631)	332,946
Total	$ 3,445,891	$ 214,775	$ 54,876	$ -	$ (283,784)	$ 3,322,006

Capital outlay expenditures in the governmental and expendable trust funds totaled $652,022,000 for fiscal year 2001. Of this amount, $469,269,000 was for infrastructure fixed assets, which are not included in general fixed assets. Donations of general fixed assets received during fiscal year 2001 are valued at $11,395,000.

General fixed assets purchased with resources provided by outstanding capital lease agreements at June 30, 2001 consisted of equipment with a cost of $98,023,000 and buildings with a cost of $1,781,000.

Authorizations and commitments as of June 30, 2001 for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Educational Buildings	Natural Resources	Veterans Affairs	Corrections Facilities	Human Services
Authorization	$ 101,700	$172,834,584	$ 7,100	$ 50,475	$ 111,218	$20,422
Expended through June 30, 2001	39,242	58,668,186	5,954	39,036	94,175	11,843
Available Authorization	$ 62,458	$114,166,398	$ 1,146	$ 11,439	$ 17,043	$ 8,579

Proprietary and fiduciary fund type fixed assets consisted of the following as of June 30, 2001 (in thousands):

	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Combined Totals
Land	$ 789	$ -	$ 15,754	$ 16,543
Buildings	117,613	-	21,941	139,554
Land and Building Improvements	63,407	6,560	-	69,967
Equipment	27,108	90,131	10,476	127,715
Total	$ 208,917	$ 96,691	$ 48,171	$ 353,779
Less: Accumulated Depreciation	115,899	60,110	3,059	179,068
Net Total	$ 93,018	$ 36,581	$ 45,112	$ 174,711

Land in the Permanent School Fund (nonexpendable trust fund) totaling 2,510,635 acres was donated by the federal government and valued at the estimated fair value at the time of donation.

Component Units

Component Unit fixed assets consisted of the following as of the end of each unit's respective fiscal year (in thousands):

	Governmental Type			Proprietary Type				College and University Type	
	Metropolitan Council	Minnesota Technology Incorporated	Higher Education Services Office	Housing Finance Agency	Metropolitan Council	National Sports Center Foundation	Higher Education Services Office	University of Minnesota	Combined Totals
Land	$ -	$ -	$ -	$ -	$ 28,335	$ 2,500	$ -	$ 34,117	$ 64,952
Buildings and Improvements	-	-	-	-	1,658,347	629	-	2,117,944	3,776,920
Equipment	10,168	2,499	191	2,348	347,395	796	92	581,334	944,823
Other Fixed Assets	-	-	-	-	-	-	-	173,667	173,667
Total	$ 10,168	$ 2,499	$ 191	$ 2,348	$ 2,034,077	$ 3,925	$ 92	$ 2,907,062	$4,960,362
Less: Accumulated Depreciation	-	2,248	106	1,365	752,436	699	72	1,319,583	2,076,509
Net Total	$ 10,168	$ 251	$ 85	$ 983	$ 1,281,641	$ 3,226	$ 20	$ 1,587,479	$2,883,853

7. GENERAL LONG-TERM OBLIGATIONS

Primary Government

The following table is a summary of general long-term obligations at June 30, 2001 and the changes during fiscal year 2001 (in thousands):

	Beginning Balances	Increases	Decreases	Ending Balances
Liabilities For:				
General Obligation Bonds	$ 2,527,281	$ 285,000	$ 224,126	$ 2,588,155
Loans	5,241	6,483	5,241	6,483
Revenue Bonds	56,595	12,290	52,785	16,100
Claims	306,948	1,338,462	19,267	1,626,143
Compensated Absences	276,358	47,418	21,667	302,109
Workers' Compensation	136,660	3,258	12,729	127,189
Capital Leases	21,578	13,203	8,424	26,357
Arbitrage	-	26	-	26
Totals	$ 3,330,661	$ 1,706,140	$ 344,239	$ 4,692,562

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

	General Fund	Special Revenue Funds	Total
Liabilities For:			
General Obligation Bonds	$ 2,469,778	$ 118,377	$ 2,588,155
Loans	6,483	-	6,483
Revenue bonds	100	16,000	16,100
Claims	125,249	1,500,894	1,626,143
Compensated Absences	190,573	111,536	302,109
Workers' Compensation	99,808	27,381	127,189
Capital Leases	10,932	15,425	26,357
Arbitrage	26	-	26
Totals	$ 2,902,949	$ 1,789,613	$ 4,692,562

The following table shows 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.

Principal and Interest Payment

Fiscal Year (s)	General Obligation Bonds	Loans	Revenue Bonds	Capital Leases	Arbitrage	Totals
2002	$ 355,891	$ 2,520	$ 1,420	$ 9,788	$ 26	$ 369,645
2003	337,738	1,714	1,415	7,481	-	348,348
2004	310,838	1,167	1,397	5,030	-	318,432
2005	287,626	635	1,379	3,748	-	293,388
2006	272,086	309	1,655	2,107	-	276,157
Thereafter	2,012,446	138	25,677	-	-	2,038,261
Total Payments	$ 3,576,625	$ 6,483	$ 32,943	$ 28,154	$ 26	$3,644,231
Interest	988,470	-	16,843	1,797	-	1,007,110
Total Principal	$ 2,588,155	$ 6,483	$ 16,100	$ 26,357	$ 26	$2,637,121

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.

In fiscal year 2001, the Department of Finance made the necessary transfers to the Debt Service Fund as follows (in thousands):

General Fund	$	351,269
Special Revenue Funds:		
Trunk Highway Fund	$	6,352
Natural Resources Funds		68
Maximum Effort School Loan Fund		1,633
Miscellaneous Special Revenue Fund		1,344
Total Special Revenue Funds	$	9,397
Capital Projects Funds:		
Building Fund	$	10,725
General Projects Fund		7
Total Capital Projects Funds	$	10,732
Enterprise Fund:		
Behavioral Services		55
Component Units:		
Rural Finance Authority	$	8,021
University of Minnesota		2,837
Total Component Units	$	10,858
Total Operating Transfers to Debt Service Fund	$	382,311

The amount shown in the Debt Service Fund as reserved for debt requirements differs from that shown in the General Long-Term Obligation Account Group as Amount Available in Debt Service Fund because the Debt Service Fund amount includes amounts for both principal and interest on general obligation bonds while the General Long-Term Obligation Account Group includes only the amount for bond principal.

General Obligation Bond Issues

On November 1, 2000, $255,000,000 in general obligation state various purpose and state refunding bonds and $30,000,000 in general obligation state trunk highway bonds were issued at a true interest rate of 5.05 percent. During fiscal year 2001, $224,126,000 in general obligation bonds principal was repaid.

In previous years, the state issued 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 balance outstanding for all extinguished debt at June 30, 2001 was $261,700,000, which is shown below. The state remains contingently liable to pay the refunded general obligation bonds.

Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
August 1, 1993	$ 146,995	$ 133,770	$ 95,900	August 1, 2001
November 1, 1993	91,720	81,650	81,650	August 1, 2002
November 1, 1998	99,700	96,100	84,150	October 1, 2004
Total	$ 338,415	$ 311,520	$ 261,700	

In addition, $2,040,000 of state guaranteed bonds are being held in escrow because the bond proceeds exceeded the cost of the project.

Additional Escrow Defeased Amount
(In Thousands)

	Outstanding Amount	Refunded Bond Call Date
State Guaranteed Bonds	$ 2,040	August 1, 2005

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding at June 30, 2001. This schedule includes general obligation bonds that were sold for the State Operated Community Services Fund (enterprise fund).

General Obligation Bonds Authorized, but Unissued and Bonds Outstanding
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 279,339	$ 1,429,646	3.75 - 7.56
State Operated Community Services	2,845	4,440	3.75 - 7.56
State Transportation	13,725	95,590	4.69 - 7.56
Waste Management	2,000	5,080	5.00 - 7.56
Water Pollution Control	11,707	113,025	4.58 - 7.56
Maximum Effort School Loan	-	78,570	5.00 - 7.56
Reinvest in Minnesota	685	11,660	5.00 - 6.90
Rural Finance Administration	2,900	69,725	5.00 - 6.98
Refunding Bonds	-	562,709	3.97 - 6.95
Exchange Bonds	-	3,144	0.05
Municipal Energy Building	575	6,925	5.00 - 7.56
Game and Fish Building	-	87	5.33 - 6.95
Trunk Highway	70,100	39,720	3.75 - 6.95
Airport Facilities	81,275	40,950	4.40 - 7.95
Landfill	52,460	30,020	4.54 - 5.76
Various Purpose	335,725	101,304	
Totals	$ 853,336	$ 2,592,595	

Loans Payable

Loans payable consist of loans granted by energy companies to improve energy efficiency in Minnesota State Colleges and Universities (MnSCU) buildings. These loans are interest free.

Revenue Bonds Payable

Revenue bonds payable of $16,100,000 reported in the General Long-Term Obligation Account group consist of $100,000 for airport facilities secured by St. Louis County and $16,000,000 for the financing of the Giants Ridge recreational area.

On November 1, 2000, $16,000,000 in state revenue bonds were issued 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 principle 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.

Outstanding Defeased Debt
(In Thousands)

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

Claims

Municipal solid waste landfills liability of $269,213,000 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 $58,322,000 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 $33,016,000 are for certain employees who qualify for post-retirement benefits upon retirement at age 55 under terms of their employment contract. See Note 17 for the amount paid in fiscal year 2001.

The remaining claim amount of $1,265,592,000 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 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of $302,109,000 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 from state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The liability for workers' compensation of $127,189,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2001 and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Leases

Capital leases payable are for those leases that meet the criteria in GASB Statement No. 1, "Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide". See Note 8 for the minimum future payments under operating leases.

Arbitrage Liabilities

The arbitrage rebate payable to the federal government of $26,000 is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties. It is the estimate of the excess earnings on tax-exempt bond proceeds and debt service reserves. Interest earnings on bond proceeds are used primarily for debt service payments. The arbitrage rebate will be paid through an appropriation from the General Fund. There is no reservation of assets for this liability.

Revenue Bonds Payable - Fiduciary Funds

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

Long-Term Debt Repayment Schedule
Fiduciary Funds -June 30, 2001
(In Thousands)

Revenue Bonds-SERF, TRF & PERF

Fiscal Year(s)	Amount
2002	$ 2,092
2003	2,092
2004	2,095
2005	2,094
2006	2,092
Thereafter	50,353
Total Payments	$ 60,818
Less: Interest	31,818
Total Principal	$ 29,000

Component Units

The Metropolitan Council (MC) (governmental fund type) issues general obligation bonds for parks, solid waste, sewers and transportation, backed by MC's full faith and credit and taxing powers. MC had $160,579,000 in general obligation bonds outstanding on December 31, 2000.

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

Long-Term Debt Repayment Schedule
Component Units - Government Funds
(In Thousands)

	General Obligation Bonds		Revenue Bonds
	MC		AEDB
Year Ending December 31	Amount	Year Ending June 30	Amount
2001	$ 26,529	2002	$ 3,906
2002	27,949	2003	4,614
2003	23,593	2004	4,614
2004	21,186	2005	4,596
2005	15,451	2006	4,497
Thereafter	87,818	Thereafter	36,637
Total	$ 202,526		$ 58,864
Less: Interest	41,947		21,419
Bond Principal	$ 160,579		$ 37,445

8. 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, 2001 totaled approximately $69,711,000 and $19,041,000 for the primary government and component units respectively. Lease expenditures for the year ended December 31, 2000 totaled approximately $1,733,000 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
2002	$ 62,929	2002	$ 15,384	2001	$ 1,446
2003	50,960	2003	11,522	2002	1,391
2004	37,533	2004	8,970	2003	1,197
2005	26,630	2005	8,797	2004	1,197
2006	20,477	2006	6,819	2005	1,197
Thereafter	41,206	Thereafter	33,629	Thereafter	-
Total	$ 239,735	Total	$ 85,121	Total	$ 6,428

Capital Leases

The state and its component units have 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.

In the governmental funds, equipment purchased through capital lease agreements is included with the general fixed assets. The state's liability for these capital leases is included in general long-term obligations (see Note 7).

9. LONG-TERM OBLIGATIONS - PROPRIETARY FUNDS

Revenue and General Obligation Bonds

Primary Government

The enterprise funds listed below have the authority to issue, and have issued, revenue bonds which are not general obligations of the state, but are payable solely from rentals, revenues and other income, charges and monies that were pledged for repayment. Premiums and discounts on revenue bonds are amortized using the interest method over the life of the bonds to which they relate.

The Minnesota State Colleges and Universities (MnSCU), which is included in the College and Universities Enterprise Activities (CUEA), financed the construction of a dormitory and a modular housing project through the Higher Education Facilities Authority. MnSCU reports the $1,410,000 debt for these two projects in CUEA.

In addition, the State Operated Community Services (SOCS) has been appropriated money to provide group residential housing for individuals with developmental disabilities. The state has issued general obligation bonds to finance these projects. The debt service costs on the bonds sold to finance these projects must be paid in accordance with Minnesota Statutes, Section 16A.643 from the group residential housing fees charged.

Component Units (proprietary funds)

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Sections 462A.21-.22 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 $850,000,000, 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 environmental services general obligation bonds backed by MC in full faith and credit and taxing powers.

Primary Government

Proprietary Funds - June 30, 2001
(In Thousands)

Fiscal Year(s)	Revenue Bonds CUEA	General Obligation Bonds SOCS
2002	$ 225	$ 413
2003	226	413
2004	225	413
2005	225	413
2006	223	413
Thereafter	851	4,473
Total Payments	$ 1,975	$ 6,538
Less: Interest	565	2,098
Total Principal	$ 1,410	$ 4,440

Component Units

Long-Term Debt Repayment Schedule
Component Units - June 30, 2001
(In Thousands)

	Revenue Bonds				General Obligation Bonds	
Fiscal Year(s)	HFA	PFA	HESO	U of M	MC*	U of M
2001	$ -	$ -	$ -	$ -	$ 30,586	$ -
2002	394,996	65,450	5,286	1,411	27,091	36,474
2003	140,328	64,954	5,286	1,397	25,292	37,103
2004	142,043	64,806	5,286	1,407	23,833	116,228
2005	141,580	62,045	5,286	1,409	22,788	31,331
2006	141,315	62,962	5,286	1,407	13,376	31,018
Thereafter	2,897,857	614,366	213,337	9,376	76,105	456,430
Total Payments	$ 3,858,119	$ 934,583	$ 239,767	$ 16,407	$ 219,071	$ 708,584
Unamortized (Discount)/Premium	-	1,678	888	-	(1,766)	-
Less: Interest	1,892,457	300,743	110,955	4,872	49,476	233,147
Total Principal	$ 1,965,662	$ 635,518	$ 129,700	$ 11,535	$ 167,829	$ 475,437

* MC fiscal year ended December 31, 2000

Bond Defeasances

Primary Government

State Colleges and Universities Revenue Fund (enterprise fund) had $27,390,000 in bonds that were defeased and not reflected in the financial statements as of June 30, 2001. The bonds were defeased by placing investments in an irrevocable trust to provide for all future debt service of the bonds.

Component Units

Public Facilities Authority (proprietary fund type) had $82,535,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2001.

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, mining tax revenues and federal grants. Long-term commitments as of June 30, 2001 were as follows (in thousands):

Special Revenue Fund:	
Trunk Highway Fund	$ 564,918
Capital Projects Funds:	
General Projects Fund	120,347
Transportation Fund	9,855
Building Fund	337,496
Total Primary Government	$ 1,032,616
Component Unit:	
University of Minnesota	$ 431,605

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 fiscal years ending June 30, 2002 and June 30, 2003 were $875,000 for each year. 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 monies 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. At any one time, there are claims and cases pending against various state agencies, including but not limited to, the Departments of Administration and Transportation and the Minnesota State Colleges and Universities, and other state agencies which may be potentially responsible parties for the cleanup of hazardous and other contaminated waste sites under federal and state superfund and other environmental laws. In the aggregate, it is possible that the potential liability of the state for such claims may exceed $10 million because all parties are jointly and severally liable under federal and state superfund laws. Liability out of decisions unfavorable to the state may impact the trunk highway fund for claims against the Department of Transportation and the state's General Fund for claims against other state agencies.

   c. *Amoco, et al. v. Commissioner of Revenue.* Minnesota Tax Court. These cases involve nine related corporations that are challenging the State's corporate franchise tax. The major issues involve; (i) whether the State's gasoline tax law prevents the State from imposing any other kind of tax on Amoco, (ii) whether Amoco and its affiliates are engaged in a unitary business so that the income of all affiliates may be combined and a proportionate share taxed by the State, and (iii) whether the franchise tax discriminates against combined groups conducting business overseas through U.S. domestic corporations and in favor of combined groups conducting their overseas operations through non-U.S.

corporations. Resolution of this matter is not expected before the end of 2001. The amount in controversy is $29 million. An adverse precedent, however, would result in substantial additional liability as to these and other taxpayers.

d. *Danny's Tranny's, Inc., and all other similarly situated v. State of Minnesota et al.* Ramsey County District Court. This is a class action against the State of Minnesota, the Commissioners of Commerce and Finance, and the Minnesota Workers' Compensation Assigned Risk Plan Review Board challenging the constitutionality of legislation passed in the 2000 legislative session. The legislation at issue appropriated surplus funds in the Minnesota Workers' Compensation Assigned Risk Plan and transferred $450 million to various State agencies and funds. Plaintiffs contend the surplus funds rightfully belong to employers who paid premiums to the Minnesota Workers' Compensation Assigned Risk Plan, and allege the appropriation of the money violates their constitutional rights. The amount in controversy is the transferred amount of the surplus that was contained in the Minnesota Workers' Compensation Assigned Risk Plan. In a judgment entered October 18, 2001, the district court upheld all but $32 million (plus one year of interest) of the disputed $450 million in transfers, and denied class certification. Appeals were filed on December 7, 2001. It is unclear whether the $32 million award would have to be paid to employers from the State's general fund or from the remaining excess surplus in the Minnesota Workers' Compensation Assigned Risk Plan, which presently is over $100 million.

e. *Great Lakes Gas Transmission, LP v. Commissioner of Revenue.* Minnesota Supreme Court. This action involves the imposition and collection of a sales/use tax on the purchase of natural gas. The taxpayer claims that; (i) it did not make a taxable purchase of the gas, (ii) the sales/use tax violates the interstate commerce clause and equal protection guarantees, (iii) the sales/use tax is preempted by federal law, and (iv) the gas is exempt from the sales/use tax because it is consumed in industrial production. The Minnesota Tax Court held that natural gas burned to power pipeline compressors is exempt from sales/use tax as fuel consumed in industrial production and ordered a refund of the tax paid. The Commissioner of Revenue has appealed the Minnesota Tax Court's decision to the Minnesota Supreme Court, which heard oral argument on October 2, 2001. The refund amount requested for all pipelines is estimated to be $11.4 million plus interest. A decision regarding the appeal is expected by early 2002.

f. *U.S. West Communications, Inc. v. Commissioner of Revenue; and Qwest Corporation, f/k/a U.S. West Communications, Inc. v. Commissioner of Revenue.* Minnesota Tax Court. Plaintiffs, a regional telecommunication public utility and its successor in interest, claim that that they are entitled to capital equipment refunds of sales taxes paid in an amount of $5.4 million plus interest in the first case and in an amount of $21 million plus interest in the second case. 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 personal property." The first case covers a seven-month period ending June 1996, and the second case covers a thirty-month period ending December 1998. 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 telecommunications companies. Since the filing of these cases, several other telecommunications companies have filed similar suits. To date, the total for all such suits is $47 million. An adverse decision would impact the State's General Fund. The Minnesota Tax Court ruled in favor of the Commissioner of Revenue on April 2, 2001, and Plaintiffs appealed that decision to the Minnesota Supreme Court, which heard oral argument on October 4, 2001. A decision regarding the appeal is expected by early 2002.

12. CONTINGENT LIABILITIES - OTHER

Primary Government

Pension Trust Funds

In addition to the pension trust funds included in the reporting entity (see Note 16), 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, 2001	$ 108,813
Minneapolis Teachers Retirement Fund	June 30, 2001	$ 548,381
St. Paul Teachers Retirement Fund	June 30, 2001	$ 191,886
Local Police and Fire Funds	December 31, 2000	$ 34,867

The unfunded liability of the Local Police and Fire Fund for 2000 consists of four local plans.

The pension trust funds for which the state has custodial responsibility, but for which the state is not contingently liable, include the Public Employees Retirement, Police and Fire and Public Employees Correctional funds.

All of the unfunded liabilities shown above were computed using the entry age normal actuarial cost (level normal cost) method. Assumptions include 6 and 5 percent interest rates, and 4 and 3.5 percent annual salary growth rates for the Minneapolis Employee Retirement Fund and the Local Police and Fire funds, respectively. Additional annual contributions are provided to reduce the current unfunded liabilities. It has been the intent of the legislature, in establishing contribution rates, to provide sufficient resources to retire or fully fund the liabilities for the Local Police and Fire funds by June 30, 2009 and by June 30, 2020 for the Minneapolis Employees Retirement Fund.

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C.09, 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, 2001, the Petrofund has reimbursed eligible applicants approximately $307 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

The Closed Landfill Program provides environmental response to qualified, state-permitted, closed landfills. Currently, 103 closed sites are in the program. Up to eight 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, 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, 2001, $124.2 million has been expended by the Solid Waste and bond funds. Estimates indicate that the total of all program payments may reach $594 million. 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 *Metropolitan Council* enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2000, unpaid commitments were approximately $117.6 million for transit services, while future commitments were $297.2 million for metro transit-light rail, $34.7 million for regional transit services and $20.7 million for construction contracts.

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, 2000 was approximately $4.9 million.

WCARP had a change in estimates of insured events in prior years. This decrease resulted in a reduction in the estimate of the ultimate cost of losses incurred, thus a negative expense of $15.5 million for this fiscal year. This decrease was due primarily to the release of reserves attributed to improvement in claim experience, as well as changes in economic, social, and legal trends since the loss of reserves were originally established.

The *University of Minnesota (U of M)* has approximately $263.6 million of construction projects in process, principally buildings, that have been included in the assets of the plant funds at June 30, 2001. The estimated cost to complete these facilities is $431.6 million, which is to be funded from plant fund assets and $113.8 million in appropriations available from the state of Minnesota.

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 required payments at June 30, 2001 is as follows (in thousands):

Fiscal Year Ending June 30	Total
2002	$ 6,048
2003	6,048
2004	6,048
2005	6,048
2006	6,048
Thereafter	66,536
Total	$ 96,776

Other Contingent Liabilities

The 1993 Legislature established a School District Credit Enhancement Program. The legislation authorized and directed the Commissioner of Finance to issue a warrant and authorized the commissioner of Children, Families and Learning (CFL) to pay debt service coming due, under certain circumstances and subject to the availability of funds. Payments are made on behalf of the school district if the district cannot pay for: 1) the school district tax and the state-aid anticipation certificates of indebtedness, 2) certificates of indebtedness and capital notes for equipment, 3) certificates of participation, and 4) school district general obligation bonds. The school district must notify the commissioner of CFL that the district does not have sufficient money in its debt service fund for this purpose. Payment can also be made if the paying agent informs the commissioner of CFL that it has not received timely payments from the school district to be used to pay debt service. The school district must repay (with interest) amounts paid on the district's behalf. Repayment can be 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 CFL. As of October 1, 2001, approximately $8.0 billion in principal and interest of bonds, certificates of indebtedness and capital notes was enrolled in the program. 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.

13. NORTHWEST AIRLINES MAINTENANCE FACILITIES

Minnesota Laws 1991, Chapter 350 authorized the state to issue up to $50,000,000 of revenue bonds secured by the state's full faith and credit 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. (NWA), 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. As of June 30, 2001, $41,050,000 of the revenue bonds remained outstanding, of which $23,630,000 is payable primarily from lease payments of NWA, and $17,420,000 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 payment, the state will have the right to apply certain state-aid payments otherwise payable to the city of Duluth to the payment of these bonds, or to reimburse itself from these funds for making payments on the bonds. Of the $41,050,000 revenue bonds issued by the state, $40,950,000 is secured by the state's full faith and credit, and $100,000 is secured by the full faith and credit of St. Louis County. The bonds are structured so that the initial bonds, together with expected later refundings, will provide financing over a 30-year amortization period. On July 1, 1999, $3,435,000 of the revenue bonds was defeased, thereby reducing the amount of the stated outstanding balance. The defeased funds are to be held in escrow. The invested funds will be sufficient to pay the principal of, and interest on, the bonds to their earliest call date or, for the bonds secured by the full faith and credit of St. Louis County, to pay the principal on bonds coming due on August 1, 2004. The 1997 Minnesota legislature cancelled $48,765,000 of the bonding authorization for the engine repair facility. Pursuant to Minnesota Statutes, Section 16A.642 an additional $81,275,000 of the bonding authorization was cancelled on July 1, 2001.

14. EQUITY

Contributed Capital

Details of the changes in the contributed capital of the primary government enterprise and internal service funds and component unit proprietary funds are as follows (in thousands):

	Primary Government			Component Units
Source	Enterprise Funds	Internal Service Funds	Total	Proprietary Funds
Contributed Capital, Beginning	$ 25,848	$ 6,064	$ 31,912	$ 962,334
Additions:				
Federal Grants	-	-	-	52,918
Other Contributions	3,839	75	3,914	79,516
Reductions:				
Amortization/Depreciation on Fixed Assets Acquired with Contributed Capital	(352)	-	(352)	(34,275)
Other Reductions	(1)	-	(1)	-
Contributed Capital, Ending	$ 29,334	$ 6,139	$ 35,473	$ 1,060,493

Retained Earnings

The following table identifies in greater detail the retained earnings of the reporting entity (in thousands):

	Proprietary Fund Types		
	Enterprise	Internal Service	Component Units
Retained Earnings:			
Reserved for Debt Requirements	$ -	$ -	$ 598,534
Reserved per State Law	-	-	178,763
Reserved for Claims	-	90,108	-
Total Reserved Retained Earnings	$ -	$ 90,108	$ 777,297
Unreserved Retained Earnings	188,530	17,819	786,163
Total Retained Earnings	$ 188,530	$ 107,927	$ 1,563,460

Reserved Retained Earnings

Primary Government

Reserved for Claims represents the accrued amount for claims incurred, but not reported for the Public Employees Insurance Program Fund and the Risk Management Fund.

Component Units

Reserved Retained Earnings per State Law consists of $178,763,000 in the Housing Finance Agency Fund. This reserve is the unused portion of state appropriations provided for specific programs. These programs are primarily for interest rate reductions on housing mortgages and home improvement loans.

Fund Balances

The following table identifies in greater detail the fund balances of the reporting entity (in thousands):

	Governmental Fund Types					Fiduciary Fund Types	University Fund Type
	General	Special Revenue	Capital Projects	Debt Service	Component Units	Trust and Agency	University of Minnesota
Fund Balances:							
Reserved for Encumbrances	$ 148,865	$ 172,771	$ -	$ -	$ 7,811	$ 9,352	$ -
Reserved for Inventory	-	11,650	-	-	-	-	-
Reserved for Long-Term Receivables	5,279	87,867	92,089	51,979	94,931	23,664	-
Reserved for Long-Term Commitments	-	125,301	190,607	-	40,988	-	-
Reserved for Local Governments	-	-	-	-	-	510,615	-
Reserved for Trust Principal	-	-	-	-	-	1,693,402	-
Reserved for Debt Requirements	-	-	-	398,514	-	-	-
Reserved for Pension Benefits/ Pool Participants	-	-	-	-	-	39,872,905	-
Budgetary Reserve	972,000	150,000	-	-	-	-	-
Reserved for Long-Term Advances	3,100	-	-	-	-	-	-
Reserved for Other	-	5,680	-	-	-	-	769,205
Total Reserved Fund Balances	$ 1,129,244	$ 553,269	$ 282,696	$ 450,493	$ 143,730	$ 42,109,938	$ 769,205
Unreserved Fund Balances:							
Designated for Appropriation Carryover	$ 50,272	$ 441,759	$ -	$ -	$ -	$ -	$ -
Designated for Fund Purposes	-	332,035	-	-	298,672	742,918	210,229
Total Designated Fund Balance	$ 50,272	$ 773,794	$ -	$ -	$ 298,672	$ 742,918	$ 210,229
Undesignated	-	491,093	91,138	-	46,153	52,114	181,345
Total Unreserved Fund Balances	$ 50,272	$ 1,264,887	$ 91,138	$ -	$ 344,825	$ 795,032	$ 391,574
Total Fund Balance	$ 1,179,516	$ 1,818,156	$ 373,834	$ 450,493	$ 488,555	$ 42,904,970	$ 1,160,779

Reserved Fund Balance

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

Budgetary Reserve in the General Fund consists of two different accounts. The budget reserve account is appropriated by the legislature for use only when it appears that probable receipts will be less than anticipated and the amount available for the remainder of the biennium will be less than needed for budgeted expenditures. In this circumstance, state law requires that the commissioner of Finance, with the approval of the governor and after consulting with legislative leadership, transfer the amounts necessary from the reserve to the unreserved fund balance. The cash flow account is used to meet cash flow deficiencies resulting from the uneven distribution of revenue collections and required expenditures during a fiscal year.

Budgetary Reserve in the Health Care Access Fund (special revenue fund) is a statutory reserve established to preserve basic health care services when federal funding is significantly reduced. This reserve is limited to $150,000,000.

Reserved for Local Governments is the equity amount in three expendable trust 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 $5,680,000 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.

Reserved for Other - University of Minnesota (component unit) of $769,205,000 consists primarily of current externally restricted operating funds along with restricted plant funds that may be utilized only in accordance with the purposes established by the source of the funds.

Unreserved Fund Balance

Primary Government

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	Expendable Trust Funds
Education	$ 11,511	$ 15,041
Economic Development	164,441	708,951
Health and Social Services	86,045	-
Transportation	6,803	-
Resource Management	22,915	18,926
Protection of Persons and Property	21,724	-
General Government	18,596	-
Totals	$ 332,035	$ 742,918

The total Designated for Fund Purposes of Governmental Component Units and the University of Minnesota of $298,672,000 and $210,229,000 respectively, is to be used primarily for debt service.

15. PRIOR PERIOD ADJUSTMENTS AND OTHER CHANGES IN ACCOUNTING PRINCIPLES

Prior Period Adjustments

Primary Government

The Miscellaneous Special Revenue Fund includes a prior period adjustment of $5,439,000 due to the restructuring of a loan program, the Rural Challenge Grant Program. Loans previously administered by the Department of Trade and Economic Development are being administered by regional organizations. The state retains a general oversight role regarding the use of funds.

Component Unit

The operations of the University Hospital and Clinic (U of M) and certain assets and liabilities were transferred to Fairview Hospital and Healthcare Services on December 31, 1996. Recoveries and adjustments to previously recorded losses on this transfer total $14,228,000 for the year ended June 30, 2001, representing a Medicare reimbursement for the loss on property, plant, and equipment.

Change in Accounting Principle

Primary Government

The state implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Transactions", an amendment to Statement No. 33, for fiscal year 2001. These statements establish accounting and financial reporting standards to guide state and local governments decisions about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives, or receives, value without directly receiving, or giving, equal value in return.

GASB Statement No. 33 required that the Unemployment Insurance Fund restate revenues, receivables and payables for unemployment taxes assessed on employee wages earned during the quarter ended June 30, 2000, but not paid to the fund until fiscal year 2001. Under the restatement, unemployment tax revenue is recognized in the year that the underlying wages were earned. The restatement resulted in increases in unreserved fund balance of $101.4 million, receivables of $63.7 million and payables of $3.1 million, and a decrease in revenue of $40.8 million. In addition, the Miscellaneous Special Revenue Fund had an increase of $8.2 million to fund balance because part of the revenue flows through this fund.

Refer to Note 23 regarding a change in accounting principle for sales tax revenue and liability in the General Fund.

Component Unit

The University of Minnesota (U of M) also implemented GASB Statement No. 33 in fiscal year 2001. Restatement of the prior year U of M financial statements for the adoption of GASB Statement No. 33 was determined impractical. As a result, net assets at July 1, 2000 were increased by $2,553,000 for the cumulative effect of these changes on years prior to 2001. The current-year impact on net assets of the adoption of this statement is a decrease of $8,096,000.

Changes in Fund Structure

Primary Government

The Traumatic Brain Injury (TBI) activity previously reported as part of the General Fund is now reported as part of the Behavioral Services Fund. Based on re-evaluation of the fund structure, this activity has been reclassified as an enterprise fund. The net effect of this change for the Behavioral Services Fund is an increase of $2,160,000 on the cash flow statement. TBI had no beginning retained earnings. The General Fund is reporting a Change in Fund Structure adjustment of $2,160,000, which increases the Behavioral Services contributed capital. Other contributed capital came from the General Fixed Assets Account Group.

16. 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 Employee Retirement Fund

Wells Fargo is the plan administrator for the College and University 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. Thirty-two 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-three 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.

  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	8.00	9.00	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 *	2001	$74,364	$145,075
	2000	$70,378	$138,696
	1999	$66,823	$132,040
Employer *	2001	$73,362	$139,799
	2000	$69,322	$134,419
	1999	$65,979	$130,525

* Contributions were 100 percent of required contributions.

Single Employer Plan Disclosures For Current Year
(In Thousands)

	SPRF	CERF	JRF	LRF
Annual Required Contributions (ARC)*	$ 7,575	$ 16,594	$ 7,635	$ 3,273
Interest on Net Pension Obligation (NPO)*	(888)	(745)	(1,082)	(170)
Amort adj to ARC*	-	-	894	136
Annual Pension Cost	$ 6,687	$ 15,849	$ 7,447	$ 3,239
Contributions	10,311	16,648	7,952	5,566
Increase (Decrease) in NPO	$ (3,624)	$ (799)	$ (505)	$ (2,327)
NPO, Beginning (Asset)	(10,449)	(8,769)	(12,733)	(2,007)
NPO, Ending (Asset)	$ (14,073)	$ (9,568)	$ (13,238)	$ (4,334)

* Components of Annual Pension Cost

Single Employer Plan Disclosures
(In Thousands)

		SPRF	CERF	JRF	LRF
Annual Pension Cost (APC)	2001	$ 6,687	$ 15,849	$ 7,447	$ 3,239
	2000	6,363	14,985	7,029	3,062
	1999	6,410	13,786	8,999	3,535
Percentage of ARC Contributed	2001	136%	100%	104%	170%
	2000	159%	104%	107%	121%
	1999	149%	106%	101%	78%
NPO (end of year)	2001	$ (14,073)	$ (9,568)	$ (13,238)	$ (4,334)
	2000	(10,449)	(8,769)	(12,733)	(2,007)
	1999	(6,699)	(8,244)	(12,257)	(1,354)

Actuarial Assumptions for Single Employers

- The actuarial cost method used by all plans is the Entry Age Normal method.
- The method used to determine actuarial valuation of assets is cost plus one-third unrealized gains or losses.
- Minnesota statutes or valuation standards do not require an inflation rate assumption to cost the plans.
- Investment returns for pre-retirement and post-retirement are 8.5 percent and 6.0 percent, respectively, for SPRF, CERF and JRF; and 8.5 percent and 5.0 percent, respectively for LRF and ESOF.
- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF, ESOF 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 and ESOF plans, for those persons not yet in pay status, a 5% 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.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		SPRF	CERF	JRF	LRF
Actuarial Valuation Date	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
	1999	7/1/1999	7/1/1999	7/1/1999	7/1/1999
Actuarial Value of Plan Assets	2001	$ 572,815	$ 431,134	$ 123,589	$ 42,608
	2000	$ 528,573	$ 386,964	$ 111,113	$ 37,265
	1999	$ 472,687	$ 335,408	$ 97,692	$ 33,474
Actuarial Accrued Liability	2001	$ 489,483	$ 398,633	$ 165,244	$ 75,072
	2000	$ 458,384	$ 359,885	$ 153,660	$ 69,364
	1999	$ 406,215	$ 307,408	$ 139,587	$ 66,418
Total Unfunded Actuarial Liability (Asset)	2001	$ (83,332)	$ (32,501)	$ 41,655	$ 32,464
	2000	$ (70,189)	$ (27,079)	$ 42,547	$ 32,099
	1999	$ (66,472)	$ (28,000)	$ 41,895	$ 32,944
Funded Ratio*	2001	117%	108%	75%	57%
	2000	115%	108%	72%	54%
	1999	116%	109%	70%	50%
Annual Covered Payroll	2001	$ 48,935	$ 120,947	$ 28,246	$ 5,858
	2000	$ 48,167	$ 112,587	$ 26,315	$ 5,808
	1999	$ 45,333	$ 106,131	$ 32,940	$ 7,490
Ratio of Unfunded Actuarial Actuarial Liability to Annual Covered Payroll	2001	(170%)	(27%)	147%	554%
	2000	(146%)	(24%)	162%	553%
	1999	(147%)	(26%)	127%	440%

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

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, 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, 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 (PEDCR) 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. PEDCR Fund covers approximately 1,000 units of government. There are 4,716 members in the plan.

Defined Contribution Plans
Contributions Made for Fiscal Year 2001
(In Thousands)

	PERA Defined Contribution Fund	Unclassified Employee Retirement Fund	Colleges and Universities Retirement Fund
Employee Contributions	$875	$4,560	$17,606
Employer Contributions	$971	$6,120	$20,653

Investment Trust Funds

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
Export Finance Authority
Higher Education Services Office
Housing Finance Agency
Metropolitan Council
Minnesota Technology Incorporated
Public Facilities Authority
Rural Finance Authority
University of Minnesota

17. 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 2001, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers and Minnesota State Colleges and Universities (MnSCU) 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 $6,496,529 during fiscal year 2001. Approximately 1,100 former employees currently receive this benefit. The long-term liability is reported in the general long-term obligation account group.

18. SEGMENT INFORMATION AND CONDENSED BALANCE SHEET

Significant enterprise fund financial data for the year ended June 30, 2001 follows.

Primary Government

Enterprise Funds Segment Information
(In Thousands)

	State Colleges & Universities Revenue	State Lottery	Colleges & University Enterprise Activities	Minnesota Correctional Industries	Behavioral Services	Public Employees' Insurance	Private Employers Insurance	Enterprise Activities	State Operated Community Services	Total
Operating Revenues	$ 50,170	$ 342,382	$ 67,750	$ 22,499	$ 19,119	$ 18,023	$ 565	$ 7,529	$ 48,199	$ 576,236
Depreciation/Amortization Expense	5,529	1,508	604	162	208	1	-	42	735	8,789
Operating Income (Loss)	2,298	55,268	2,671	(1,507)	1,888	(2,602)	(8)	3,192	2,886	64,086
Nonoperating Revenues (Expenses):										
Investment Income	3,740	2,303	1,609	272	296	267	10	-	709	9,206
Grants (Revenue)	-	-	1,223	-	67	-	-	-	-	1,290
Other Nonoperating Expense	(2,933)	-	(682)	(44)	(56)	(51)	(4)	(3,036)	(632)	(7,438)
Net Operating Transfers-In (Out)	-	(57,790)	(1,398)	1,674	(55)	-	-	-	1,955	(55,614)
Net Income (Loss)	3,580	-	3,423	448	2,198	(2,334)	-	156	5,056	12,527
Changes in Contributed Capital	(353)	-	-	1	3,837	-	-	-	1	3,486
Fixed Assets:										
Additions	5,002	520	-	440	80	-	-	10	321	6,373
Net Working Capital	14,117	(2,081)	27,171	15,051	11,165	672	-	4,292	21,971	92,358
Total Assets	95,809	27,025	84,036	21,332	14,906	5,086	205	7,962	38,652	295,013
Total Fund Equity	$ 90,012	$ -	$ 75,941	$ 17,759	$ 10,386	$ 652	$ -	$ 4,206	$ 18,908	$ 217,864

The following table shows significant component unit financial data for the year ended June 30, 2001.

Component Units
Condensed Statements - Governmental Funds
(In Thousands)

	PFA	MC*	MTI	HESO	EFA	AEDB	RFA	MPAAT	Totals
Balance Sheet:									
Current Assets	$ 27,437	$ 36,106	$ 5,001	$ 3,483	$ 1,125	$ 21,257	$ 11,494	$ 51,925	$ 157,828
Non-Current Assets	-	180,428	616	-	-	38,557	56,995	130,644	407,240
Due from Other Governmental Units	-	3,526	-	-	-	-	-	-	3,526
Due from Primary Government	-	-	535	-	-	-	-	-	535
Fixed Assets	-	10,168	251	85	-	-	-	-	10,504
Amount Available for Debt Service	-	36,930	-	-	-	-	-	-	36,930
Amount to be Provided for Debt Service	-	126,016	-	-	-	37,445	-	-	163,461
Total Assets and Other Debits	$ 27,437	$ 393,174	$ 6,403	$ 3,568	$ 1,125	$ 97,259	$ 68,489	$ 182,569	$ 780,024
Current Liabilities	$ 1,586	$ 31,267	$ 185	$ 2,728	$ -	$ 1,015	$ 96	$ 1,629	$ 38,506
Due to Other Governmental Units	-	309	-	-	-	-	-	-	309
Due to Primary Government	-	-	900	113	1,125	-	-	-	2,138
Long-Term Liabilities	-	196,429	1,002	313	-	37,445	1,863	3,211	240,263
Total Liabilities	$ 1,586	$ 228,005	$ 2,087	$ 3,154	$ 1,125	$ 38,460	$ 1,959	$ 4,840	$ 281,216
Total Equity	$ 25,851	$ 165,169	$ 4,316	$ 414	$ -	$ 58,799	$ 66,530	$ 177,729	$ 498,808
Operating Statement:									
Revenues	$ 643	$ 126,916	$ 3,498	$ 3,712	$ 65	$ 3,925	$ 4,068	$ (8,523)	$ 134,304
Current Expenditures	-	(156,829)	(9,766)	(9,289)	-	(1,547)	(92)	(11,086)	(188,609)
Non-Current Expenditures:									
Capital Outlay	-	(9,902)	-	-	-	-	-	-	(9,902)
Debt Service	-	(24,633)	-	-	-	(5,682)	-	-	(30,315)
Grants & Subsidies	(15,876)	-	-	(145,159)	-	-	-	-	(161,035)
Total Non-Current Expenditures	$ (15,876)	$ (34,535)	$ -	$ (145,159)	$ -	$ (5,682)	$ -	$ -	$ (201,252)
Total Expenditures	$ (15,876)	$ (191,364)	$ (9,766)	$ (154,448)	$ -	$ (7,229)	$ (92)	$ (11,086)	$ (389,861)
Excess of Revenues Over Expenditures	$ (15,233)	$ (64,448)	$ (6,268)	$ (150,736)	$ 65	$ (3,304)	$ 3,976	$ (19,609)	$ (255,557)
Other Financing Sources (Uses):									
Bond Proceeds	$ -	$ 51,565	$ -	$ -	$ -	$ -	$ 4,500	$ -	$ 56,065
Transfers-In from Primary Government	3,000	53,443	6,840	150,709	-	-	-	-	213,992
Transfers-Out to Primary Government	-	-	(900)	-	-	(1,031)	(8,021)	-	(9,952)
Operating Transfers-In	-	4,283	-	-	-	-	-	-	4,283
Other Operating Transfers-Out	-	(6,736)	-	-	-	-	-	-	(6,736)
Total Other Financing Sources (Uses)	$ 3,000	$ 102,555	$ 5,940	$ 150,709	$ -	$ (1,031)	$ (3,521)	$ -	$ 257,652
Excess of Revenues and Other Sources Over Expenditures and Other Uses	$ (12,233)	$ 38,107	$ (328)	$ (27)	$ 65	$ (4,335)	$ 455	$ (19,609)	$ 2,095

* December 31 year end

Component Units - Governmental Funds

Public Facilities Authority (PFA)
Metropolitan Council (MC)
Minnesota Technology Incorporated (MTI)
Higher Education Services Office (HESO)
Export Finance Authority (EFA)
Agricultural and Economic Development Board (AEDB)
Rural Finance Authority (RFA)
Minnesota Partnership for Action Against Tobacco (MPAAT)

Component Units
Condensed Statements - Proprietary Funds
(In Thousands)

	HFA	PFA	MC*	WCARP*	NSCF*	HESO	Totals
Balance Sheet:							
Current Assets	$ 632,848	$ -	$ 100,591	$ 208,744	$ 742	$ 20,690	$ 963,615
Non-Current Assets	1,949,164	21,366	33,008	319,704	-	381,803	2,705,045
Due from Other Governmental Units	-	-	906	-	-	-	906
Restricted Assets	309,227	1,221,980	203,952	-	-	15,572	1,750,731
Fixed Assets	983	-	1,281,641	-	3,226	20	1,285,870
Total Assets	$ 2,892,222	$ 1,243,346	$ 1,620,098	$ 528,448	$ 3,968	$ 418,085	$ 6,706,167
Current Liabilities	$ 7,703	$ 4,252	$ 50,132	$ 20,749	$ 861	$ 524	$ 84,221
Due to Primary Government	-	-	-	17,101	-	-	17,101
Restricted Liabilities	106,955	646,395	202,376	-	-	181	955,907
Long-Term Liabilities	2,017,255	27,599	512,371	334,000	2,841	130,919	3,024,985
Total Liabilities	$ 2,131,913	$ 678,246	$ 764,879	$ 371,850	$ 3,702	$ 131,624	$ 4,082,214
Total Equity	$ 760,309	$ 565,100	$ 855,219	$ 156,598	$ 266	$ 286,461	$ 2,623,953
Operating Statement:							
Revenues	$ 202,428	$ 57,914	$ 211,051	$ 31,321	$ 7,128	$ 25,365	$ 535,207
Operating Expenditures	(162,227)	(36,141)	(343,837)	(4,758)	(7,852)	(16,509)	(571,324)
Operating Income (Loss)	$ 40,201	$ 21,773	$ (132,786)	$ 26,563	$ (724)	$ 8,856	$ (36,117)
Nonoperating Revenues (Expenses)	(32,730)	(451)	80,862	27,038	789	6,661	82,169
Operating Transfers-In	-	-	2,455	-	-	-	2,455
Transfer-in from Primary Government	73,270	-	31,387	-	-	-	104,657
Operating Transfers-Out	-	-	(2)	-	-	-	(2)
Transfer-Out to Primary Government	(240)	-	-	(450,000)	-	-	(450,240)
Depreciation on Fixed Assets Acquired with Contributed Capital	-	-	34,275	-	-	-	34,275
Increase (Decrease) in Retained Earnings	$ 80,501	$ 21,322	$ 16,191	$ (396,399)	$ 65	$ 15,517	$ (262,803)
Changes in Contributed Capital	$ -	$ 39,582	$ 58,577	$ -	$ -	$ -	$ 98,159

* December 31 year end

Component Units - Proprietary Funds

Housing Finance Agency (HFA)
Public Facilities Authority (PFA)
Metropolitan Council (MC)
Workers' Compensation Assigned Risk Plan (WCARP)
National Sports Center Foundation (NSCF)
Higher Education Services Office (HESO)

Component Units
Combined Condensed Balance Sheet - All Fund Types
(In Thousands)

	Governmental Totals	Proprietary Totals	University of Minnesota	Total Component Units
Balance Sheet:				
Current Assets	$ 157,828	$ 963,615	$ 628,226	$ 1,749,669
Non-Current Assets	407,240	2,705,045	861,012	3,973,297
Due from other Governmental Units	3,526	906	-	4,432
Due from Primary Government	535	-	121,356	121,891
Restricted Assets	-	1,750,731	12,840	1,763,571
Fixed Assets	10,504	1,285,870	1,587,479	2,883,853
Amount Available for Debt Service	36,930	-	-	36,930
Amount to be Provided for Debt Service	163,461	-	-	163,461
Total Assets	$ 780,024	$ 6,706,167	$ 3,210,913	$ 10,697,104
Current Liabilities	$ 38,506	$ 84,221	$ 224,160	$ 346,887
Due to Other Governmental Units	309	-	-	309
Due to Primary Government	2,138	17,101	51,979	71,218
Restricted Liabilities	-	955,907	-	955,907
Long-term Liabilities	240,263	3,024,985	653,715	3,918,963
Total Liabilities	$ 281,216	$ 4,082,214	$ 929,854	$ 5,293,284
Total Equity	$ 498,808	$ 2,623,953	$ 2,281,059	$ 5,403,820

Investments are shown as non-current assets.

19. RISK MANAGEMENT

Primary Government

The state is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors 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 $750,000 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 $1,000,000 per person for bodily injury per occurrence. These risks are covered through self-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 (WRCA). The WRCA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,320,000. 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 2001, a significant change in claim liability occurred as a result of several unanticipated events that contributed to an estimated $11 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 State Employee Group Insurance Program (SEGIP) was created by the Minnesota State Legislature as an employee insurance trust fund to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental benefits coverage through provider organizations. The trust fund is not associated with a public risk pool. 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 for medical, dental, life, and disability coverage through a network of providers throughout the state.

In January 2000, the Fund became fully self-insured for medical coverage and now assumes all liability for medical claims. The self-funded programs within the fund establish claims liabilities based on estimates of the ultimate costs 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 provided by the insurance carriers and reviewed by the program managers 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.16. 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, 2001 was 4,158 members and 4,798 dependents. The members of the pool include 20 schools, 78 cities/townships, 4 counties and 27 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. The employers' premium would be increased the next plan-year and over several plan-years, if necessary, to recover costs in case of a deficiency. Investment income is not anticipated in calculating premium deficiencies. In the event the assets of the pool would be exhausted, members would not be responsible for the pool's liabilities.

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, 2001 and 2000:

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/00	$ 6,129,000	$ 1,873,000	$ 2,420,000	$ 5,582,000
Fiscal Year Ended 6/30/01	$ 5,582,000	$ 4,572,000	$ 3,771,000	$ 6,383,000
Tort Claims (*)				
Fiscal Year Ended 6/30/00	$ -	$ 514,000	$ 514,000	$ -
Fiscal Year Ended 6/30/01	$ -	$ 1,812,000	$ 1,812,000	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/00	$ 116,135,000	$ 33,645,000	$ 13,120,000	$ 136,660,000
Fiscal Year Ended 6/30/01	$ 136,660,000	$ 3,258,000	$ 12,729,000	$ 127,189,000
State Employee Insurance Plans				
Fiscal Year Ended 6/30/00	$ 21,353,000	$ 321,061,000	$ 302,808,000	$ 39,606,000
Fiscal Year Ended 6/30/01	$ 39,606,000	$ 384,872,000	$ 379,923,000	$ 44,555,000
Public Employee Insurance Program				
Fiscal Year Ended 6/30/00	$ 836,000	$ 9,643,000	$ 9,403,000	$ 1,076,000
Fiscal Year Ended 6/30/01	$ 1,076,000	$ 16,849,000	$ 15,300,000	$ 2,625,000

* 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, 2000 and 1999 or June 30, 2001 and 2000, as applicable:

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council				
Fiscal Year Ended 12/31/99	$ 15,417,000	$ 8,290,000	$ 6,001,000	$ 17,706,000
Fiscal Year Ended 12/31/00	$ 17,706,000	$ 7,132,000	$ 7,781,000	$ 17,057,000
University of Minnesota - RUMINCO, Ltd.				
Fiscal Year Ended 6/30/00	$ 11,580,000	$ 250,000	$ 2,355,000	$ 9,475,000
Fiscal Year Ended 6/30/01	$ 9,475,000	$ 1,596,000	$ 2,918,000	$ 8,153,000
University of Minnesota - Workers' Compensation				
Fiscal Year Ended 6/30/00	$ 14,700,000	$ 1,854,000	$ 2,554,000	$ 14,000,000
Fiscal Year Ended 6/30/01	$ 14,000,000	$ (1,629,000)	$ 1,571,000	$ 10,800,000

20. BUDGETARY BASIS VS GAAP

Actual revenues, transfers-in, expenditures, encumbrances and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds. This inequality results primarily from 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 and special revenue funds is provided in the table "Reconciliation of GAAP Basis Fund Balances to Budgetary Basis Fund Balances".

A major difference between GAAP and the budgetary fund balances for special revenue funds is an entity difference for those funds, which do not require legal appropriations. A reconciliation of this entity difference is presented below (in thousands). Other differences in basis of accounting and perspective (fund structure) are included in the subsequent table.

Total GAAP Basis Fund Balances - All Special Revenue Funds	$ 1,818,156
Special Revenue Funds not requiring Legal appropriation	(516,323)
Total GAAP Fund Balance - Appropriated Special Revenue Funds	$ 1,301,833

	General Fund	Special Revenue Funds: Trunk Highway	Highway User Tax Distribution	State Airports	Solid Waste	Health Care Access	Natural Resources	Special Compensation	Environmental	Total Special Revenue
GAAP Basis Fund Balances	$ 1,179,516	$ 448,396	$ 50	$ 36,346	$ 89,990	$317,796	$ 61,047	$ 318,925	$ 29,283	$ 1,301,833
Less: Reserved Fund Balances	1,129,244	189,233	50	17,300	1,115	155,846	19,411	784	13,149	396,888
Less: Designated Fund Balances	50,272	79,131	-	3,322	500	-	6,449	310,495	14,189	414,086
Undesignated Fund Balances	$ -	$ 180,032	$ -	$ 15,724	$ 88,375	$161,950	$ 35,187	$ 7,646	$ 1,945	$ 490,859
Basis of Accounting Differences										
Revenue Accurals/ Adjustments:										
Taxes Receivable	$ (448,882)	$ -	$ (149)	$ -	$ -	$(35,148)	$ -	$ -	$ (124)	$ (35,421)
Human Services Receivable	(17,014)	-	-	-	-	(19)	-	-	-	(19)
Deferred Revenue	140,770	-	-	-	-	2,855	-	-	-	2,855
Other Receivables	(3,816)	-	-	-	-	107	(821)	-	-	(714)
Expenditure Accruals/ Adjustments:										
Family Support, Medical Assist., and MAXIS	214,527	-	-	-	-	-	-	47	-	47
Police and Fire Aid	57,584	-	-	-	-	-	-	-	-	-
Education Aids	454,836	-	-	-	-	-	-	-	-	-
Other Payables	38,663	11,405	-	867	-	18,840	(51)	-	-	31,061
Other Financial Sources (Uses):										
Transfers-In	(7,254)	(30,430)	-	-	-	-	(2,697)	-	-	(33,127)
Transfers-Out	-	-	5,719	-	-	(93)	-	-	-	5,626
Reserved Fund Balances:										
Long-Term Receivables	-	-	-	3,241	-	249	-	-	-	3,490
Fund Structure Differences										
Terminally Funded Pension Plan	7,191	-	-	-	-	-	-	-	-	-
Cambridge Bank Fund Consolidation	(5,592)	-	-	-	-	-	-	-	-	-
Other	(14,867)	-	-	-	-	27	-	-	-	27
Prospective Differences:										
Reduction of Designated for Appropriation Carryover	(241,613)	-	-	-	-	-	-	-	-	-
Budgetary Basis:										
Undesignated Fund Balances	$ 174,533	$ 161,007	$ 5,570	$ 19,832	$ 88,375	$148,768	$ 31,618	$ 7,693	$ 1,821	$ 464,684

21. SUBSEQUENT EVENTS

Primary Government

On October 17, 2001, $330,000,000 of general obligation state various purpose bonds and $25,000,000 of general obligation state trunk highway bonds were sold at a true interest rate of 4.30 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.

On October 24, 2001, $4,000,000 of general obligation taxable state various purpose bonds were sold at a true interest rate of 5.41 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 30, 2001 to the separately invested Debt Service Fund to cover the principal and interest maturing through July 1, 2003 (in thousands):

General Fund	$295,745
Natural Resources Fund	13
Trunk Highway Fund	7,449
Maximum Effort School Loan Fund	1,037
University of Minnesota	7,581
Total Transfers to Debt Service	$311,825

A sales tax rebate not to exceed $852.08 million was approved by the 2001 legislature. The law specifies that the rebate is a reduction of fiscal year 2001 sales tax revenues. The amount necessary to pay the sales tax rebate and interest is appropriated from the General Fund to the Commissioner of Revenue in fiscal year 2001 and is available to claim by taxpayers until June 30, 2003. A sales tax rebate of $791.3 million was recorded in the financial statements as a reduction of the sales tax revenue and an increase in accounts payable in the General Fund as of June 30, 2001. The majority of the sales tax rebate accrued in fiscal year 2001 was issued to taxpayers in August 2001. Of this amount, approximately $25 million was collected by the state through revenue recapture programs.

Component Units

In March 2001, $32,000,000 of general obligation sewer refunding bonds, which refund the 2002-09 maturities of the $62,375,000 General Obligation Sewer Refunding Bonds, were issued by the Metropolitan Council (proprietary fund type). In January 2001, the Metropolitan Council (proprietary fund type) secured a full funding grant agreement from the Federal Transit Administration for the construction of the Hiawatha light rail project. The Metropolitan Council has a December 31 year end.

In October 2001, the Public Facilities Authority (proprietary fund type) issued $94,000,000 in revenue bonds for the purpose of funding loans.

In 2001, the Workers' Compensation Assigned Risk Plan (WCARP) received a notice of a $17,881,000 refund of excess ceded reinsurance premiums from the Workers' Compensation Reinsurance Association, which will be received and recorded in 2001. WCARP has a December 31 year end.

22. NEW REPORTING STANDARDS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", followed in November 1999 by Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities". These statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. When implemented, the statements will require new information to be reported and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The state is required to implement Statement No. 34 for the fiscal year ending June 30, 2002. Minnesota State Colleges and Universities and the University of Minnesota will concurrently implement Statement No. 35. The state has not yet determined the full impact that adopting GASB Statements Nos. 34 and 35 will have on the financial statements.

23. RESTATEMENT – CHANGE IN ACCOUNTING PRINCIPLE

A liability for sales tax refunds of $157 million was discovered subsequent to the issuance of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2001. The liability is required to be recorded as a result of implementing GASB Statement No. 33, “Accounting and Financial Reporting for Nonexhange Transactions”. The liability has been reflected in this restated CAFR as a $5 million reduction to sales tax revenue and a change in accounting principle of $152 million in the General Fund. In addition to the Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units, this change has been reflected in the transmittal letter, Note 14 “Equity”, Note 20 “Budgetary Basis vs. GAAP” and the Statistical Section “General Governmental Revenues by Source”.

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APPENDIX B

State General Obligation Long-Term Debt (Unaudited)

General Obligation Bonds Outstanding June 1, 2002

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of June 1, 2002.

GENERAL OBLIGATION BONDS OUTSTANDING JUNE 1, 2002
(INCLUDING THIS ISSUE)
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$1,122,730	
	Transportation	96,580	
	Pollution Control	109,500	
	Waste Management	6,035	
	Refunding Bonds	477,997	
	Reinvest in Minnesota	10,185	
	Land Fill	28,175	
	Infrastructure Development Bonds	391,800	
	Various Purpose	226,070	
	Total Category 1		$2,469,072
2	School Loan	$ 39,715	
	School Loan Refunding	32,060	
	Municipal Energy Building	5,765	
	Rural Finance Authority	66,725	
	Game and Fish Building	68	
	Total Category 2		$ 144,333
3	Trunk Highway	$ 53,500	
	Trunk Highway Refunding	6,990	
	Total Category 3		$ 60,490
4	State Cigarette Tax Bonds Refunding Bonds	$ 2,335	
	Total Category 4		$ 2,335
5	State Sports & Health Club Tax Bonds Refunding Bonds	8,225	
	Total Category 5		$ 8,225
	Total Outstanding June 1, 2002 — Previous Issues(1)		$2,684,455
	Plus June 1, 2002 Bond Issue		307,405
	Less Bonds Refunded by June 1, 2002 Issue		(38,450)
	Total Outstanding June 1, 2002, Including This Issue		$2,953,410

(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 Cigarette Tax Bonds, are payable primarily from money appropriated to the Debt Service Fund from the sales tax imposed on the sale of cigarettes and other tobacco products. The fifth 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

June 1, 2002

($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Authorizations To Be Sold 6/1/2002	Remaining Authorization
Municipal Energy Building	1983, Ch. 323	$ 29,979.9	$ 29,765.0	$ 165.0	$ 49.9
Building	1987, Ch. 400	369,687.2	369,560.5	—	126.7
Water Pollution Control	1987, Ch. 400	66,747.0	66,740.0	—	7.0
Building	1989, Ch. 300	112,865.4	112,235.0	—	630.4
Building	1990, Ch. 610	270,129.1	270,126.0	—	3.1
Wetlands/Reinvest in MN	1991, Ch. 354	27,989.0	27,340.0	20.0	629.0
Building	1992, Ch. 558	202,134.0	196,905.0	—	5,229.0
Waste Management	1992, Ch. 558	2,000.0	1,625.0	—	375.0
Transportation	1992, Ch. 558	17,500.0	17,145.0	60.0	295.0
Building	1993, Ch. 373	39,605.6	38,355.0	—	1,250.6
Transportation	1993, Ch. 373	9,900.0	8,870.0	100.0	930.0
Building	1994, Ch. 643	526,506.8	518,264.0	3,000.0	7,742.8
Municipal Energy Building	1994, Ch. 643	4,000.0	3,975.0	—	25.0
Transportation	1994, Ch. 643	34,948.7	33,820.0	500.0	628.7
Water Pollution Control	X1995, Ch. 2	750.0	710.0	—	40.0
Building	1996, Ch. 463	481,953.3	472,435.0	1,400.0	8,118.3
Municipal Energy Building	1996, Ch. 463	3,908.3	3,850.0	—	58.3
Water Pollution Control	1996, Ch. 463	25,450.0	24,300.0	—	1,150.0
Transportation	1996, Ch. 463	10,000.0	9,795.0	150.0	55.0
Building	1997, Ch. 246	82,625.0	82,400.0	—	225.0
Water Pollution Control	1997, Ch. 246	4,000.0	3,600.0	65.0	335.0
Transportation	1997, Ch. 246	3,000.0	2,955.0	30.0	15.0
Building	X1997, Ch. 2	44,055.0	35,300.0	—	8,755.0
Building	1998, Ch. 404	98,795.0	97,795.0	500.0	500.0
Transportation	1998, Ch. 404	4,000.0	3,780.0	100.0	120.0
Building	1999, Ch. 240	443,805.0	355,365.0	27,000.0	61,440.0
Water Pollution Control	1999, Ch. 240	39,500.0	34,500.0	5,000.0	0.0
Transportation	1999, Ch. 240	28,440.0	27,200.0	90.0	1,150.0
Transportation	2000, Ch. 479	7,000.0	4,000.0	1,500.0	1,500.0
Trunk Highway	2000, Ch. 479	100,100.0	55,000.0	30,000.0	15,100.0
Various Purpose	2000, Ch. 492	535,060.0	277,430.0	109,500.0	148,130.0
Various Purpose	X2001, Ch. 12	117,205.0	19,000.0	30,150.0	68,055.0
Various Purpose	2002, Ch. 280	7,800.0	0.0	—	7,800.0
Various Purpose	2002, Ch. 374	75,120.0	0.0	38,560.0	36,560.0
Various Purpose(3)	2002, Ch. 393	977,635.0	0.0	22,110.0	955,525.0
Totals		$4,804,194.3	$3,204,140.5	$270,000.0	$1,330,053.8

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 February 1 of each odd-numbered year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) The Governor vetoed approximately $352 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, 1993	2.79%	1.8%	4.44%
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)	2.41%	1.6%	2.91%

Of the State's general obligation bonds outstanding on June 30, 2002, 40.0 percent were scheduled to mature within five years, and 71.0 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
1993	208,311	17,417	225,728
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	285,575	19,438	305,013

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 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
GENERAL FUND								
STATE BUILDING CAPITAL IMPROVEMENT								
	'87.400	**3,125**	**455**	**245**	**245**	**245**	**245**	**245**
		958	156	136	124	111	99	86
	'88.718	**10**	**10**	**0**	**0**	**0**	**0**	**0**
		0	0	0	0	0	0	0
	'89.290	**210**	**60**	**15**	**15**	**15**	**15**	**15**
		56	11	8	7	6	6	5
	'89.300	**26,415**	**2,530**	**2,110**	**2,110**	**2,110**	**2,005**	**2,005**
		9,134	1,357	1,238	1,129	1,018	904	801
	'90.610	**12,897**	**2,515**	**870**	**870**	**870**	**870**	**865**
		4,007	620	529	483	437	392	347
	'91.354	**2,100**	**175**	**175**	**175**	**175**	**175**	**175**
		667	105	96	88	79	70	61
	'92.558	**80,720**	**7,925**	**6,110**	**6,105**	**6,105**	**6,105**	**6,345**
		27,242	4,064	3,708	3,396	3,072	2,751	2,429
	'93.373	**4,475**	**345**	**345**	**345**	**345**	**335**	**335**
		1,651	239	221	201	181	162	145
	'93.558	**6,600**	**550**	**550**	**550**	**550**	**550**	**550**
		2,097	329	302	275	247	219	191
	'94.643	**270,463**	**18,840**	**18,290**	**18,285**	**18,280**	**18,590**	**18,375**
		107,581	13,850	12,921	11,960	10,965	9,947	9,011
	X'95.002	**3,710**	**245**	**245**	**245**	**245**	**280**	**280**
		1,445	193	181	168	154	139	125
	'96.463	**264,100**	**17,490**	**17,465**	**17,060**	**16,755**	**16,570**	**16,570**
		109,844	13,060	12,236	11,386	10,539	9,679	8,846
	'97.246	**60,235**	**3,755**	**3,855**	**4,255**	**4,555**	**4,255**	**4,255**
		23,458	2,893	2,718	2,533	2,328	2,108	1,902
	X'97.002	**30,115**	**2,370**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**
		12,923	1,514	1,400	1,306	1,213	1,119	1,026
	'98.404	**33,505**	**2,055**	**2,055**	**1,940**	**1,940**	**1,940**	**1,940**
		15,815	1,736	1,633	1,532	1,433	1,335	1,234
	'99.240	**324,050**	**25,330**	**25,330**	**23,990**	**21,055**	**21,055**	**16,415**
		142,031	16,028	14,765	13,529	12,398	11,332	10,384
STATE MUNICIPAL ENERGY BUILDING BONDS								
	'83.323	**1,630**	**505**	**405**	**200**	**200**	**110**	**110**
		198	71	47	32	21	13	8
	'90.610	**25**	**0**	**0**	**0**	**0**	**0**	**5**
		9	1	1	1	1	1	1

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
245	**245**	**245**	**245**	**245**	**170**	**20**	**20**	**5**	**5**	**0**	**0**	**0**	**0**
73	60	47	34	21	7	2	1	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4	3	2	2	1	0	0	0	0	0	0	0	0	0
2,005	**2,010**	**2,010**	**2,010**	**2,010**	**1,815**	**815**	**650**	**125**	**75**	**20**	**0**	**0**	**0**
696	590	482	373	263	152	80	40	8	3	1	0	0	0
865	**865**	**865**	**865**	**865**	**867**	**410**	**120**	**120**	**115**	**30**	**30**	**10**	**10**
302	256	210	163	116	69	34	21	14	8	4	2	1	0
175	**175**	**175**	**175**	**175**	**175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
52	42	33	24	14	5	0	0	0	0	0	0	0	0
6,335	**6,335**	**6,335**	**6,335**	**6,335**	**5,825**	**2,100**	**1,790**	**505**	**55**	**55**	**20**	**0**	**0**
2,099	1,766	1,429	1,089	746	400	183	79	20	6	3	1	0	0
335	**335**	**335**	**335**	**335**	**335**	**335**	**50**	**10**	**10**	**5**	**5**	**0**	**0**
127	109	90	71	52	33	15	4	1	1	0	0	0	0
550	**550**	**550**	**550**	**550**	**550**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
162	133	104	74	45	15	0	0	0	0	0	0	0	0
18,275	**18,270**	**18,275**	**18,270**	**18,265**	**18,265**	**18,263**	**15,605**	**7,230**	**5,230**	**2,295**	**1,020**	**370**	**170**
8,080	7,137	6,178	5,210	4,229	3,238	2,247	1,345	675	361	145	60	18	4
270	**270**	**270**	**270**	**270**	**270**	**270**	**270**	**5**	**5**	**0**	**0**	**0**	**0**
111	97	83	68	54	39	23	8	0	0	0	0	0	0
16,140	**16,140**	**16,140**	**16,140**	**15,690**	**15,790**	**15,790**	**15,790**	**13,995**	**10,470**	**6,320**	**2,500**	**765**	**520**
8,016	7,201	6,378	5,551	4,719	3,909	3,097	2,288	1,479	860	384	156	45	13
3,755	**3,755**	**3,755**	**3,755**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**155**	**0**	**0**	**0**
1,696	1,514	1,332	1,148	963	798	632	465	297	129	4	0	0	0
1,845	**1,845**	**1,845**	**1,845**	**1,845**	**1,595**	**1,595**	**1,595**	**1,595**	**1,595**	**445**	**445**	**340**	**90**
933	839	745	651	558	464	383	301	220	140	59	36	13	2
1,940	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,290**	**945**	**0**	**0**
1,132	1,030	929	827	725	624	522	420	318	217	115	53	0	0
16,415	**16,415**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**14,430**	**9,045**	**4,700**
9,548	8,694	7,869	7,114	6,364	5,609	4,848	4,088	3,335	2,594	1,849	1,103	461	118
40	**40**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4	2	1	0	0	0	0	0	0	0	0	0	0	0
5	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	1	0	0	0	0	0	0	0	0	0	0	0	0

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
GENERAL FUND (CONT)								
STATE MUNICIPAL ENERGY BUILDING BONDS (CONT)								
	'94.643	**1,810**	**395**	**395**	**395**	**395**	**95**	**95**
		232	85	65	45	22	9	4
	'96.463	**2,300**	**385**	**385**	**385**	**385**	**345**	**345**
		336	100	82	64	46	28	12
REFUNDING BONDS								
	'16A.66	**477,997**	**76,557**	**68,712**	**63,647**	**49,142**	**48,247**	**42,912**
		101,144	22,537	18,837	15,505	12,562	10,102	7,754
REINVESTMENT IN MINNESOTA (RIM)								
	'87.400	**440**	**110**	**20**	**25**	**25**	**30**	**30**
		136	22	18	16	15	14	12
	'89.300	**250**	**30**	**15**	**15**	**15**	**20**	**20**
		86	13	11	11	10	9	8
	'90.610	**1,035**	**150**	**90**	**90**	**90**	**90**	**85**
		320	55	47	43	38	33	29
	'91.354	**8,460**	**840**	**645**	**640**	**640**	**625**	**625**
		2,993	434	396	362	327	293	261
RURAL FINANCE AUTHORITY (RFA)								
	'86.398	**31,625**	**3,625**	**5,000**	**0**	**14,000**	**9,000**	**0**
		6,051	1,856	1,503	1,380	942	369	0
	'96.463	**35,100**	**0**	**0**	**2,000**	**0**	**5,000**	**18,000**
		11,698	1,991	1,991	1,927	1,863	1,863	1,343
LANDFILL								
	'94.639	**28,175**	**1,840**	**1,840**	**1,845**	**1,835**	**1,805**	**1,805**
		11,824	1,445	1,353	1,257	1,156	1,056	962
POLLUTION CONTROL								
	'87.400	**2,860**	**310**	**210**	**210**	**210**	**210**	**210**
		1,020	147	134	123	111	99	88
	'89.300	**995**	**185**	**75**	**75**	**75**	**75**	**75**
		305	51	43	39	35	31	27
	'90.610	**3,380**	**275**	**275**	**275**	**275**	**280**	**280**
		1,174	176	162	148	134	119	104
	'92.558	**8,305**	**725**	**685**	**685**	**685**	**685**	**685**
		2,744	425	389	353	318	281	246
	'93.373	**4,570**	**330**	**330**	**330**	**330**	**325**	**325**
		1,798	244	227	209	190	170	154
	'93.558	**4,800**	**400**	**400**	**400**	**400**	**400**	**400**
		1,525	240	220	200	180	159	139
	'94.643	**26,135**	**1,805**	**1,800**	**1,800**	**1,800**	**1,820**	**1,820**
		10,202	1,340	1,251	1,156	1,057	956	866

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
20	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2	1	0	0	0	0	0	0	0	0	0	0	0	0
60	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2	1	0	0	0	0	0	0	0	0	0	0	0	0
38,583	**37,963**	**18,190**	**17,845**	**5,500**	**5,400**	**5,300**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5,602	3,613	2,167	1,260	673	400	133	0	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**20**	**20**	**10**	**0**	**0**	**0**	**0**	**0**	**0**
10	9	7	6	4	2	1	0	0	0	0	0	0	0
20	**20**	**20**	**20**	**20**	**20**	**10**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
7	6	5	4	2	1	1	0	0	0	0	0	0	0
85	**85**	**85**	**85**	**85**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
24	20	15	10	6	1	1	0	0	0	0	0	0	0
625	**625**	**625**	**625**	**625**	**560**	**380**	**275**	**45**	**45**	**15**	**0**	**0**	**0**
228	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
4,500	**3,100**	**2,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
414	236	69	0	0	0	0	0	0	0	0	0	0	0
1,805	**1,805**	**1,795**	**1,795**	**1,795**	**1,795**	**1,795**	**1,715**	**1,345**	**810**	**375**	**375**	**0**	**0**
870	778	684	590	495	400	305	213	132	76	37	16	0	0
210	**210**	**210**	**210**	**210**	**130**	**130**	**130**	**60**	**0**	**0**	**0**	**0**	**0**
77	66	55	44	32	21	14	7	2	0	0	0	0	0
75	**75**	**75**	**75**	**75**	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**
23	19	15	11	7	3	2	1	0	0	0	0	0	0
280	**280**	**280**	**280**	**280**	**85**	**85**	**85**	**50**	**15**	**0**	**0**	**0**	**0**
90	75	60	45	30	14	10	5	2	0	0	0	0	0
670	**670**	**665**	**665**	**670**	**540**	**175**	**50**	**50**	**0**	**0**	**0**	**0**	**0**
210	174	138	102	65	29	10	4	1	0	0	0	0	0
325	**325**	**325**	**325**	**325**	**325**	**325**	**325**	**0**	**0**	**0**	**0**	**0**	**0**
137	120	103	85	67	49	30	12	0	0	0	0	0	0
400	**400**	**400**	**400**	**400**	**400**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
118	97	75	54	32	11	0	0	0	0	0	0	0	0
1,810	**1,810**	**1,810**	**1,810**	**1,810**	**1,810**	**1,810**	**1,690**	**465**	**465**	**0**	**0**	**0**	**0**
774	682	588	492	395	297	197	103	36	13	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
GENERAL FUND (CONT)								
POLLUTION CONTROL (CONT)								
	X'95.002	**490**	**35**	**35**	**30**	**30**	**30**	**30**
		187	23	21	19	18	17	15
	'96.463	**19,485**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**
		7,792	927	871	814	755	695	636
	'97.246	**3,100**	**180**	**180**	**180**	**180**	**180**	**180**
		1,454	158	150	141	132	123	114
	'98.404	**3,410**	**185**	**185**	**185**	**185**	**185**	**185**
		1,655	173	164	154	145	135	126
	'99.240	**31,970**	**1,745**	**1,745**	**1,730**	**1,720**	**1,720**	**1,720**
		16,116	1,669	1,578	1,487	1,397	1,306	1,215
VARIOUS PURPOSE								
	'00.492	**207,070**	**14,565**	**14,565**	**13,046**	**13,050**	**13,050**	**9,065**
		94,760	10,309	9,569	8,863	8,196	7,525	6,958
	X'01.012	**19,000**	**950**	**950**	**950**	**950**	**950**	**950**
		9,500	926	879	831	784	736	689
STATE TRANSPORTATION								
	'84.597	**4,800**	**700**	**700**	**700**	**700**	**700**	**700**
		973	257	217	176	136	95	55
	'87.400	**690**	**100**	**50**	**50**	**50**	**50**	**50**
		228	34	31	28	25	23	20
	'89.300	**460**	**60**	**40**	**40**	**40**	**35**	**35**
		148	23	21	19	16	14	12
	'90.610	**2,975**	**285**	**210**	**215**	**215**	**210**	**205**
		1,088	147	135	124	113	102	91
	'92.558	**7,920**	**765**	**515**	**515**	**510**	**520**	**520**
		3,065	392	359	333	307	280	254
	'93.373	**4,695**	**320**	**320**	**320**	**320**	**320**	**320**
		1,964	248	232	215	197	179	163
	'94.643	**30,995**	**1,895**	**1,890**	**1,890**	**1,900**	**1,950**	**1,950**
		13,438	1,568	1,475	1,379	1,281	1,182	1,084
	X'95.002	**2,560**	**175**	**175**	**170**	**170**	**165**	**165**
		995	124	116	107	99	90	82
	'96.463	**5,315**	**340**	**340**	**340**	**340**	**330**	**330**
		2,180	258	242	226	210	193	178
	'97.246	**2,460**	**155**	**155**	**155**	**145**	**145**	**145**
		1,095	122	115	107	100	93	86
	X'97.002	**1,190**	**70**	**70**	**70**	**70**	**70**	**70**
		498	55	52	49	46	44	40

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
30	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**0**	**0**	**0**	**0**
14	12	11	10	8	7	5	4	2	1	0	0	0	0
1,215	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**1,215**	**915**	**260**	**85**	**0**	**0**
577	519	459	399	339	278	217	156	95	42	12	3	0	0
180	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**130**	**80**	**5**	**5**
104	95	86	76	67	57	48	39	29	20	11	5	0	0
185	**185**	**185**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**125**	**0**
116	106	96	87	77	68	58	48	39	29	20	11	3	0
1,720	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**1,720**	**700**	**250**
1,125	1,033	941	849	757	665	572	480	388	297	206	114	30	6
9,080	**11,080**	**9,080**	**15,585**	**9,055**	**9,055**	**9,055**	**9,059**	**9,060**	**9,060**	**9,060**	**9,070**	**8,005**	**4,425**
6,492	5,967	5,440	4,798	4,162	3,691	3,215	2,739	2,269	1,809	1,346	882	421	111
950	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**	**950**
641	594	546	499	451	404	356	309	261	214	166	119	71	24
300	**300**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
27	11	0	0	0	0	0	0	0	0	0	0	0	0
50	**50**	**50**	**50**	**50**	**50**	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**
17	15	12	9	7	4	2	1	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**30**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
11	9	8	6	4	3	1	1	0	0	0	0	0	0
200	**200**	**200**	**200**	**200**	**200**	**135**	**130**	**65**	**65**	**20**	**10**	**10**	**0**
81	71	60	50	39	29	20	13	7	4	2	1	0	0
520	**520**	**520**	**520**	**520**	**520**	**415**	**345**	**235**	**235**	**135**	**90**	**0**	**0**
228	201	174	147	119	92	67	47	32	20	10	4	0	0
315	**315**	**315**	**315**	**310**	**310**	**310**	**300**	**95**	**95**	**55**	**40**	**0**	**0**
146	130	113	96	79	62	45	28	15	10	5	2	0	0
1,950	**1,950**	**1,950**	**1,950**	**1,950**	**1,950**	**1,950**	**1,895**	**1,310**	**1,280**	**730**	**530**	**75**	**50**
985	886	786	685	582	479	375	274	188	121	68	34	4	1
165	**165**	**165**	**165**	**165**	**165**	**165**	**165**	**110**	**110**	**0**	**0**	**0**	**0**
74	66	58	50	42	33	25	16	8	3	0	0	0	0
330	**330**	**330**	**330**	**330**	**330**	**330**	**330**	**290**	**290**	**75**	**0**	**0**	**0**
161	145	128	112	95	79	62	45	29	14	2	0	0	0
140	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**90**	**70**	**0**	**0**
79	72	64	57	50	43	35	28	21	14	7	3	0	0
70	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**0**	**0**	**0**
37	33	30	26	23	19	16	12	9	5	2	0	0	0

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
GENERAL FUND (CONT)								
STATE TRANSPORTATION (CONT)								
	'98.404	**3,470**	**215**	**215**	**215**	**215**	**215**	**215**
		1,501	174	164	153	142	132	121
	'99.240	**25,050**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**
		12,646	1,314	1,243	1,172	1,101	1,029	957
	'00.479	**4,000**	**200**	**200**	**200**	**200**	**200**	**200**
		2,000	195	185	175	165	155	145
WASTE MANAGEMENT								
	'87.400	**215**	**30**	**15**	**15**	**15**	**15**	**15**
		68	10	9	9	8	7	6
	'90.610	**1,850**	**230**	**150**	**150**	**150**	**150**	**100**
		634	91	81	73	65	56	50
	'92.558	**1,550**	**130**	**105**	**105**	**105**	**105**	**90**
		686	75	69	64	59	53	48
	'96.463	**2,420**	**140**	**140**	**140**	**140**	**140**	**140**
		1,086	119	112	106	99	92	86
INFRASTRUCTURE DEVELOPMENT								
STATE BUILDING CAPITAL IMPROVEMENT								
	'90.610	**30,838**	**2,890**	**2,540**	**2,540**	**2,540**	**2,540**	**2,540**
		9,966	1,562	1,425	1,296	1,165	1,033	902
	'92.558	**24,810**	**2,060**	**1,830**	**1,830**	**1,830**	**1,830**	**1,835**
		9,065	1,303	1,200	1,096	989	888	794
	'94.643	**75,412**	**5,250**	**5,250**	**5,255**	**5,255**	**4,915**	**4,915**
		29,997	3,800	3,547	3,280	3,010	2,732	2,486
	'96.463	**90,355**	**5,530**	**5,530**	**5,525**	**5,530**	**5,365**	**5,350**
		39,029	4,405	4,152	3,894	3,636	3,370	3,111
	'98.404	**53,590**	**2,905**	**2,905**	**2,905**	**2,865**	**2,865**	**2,800**
		26,390	2,704	2,558	2,410	2,263	2,116	1,970
REFUNDING BONDS								
	'16A.66	**54,425**	**5,580**	**5,915**	**5,955**	**5,770**	**5,760**	**5,760**
		13,407	2,638	2,357	2,065	1,774	1,481	1,184
REINVESTMENT IN MINNESOTA (RIM)								
	'90.610	**320**	**45**	**25**	**25**	**25**	**25**	**25**
		96	16	14	13	11	10	9
POLLUTION CONTROL								
	'90.610	**1,630**	**255**	**125**	**125**	**125**	**125**	**125**
		480	79	69	63	56	50	43
VARIOUS PURPOSE								
	'00.492	**60,420**	**3,120**	**3,120**	**3,124**	**3,125**	**3,125**	**3,110**
		30,245	3,037	2,878	2,717	2,556	2,394	2,234

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
215	**215**	**215**	**215**	**215**	**215**	**215**	**215**	**215**	**215**	**15**	**15**	**0**	**0**
110	99	88	77	67	56	45	34	23	13	2	1	0	0
1,360	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**1,360**	**445**	**125**
886	813	740	666	594	521	447	374	301	229	156	83	17	3
200	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**	**200**
135	125	115	105	95	85	75	65	55	45	35	25	15	5
15	**15**	**20**	**20**	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5	5	4	3	2	1	0	0	0	0	0	0	0	0
100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**10**	**10**	**0**	**0**	**0**
45	40	34	29	24	19	14	9	4	1	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**
44	41	37	34	31	28	24	21	18	15	11	8	5	2
140	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**100**	**75**	**5**	**0**
79	71	64	57	50	43	36	28	21	14	7	2	0	0
2,540	**2,540**	**2,540**	**2,540**	**2,540**	**2,078**	**325**	**145**	**0**	**0**	**0**	**0**	**0**	**0**
768	633	497	359	221	83	17	5	0	0	0	0	0	0
1,835	**1,835**	**1,835**	**1,835**	**1,835**	**1,835**	**1,835**	**750**	**0**	**0**	**0**	**0**	**0**	**0**
698	600	500	399	296	192	89	20	0	0	0	0	0	0
4,910	**4,910**	**4,905**	**4,905**	**4,905**	**4,905**	**4,907**	**4,235**	**2,740**	**2,240**	**890**	**120**	**0**	**0**
2,238	1,987	1,732	1,475	1,215	955	696	456	241	116	29	3	0	0
5,340	**5,340**	**5,335**	**5,335**	**5,335**	**5,335**	**5,335**	**5,335**	**4,725**	**4,725**	**3,425**	**1,660**	**275**	**25**
2,844	2,575	2,303	2,029	1,755	1,481	1,205	929	653	413	198	66	8	1
2,800	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,800**	**2,645**	**2,000**	**900**
1,826	1,680	1,533	1,386	1,241	1,094	946	798	652	508	364	224	95	23
5,685	**5,690**	**4,135**	**4,175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
885	586	328	110	0	0	0	0	0	0	0	0	0	0
25	**25**	**25**	**25**	**25**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
7	6	5	3	2	1	0	0	0	0	0	0	0	0
125	**125**	**125**	**125**	**125**	**125**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
37	30	24	17	10	3	0	0	0	0	0	0	0	0
3,110	**3,110**	**3,110**	**3,110**	**3,110**	**3,110**	**3,110**	**3,106**	**3,105**	**3,105**	**3,105**	**3,105**	**2,835**	**1,565**
2,074	1,913	1,750	1,589	1,429	1,267	1,104	941	780	623	465	306	149	39

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
CIGARETTE TAX REFUNDING BONDS								
	'16A.66	**2,335**	**2,335**	**0**	**0**	**0**	**0**	**0**
		63	63	0	0	0	0	0
SPORTS & HEALTH TAX								
	'16A.66	**8,225**	**1,630**	**1,275**	**1,280**	**1,260**	**1,260**	**1,260**
		1,392	413	335	265	194	122	50
GROUP TOTAL GENERAL FUND		**2,552,122**	**230,762**	**214,827**	**203,602**	**197,892**	**195,817**	**185,717**
		948,591	126,798	115,491	104,911	94,461	84,422	74,622
GAME & FISH								
	'16A.66	**68**	**13**	**13**	**13**	**13**	**8**	**3**
		11	3	3	2	1	1	0
GROUP TOTAL GAME & FISH		**68**	**13**	**13**	**13**	**13**	**8**	**3**
		11	3	3	2	1	1	0
TRUNK HIGHWAY								
	'16A.66	**6,990**	**2,655**	**2,560**	**600**	**600**	**575**	**0**
		625	306	169	84	50	17	0
TRUNK HIGHWAY								
	'00.479	**53,500**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**
		26,687	2,679	2,540	2,399	2,258	2,114	1,973
GROUP TOTAL TRUNK HIGHWAY		**60,490**	**5,405**	**5,310**	**3,350**	**3,350**	**3,325**	**2,750**
		27,313	2,985	2,709	2,483	2,308	2,131	1,973
MAX EFFORT SCHOOL LOAN REFUNDING BONDS								
	'16A.66	**32,060**	**2,725**	**3,770**	**3,680**	**3,545**	**3,525**	**3,425**
		7,701	1,533	1,375	1,195	1,019	844	669
SCHOOL LOANS								
	'90.610	**265**	**265**	**0**	**0**	**0**	**0**	**0**
		8	8	0	0	0	0	0
	'91.265	**14,100**	**1,800**	**1,155**	**1,160**	**1,160**	**1,160**	**1,160**
		4,357	710	634	576	516	456	396
	'92.558	**3,775**	**585**	**290**	**290**	**290**	**290**	**290**
		1,114	182	159	145	130	116	101
	'93.373	**2,310**	**190**	**190**	**185**	**185**	**185**	**185**
		770	118	108	99	89	79	69
	'94.643	**2,100**	**150**	**150**	**150**	**150**	**150**	**150**
		796	109	102	93	84	76	69
	X'95.002	**17,165**	**1,185**	**1,185**	**1,185**	**1,185**	**1,185**	**1,180**
		6,608	882	823	759	690	621	559
GROUP TOTAL MAX EFFORT SCHOOL LOAN		**71,775**	**6,900**	**6,740**	**6,650**	**6,515**	**6,495**	**6,390**
		21,354	3,542	3,200	2,866	2,529	2,192	1,862

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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
130	**130**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	4	0	0	0	0	0	0	0	0	0	0	0	0
164,733	**164,668**	**138,250**	**141,940**	**118,020**	**115,895**	**106,645**	**95,115**	**76,445**	**68,800**	**50,880**	**41,840**	**26,225**	**14,050**
65,233	56,736	48,820	41,523	34,705	28,484	22,617	17,339	12,684	8,986	5,725	3,323	1,358	351
3	**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
3	**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
2,750	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**1,250**
1,833	1,690	1,546	1,403	1,261	1,118	973	828	686	548	408	269	131	31
2,750	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**2,750**	**1,250**
1,833	1,690	1,546	1,403	1,261	1,118	973	828	686	548	408	269	131	31
3,325	**3,305**	**2,385**	**2,375**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
497	327	182	61	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
1,160	**1,160**	**1,160**	**1,160**	**1,160**	**655**	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
334	272	210	147	84	20	1	0	0	0	0	0	0	0
290	**290**	**290**	**290**	**290**	**290**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
85	70	55	39	23	8	0	0	0	0	0	0	0	0
185	**185**	**185**	**190**	**190**	**190**	**65**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
60	50	40	30	19	9	2	0	0	0	0	0	0	0
150	**150**	**150**	**150**	**150**	**150**	**150**	**150**	**0**	**0**	**0**	**0**	**0**	**0**
61	53	45	37	29	21	12	4	0	0	0	0	0	0
1,185	**1,185**	**1,180**	**1,180**	**1,175**	**1,175**	**1,175**	**1,175**	**630**	**0**	**0**	**0**	**0**	**0**
499	439	377	315	252	188	125	63	16	0	0	0	0	0
6,295	**6,275**	**5,350**	**5,345**	**2,965**	**2,460**	**1,440**	**1,325**	**630**	**0**	**0**	**0**	**0**	**0**
1,537	1,212	909	629	407	246	140	67	16	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2002	2003	2004	2005	2006	2007	2008
STATE GUARANTEED BONDS								
GUARANTEED BOND CLASS								
	'91.350	**40,235**	**750**	**805**	**855**	**975**	**1,035**	**1,105**
		26,563	2,508	2,460	2,407	2,348	2,282	2,211
GROUP TOTAL STATE GUARANTEED BONDS		**40,235**	**750**	**805**	**855**	**975**	**1,035**	**1,105**
		26,563	2,508	2,460	2,407	2,348	2,282	2,211
TOTAL PRINCIPAL - LESS GUARANTEE		**2,684,455**	**243,080**	**226,890**	**213,615**	**207,770**	**205,645**	**194,860**
TOTAL INTEREST - LESS GUARANTEE		997,268	133,329	121,403	110,262	99,299	88,746	78,458
TOTAL DEBT SERVICE - LESS GUARANTEE (1)		3,681,723	376,409	348,293	323,877	307,069	294,391	273,318
TOTAL PRINCIPAL - ALL FUNDS		**2,724,690**	**243,830**	**227,695**	**214,470**	**208,745**	**206,680**	**195,965**
TOTAL INTEREST - ALL FUNDS		1,023,832	135,836	123,862	112,669	101,647	91,028	80,668
TOTAL DEBT SERVICE - ALL FUNDS (1)		3,748,522	379,666	351,557	327,139	310,392	297,708	276,633

The Total Debt Service - All Funds does not include:
$81,650,000 of bonds dated July 1, 1992; $78,175,000 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 2003-2022

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1,180	**1,260**	**1,350**	**1,430**	**1,515**	**1,605**	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2,133	2,050	1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0
1,180	**1,260**	**1,350**	**1,430**	**1,515**	**1,605**	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2,133	2,050	1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0
173,780	**173,695**	**146,350**	**150,035**	**123,735**	**121,105**	**110,835**	**99,190**	**79,825**	**71,550**	**53,630**	**44,590**	**28,975**	**15,300**
68,603	59,638	51,275	43,554	36,374	29,848	23,730	18,234	13,386	9,534	6,134	3,591	1,489	383
242,383	**233,333**	**197,625**	**193,589**	**160,109**	**150,953**	**134,565**	**117,424**	**93,211**	**81,084**	**59,764**	**48,181**	**30,464**	**15,683**
174,960	**174,955**	**147,700**	**151,465**	**125,250**	**122,710**	**137,205**	**99,190**	**79,825**	**71,550**	**53,630**	**44,590**	**28,975**	**15,300**
70,736	61,687	53,241	45,437	38,168	31,546	24,554	18,234	13,386	9,534	6,134	3,591	1,489	383
245,696	**236,642**	**200,941**	**196,902**	**163,418**	**154,256**	**161,759**	**117,424**	**93,211**	**81,084**	**59,764**	**48,181**	**30,464**	**15,683**

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 2002 valuation, was estimated by the Commissioner of Revenue to be $322,864,000,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY

($ in Thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Increase from Prior Year
1993	159,008,719	2,990,780	161,999,499	3.21
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	288,122,487	4,060,565	292,183,052	10.39
2002	318,791,000	4,073,000	322,864,000	10.50

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, 2002, principal in the amount of $22,541,469 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, 2002, principal in the amount of $20,862,117 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

I. Project Description

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose.

($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
1983, Chapter 323				
	Public Service	Statewide	Municipal Energy Loans	30,000
1991, Chapter 354				
	BWSR	Statewide	Reinvest in Minnesota	13,900
1992, Chapter 558				
	Transportation	Statewide	Local Roads and Bridges	17,500
1993, Chapter 373				
	Transportation	Statewide	Local Roads and Bridges	9,900
1994, Chapter 643				
	Administration	Statewide	Americans with Disabilities Act	11,500
	Historical Society	Statewide	I.S.T.E.A. Preservation Projects	950
	Housing Finance	Statewide	Battered Women's Shelters	1,000
	Human Services	Anoka	Const. Res. Prgrn & Ancillary Serv Fac.	37,000
	Natural Resources	Systemwide	Undergrnd stor. tank remov. & replace	1,000
	Natural Resources	Systemwide	Residential Env. Center Grants	11,500
	Technical College	Systemwide	HEAPRA	8,838
	BWSR	Systemwide	RIM Conservation Easement Acq.	9,000
	Transportation	Statewide	Local Road & Bridge Replacement	9,900
1996, Chapter 463				
	Administration	Systemwide	CAPRA	12,000
	Finance	Systemwide	Bond Sale Expense	608
	Historical Society	Systemwide	County and Local Preservation Grants	750
	Historical Society	Systemwide	Asset Preservation	3,000
	Historical Society	Minneapolis	St. Anthony Falls Heritage Zone	1,000
	Human Services	Anoka	AMRTC Predesign/Design	322
	Human Services	Cambridge	CRHSC — Design and Develop METO	3,400
	State Colleges & University	Winona	SU — Construct Chiller Plant	2,200
	State Colleges & University	Minneapolis	CC — Energy Plant Replacement	4,330
	Natural Resources	Systemwide	RIM, WMA, SNA and Prairie Bank Imp.	900
	Natural Resources	Systemwide	DNR — Well Inventory & Sealing	500
	Natural Resources	Systemwide	DNR — Trail Rehab	500
	Natural Resources	Systemwide	Flood Hazard Mitigation Grants	1,490
	Natural Resources	Systemwide	Metro Reg. Park Rehab, Acq & Dev	9,400
	Natural Resources	Systemwide	Trail Acq. & Devel.	4,000
	Natural Resources	Systemwide	RIM Wildlife Land Acq.	3,500
	Public Service	Statewide	Municipal Energy Loans	4,000
	Trade & Econ Dev-PFA	Systemwide	Waste Water Infrastructure Fund (WIF)	17,500
	Transportation	Systemwide	Local Bridge Rehab Grants	10,000
	University of Minnesota	Systemwide	HEAPRA	12,000
	University of Minnesota	Twin Cities	Hacker Hall Renovations	12,000
	Water & Soil Resources	Systemwide	Area II MN River basin grant-in-aid	250
	Water & Soil Resources	Systemwide	RIM reserve and perm. wetland pres.	11,500
	Water & Soil Resources	Systemwide	Wetland Replacement for Public Road	3,000
1997, Chapter 246				
	Trade & Econ Dev-PFA	Statewide	Waste Water Infrastructure	4,000
	Transportation	Systemwide	Local Bridge Rehab Grants	3,000
1998, Chapter 404				
	Corrections Dept	Lino Lakes	MCF-LL — Admin. Segregation Unit	340
	Corrections Dept	Oak Park Heights	MCF-OPH — Seg., MH, and Hlth Care Units	3,000
	Corrections Dept	Shakopee	MCF-SHK — Bed Expansion	4,645
	Corrections Dept	St. Cloud	MCF-SCL — Intake Center	1,500

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Finance Dept	Minnesota	Bond Sale Expenses	100
	Human Services Dept	Cambridge	CRHSC — METO Construction	1,500
	Human Services Dept	Minnesota	SOCS — Respite Care Sites	1,200
	Human Services Dept	Moose Lake	MSPPTC — Construct 50-Bed Addition	8,000
	Human Services Dept	Willmar	WRTC — Remodel MTC Bldg. & Bldg. 14	3,000
	State Colleges & University	Bemidji	Bemidji/NW TC-Bemidji HS Acq & Brdgmn Hall Renov	1,000
	State Colleges & University	Brooklyn Park	North Hennepin CC — New Science Ctr	10,400
	State Colleges & University	Hibbing	Hibbing CC&TC — Construct College center	16,000
	State Colleges & University	Inver Grove Heights	Inver Hills CC — Construct instructional building	11,000
	State Colleges & University	Minneapolis	Minneapolis CC&TC — Consolidation remodeling	500
	State Colleges & University	Pine City	Pine Technical College	1,700
	State Colleges & University	Systemwide	Ridgewater CC&TC — Addition and remodeling	7,600
	State Colleges & University	Systemwide	Systemwide — Land bank program	5,000
	State Colleges & University	White Bear Lake	Century CC — Pedestrian Bridge	3,200
	University of Minnesota	Crookston	Crookston — Facility Improvements	300
	Transportation	Statewide	Local Roads and Bridges	
1999, Chapter 240				
	Children, Families & Learning	Edina	SW Metro Integration Magnet Grant	4,000
	Children, Families & Learning	Emetro	Art & Science Middle School Magnet Grant	1,300
	Natural Resources	Statewide	Flood Hazard Grants (State Share)	1,698
	Natural Resources	Statewide	Flood Hazard Grants (Local Share)	17,270
	Public Facilities Authority	Statewide	Drinking Water State Matching Funds	2,200
	Public Facilities Authority	Statewide	Wastewater Infrastructure Grant	20,500
	Administration	Statewide	CAPRA	3,000
	Administration	Park Rapids	Infrastructure Improvement Grant	1,000
	Transportation	Brooklyn Park	Pedestrian Bridge Loan	440
	Transportation	Statewide	Light Rail Transit	60,000
	Corrections	Faribault	Storm & Sanitary Sewer Lines	1,785
	Finance	Statewide	Bond Sale Expense	152
	Public Facilities Authority	Statewide	Wastewater Infrastructure	14,000
	Public Facilities Authority	Statewide	State Match Drinking Water	1,500
	State Colleges & University	Mankato	Athletic Facility	10,500
	University of Minnesota	Systemwide	Ag Experiment Stations	3,600
	University of Minnesota	Duluth	Academic Space	200
	University of Minnesota	Duluth	Library Construction	17,000
	University of Minnesota	Minneapolis	Folwell Hall Renovations	690
	University of Minnesota	St. Paul	Greenhouse Renovation	900
	University of Minnesota	Minneapolis	Utility Infrastructure	2,400
	Transportation	Statewide	Transitways Hiawatha Corridor	40,000
	Transportation	Statewide	Local Bridges	28,000
	Historical Society	Pine City	Northwest Fur Post	1,500
	Historical Society	Minneapolis	St. Anthony Falls Heritage Ctr	4,000
	Indian Affairs Council	Battle Point	Cultural and Education Center	1,700

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Trade & Economic Dev	Duluth	Convention Center	12,000
	Trade & Economic Dev	Hutchinson	Civic Center	1,000
	Trade & Economic Dev	Minneapolis	Humboldt Avenue Greenway	7,000
	Trade & Economic Dev	Statewide	Veterans Memorial Amphitheater	315
	Transportation	Statewide	Port Development Assistance	3,000
	Transportation	Statewide	Local Bridges	28,000
	Natural Resources	Statewide	Office Facility Consolidation	7,100
	Natural Resources	Statewide	State Park Building Development	5,000
	Natural Resources	Statewide	Trail Acquisition and Development	3,350
	Administration	St. Paul	Capitol Building	6,500
	Veterans Home Board	Minneapolis	Veterans Home	6,000
	Residential Academies	Faribault	Tate Hall Renovation	3,500
	Residential Academies	Faribault	Lysen Hall Expansion	4,413
	Veterans Home Board	Hastings	VHB Power Plant	5,000
	Finance	Statewide	Bond Sale Expense	400
2000, Chapter 479				
	Transportation	Trunk Highway 52	Upgrade current circumferential beltway near Rochester, Minnesota	
	Transportation	Trunk Highway 212	New freeway west of Eden Prairie, Minnesota	
	Transportation	Trunk Highway 494	Wakota Bridge TH 61 near Newport	
	Total State Trunk Highway System			100,000
	Transportation	Statewide	Local Bridge Replacement	7,000
2000, Chapter 492				
	Administration, Department of	Capitol Complex	Capitol Security Renovation	1,000
	Administration, Department of	Capitol Complex	717 Delaware Street (Health Building)	4,000
	Administration, Department of	Capitol Complex	Capitol Interior Predesign	300
	Administration, Department of	Capitol Complex	Property Acquisition	1,000
	Administration, Department of	Statewide	Statewide CAPRA	10,000
	Administration, Department of	Capitol Complex	Electrical Utility Infrastructure, Phase 4	2,500
	Agriculture, Department of	Statewide	Rural Finance Authority Loan Participation	20,000
	Amateur Sports Commission	Statewide	Statewide Facility Grant Program	810
	Children, Families & Learning	Red Lake	Maximum Effort Loan	11,166
	Children, Families & Learning	Statewide	Multicultural Development Grants	2,511
	Children, Families & Learning	Cass Lake	Maximum Effort Loan	7,505
	Children, Families & Learning	Minneapolis	Minnesota Planetarium	1,000
	Children, Families & Learning	Statewide	Library Access Grants	1,000
	Children, Families & Learning	Caledonia	Maximum Effort Loan	14,134
	Children, Families & Learning	Metropolitan	Metropolitan Magnets	16,000
	Children, Families & Learning	Statewide	Early Childhood Learning Facility Grants	3,000
	Children, Families & Learning	LaPorte	Maximum Effort Loan	7,200
	Children, Families & Learning	Grand Meadow	School Facilities Grant	3,000

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Children, Families & Learning	Ulen-Hitterdahl	Maximum Effort Loan	4,025
	Corrections, Department of	Stillwater	MCF-STW — Conversion to Health Services	1,800
	Corrections, Department of	Lino Lakes	MCF-LL — H-Building Remodel, Phase III	3,400
	Corrections, Department of	Faribault	MCF-FRB — Sewer Repair	7,500
	Corrections, Department of	Red Wing	MCF-RW — Mental Health Support and Living Unit	800
	Corrections, Department of	Stillwater	MCF-STW — Wall, Towers, Catwalk, & Security	1,000
	Corrections, Department of	Oak Park Heights	MCF-OPH — 60-bed Admin. Control Unit	855
	Corrections, Department of	Bayport	Storm Sewer Project	2,680
	Finance, Department of	Statewide	Bond Sale Expenses	450
	Grants to Political Subdivisions	Lanesboro	Lanesboro Theater and Arts Center	1,000
	Grants to Political Subdivisions	St. Paul	Rooftop Perspectives, MN Children's Museum	500
	Human Services, Department of	Systemwide	Roof Repair/Replacement	1,971
	Human Services, Department of	St. Peter	SPRTC — Upgrade Shantz & Pextons Bldgs.	7,200
	Human Services, Department of	Systemwide	Asset Preservation	3,000
	MN State Colleges and Universities	Marshall	Library Renovation Design	800
	MN State Colleges and Universities	Bemidji	American Indian History Center	2,000
	MN State Colleges and Universities	Systemwide	Land Acquisitions	300
	MN State Colleges and Universities	St. Cloud	A&B Wing Remodel/Storage	7,992
	MN State Colleges and Universities	Winona	Science Building Design	1,600
	MN State Colleges and Universities	Thief River Falls	Phase II Learning Center	5,000
	MN State Colleges and Universities	Alexandria	Classroom Building	500
	MN State Colleges and Universities	Moorhead	Hagen Hall Sci. Add'n Design	1,600
	MN State Colleges and Universities	Mankato	Student Athletic Facility Renov.	6,907
	MN State Colleges and Universities	Minneapolis	General Education Renovation	11,000
	MN State Colleges and Universities	Edina	Science Building	11,400
	MN State Colleges and Universities	Moorhead	Land Acquisition & Relocate with BSU	5,000
	MN State Colleges and Universities	Moorhead	Construction/Renovation	1,258
	MN State Colleges and Universities	Systemwide	HEAPR	30,000
	MN State Colleges and Universities	Rochester	Horticulture Building	4,500
	MN State Colleges and Universities	Rochester	Site Development	1,400

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	MN State Colleges and Universities	Cloquet	Fond Du Lac Instructional Building	4,500
	MN State Colleges and Universities	Park Rapids	Technology/Engineering Center	3,600
	MN State Colleges and Universities	Brooklyn Park	College Realignment	12,500
	MN State Colleges and Universities	St. Cloud	Riverview Renovation Design	3,864
	MN State Colleges and Universities	Minneapolis	Information Technology Center	11,700
	Military Affairs, Department of	Systemwide	Asset Preservation	1,500
	Military Affairs, Department of	Systemwide	Kitchen Renovation	1,000
	Military Affairs, Department of	Little Falls	Camp Ripley Museum	125
	Minnesota Historical Society	Statewide	Historic Sites Network — Asset Preservation	1,750
	Minnesota Historical Society	Pine City	North West Company Fur Post Development	500
	Minnesota Historical Society	Minneapolis	St. Anthony Falls Heritage Center Completion	3,000
	Minnesota Historical Society	Systemwide	County and Local Historic Preservation Grants	500
	Minnesota State Academies	Faribault	West Wing Noyes Hall Phase One	2,066
	Minnesota State Academies	Faribault	Asset Preservation	1,000
	Natural Resources, Department of	Systemwide	ADA Compliance	2,000
	Natural Resources, Department of	Two Harbors	Two Harbors Marina	1,000
	Natural Resources, Department of	St. Paul	Trails, Upper Landing, Raspberry Island	3,000
	Natural Resources, Department of	Systemwide	RIM — Critical Habitat Match	750
	Natural Resources, Department of	Systemwide	Forest Roads and Bridges	1,000
	Natural Resources, Department of	Metropolitan	Regional Parks Capital Improve. Prog.	5,000
	Natural Resources, Department of	Systemwide	Blazing Star State Trail Bridge	750
	Natural Resources, Department of	Systemwide	Prairie Bank Easements	1,000
	Natural Resources, Department of	Red Lake	Red River State Rec Area	1,000
	Natural Resources, Department of	Systemwide	RIM — Wildlife Dev/Habitat Improve	1,000
	Natural Resources, Department of	Systemwide	Trail Acq. Dev. — Paul Bunyan Trail	1,750
	Natural Resources, Department of	Metropolitan	Metro Regional Parks-Kaposia Park	600
	Natural Resources, Department of	Systemwide	Office Facilities Development — DNR	3,250
	Natural Resources, Department of	Systemwide	Greater MN Regional Parks	500
	Natural Resources, Department of	St. Paul	Como Park Education Resource Center	16,000

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Natural Resources, Department of	Systemwide	Shooting Star State Trail	500
	Natural Resources, Department of	Systemwide	Lewis & Clark Rural Water Project	610
	Natural Resources, Department of	Systemwide	State Park and Rec Area Acquisition	500
	Natural Resources, Department of	Systemwide	State Park & Rec Area Bldg Rehab	1,900
	Natural Resources, Department of	Systemwide	State Park & Rec Betterm't Rehab	1,500
	Natural Resources, Department of	Systemwide	Flood Hazard Mitigation Grants	14,000
	Natural Resources, Department of	Systemwide	Metro Greenways and Natural Areas	1,500
	Natural Resources, Department of	Systemwide	SNA's and Prairie Bank	500
	Natural Resources, Department of	Moose Lake	Moose Lake State Park-Rock and Gem Museum	1,000
	Natural Resources, Department of	Lake County	Gitchi Gami Trail	400
	Natural Resources, Department of	Duluth	Lake Superior Safe Harbors	2,000
	Natural Resources, Department of	Systemwide	Dam Repair/Reconstruction/Removal	954
	Natural Resources, Department of	Systemwide	Statewide Asset Preservation	2,000
	Natural Resources, Department of	Beltrami County	Big Bog State Rec Area	2,017
	Office of Environmental Assistance	Statewide	Capital Assistance Program	2,200
	Perpich Center for Arts Education	Golden Valley	Delta Dormitory Upgrades	214
	Perpich Center for Arts Education	Golden Valley	Asset Preservation	500
	Perpich Center for Arts Education	Golden Valley	Air Condition Gaia Building	81
	Public Safety, Department of	Little Falls	Public Safety Training Facility	3,000
	Trade & Economic Development	Statewide	MPFA State Matching Fund	12,893
	Trade & Economic Development	Statewide	MPFA Wastewater Infrastructure Funding	12,010
	Trade & Economic Development	Statewide	Clean Water Partnership	2,000
	Trade & Economic Development	Minneapolis	Great Lakes Center	8,800
	Trade & Economic Development	Mora	Workforce Center	100
	University of Minnesota	Morris	Science & Math Building Renovation/Ph 2	8,000
	University of Minnesota	Minneapolis	West Bank — Art Building & Infrastructure	18,500
	University of Minnesota	Systemwide	HEAPR	9,000
	University of Minnesota	St. Paul	Plant Growth Facilities Replcmnt&Renov	5,963
	University of Minnesota	St. Paul	Microbial & Plant Genomics Building	10,000
	University of Minnesota	Systemwide	Research & Outreach Centers — Facility Improvements	1,150
	University of Minnesota	Duluth	Music Performance Laboratory	6,100
	University of Minnesota	Crookston	Kiehle Bldg Renovation & Addition	6,500
	Veterans Homes Board	Statewide	Asset Preservation	3,000
	Veterans Homes Board	Hastings	Building Preservation	7,000

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Veterans Homes Board	Minneapolis	Repair and Replacement	1,700
	Water & Soil Resources Board	Statewide	RIM Reserve — Habitat, Soil Cons, Water Quality	20,000
	Water & Soil Resources Board	Statewide	Local Gov't Roads Wetland Banking	2,300
	Water & Soil Resources Board	Statewide	RIM Reserve Reserve Programs (Non-CREP)	1,000
	Zoological Gardens	Apple Valley	Heating Supply Line/Chiller Replacement	1,000
SS 2001, Chapter 12				
	WSRB	Statewide	Conservation Reserve Enhancement Program (CREP)	51,487
	WSRB	Statewide	Wetland Replacement from Road Project-land acquisition	2,000
	DNR	Statewide	Flood Hazard Mitigation Grant	2,000
	CFL	Woodbury	East Metro Magnet	1,700
	CFL	Statewide	East Central School District Maximum Effort Loan	19,000
	DOA	Capitol Complex	State Office Building Exterior-Tuckpointing	2,200
	DOA	Capitol Complex	Capitol – Electrical Utility Infrastructure	1,200
	PCA	Statewide	Landfill	20,500
	DOT	Statewide	Local Bridge Replacement	10,000
	DTED	Eagan	Grant Flood Damage of Publicly Owned Property	5,000
	DTED	Austin	Grant Flood Damage of Publicly Owned Property	2,000
	Finance	Statewide	Bond Sale Expense	118
2002, Chapter 374				
	University of MN	Systemwide	HEAPR	500
	CFL	Statewide	Early Childhood Learning Facilities	300
	Natural Resources	Systemwide	1998 Park Building Rehab	500
	Natural Resources	Systemwide	1998 Park Betterment Rehab	500
	Natural Resources	Systemwide	1998 Forest Road/Bridges	750
	Natural Resources	Systemwide	1998 Metro Greenway Acquisition	2,000
	Natural Resources	Systemwide	Safe Harbors Program	3,223
	BWSR	Systemwide	Local Road Replacement	300
	Administration	Statewide	2000 Asset Preservation	350
	Administration	St. Paul	2000 Bureau of Criminal Apprehension Facility	42,700
	Administration	Statewide	2000 Property Acquisition	450
	Administration	Statewide	1998 Asset Preservation	750
	Administration	Statewide	1998 Real Property Acquisition	1,000
	Administration	St. Paul	1998 BCA Land Acquisition	300
	CAAPB	Capitol Complex	HHH Memorial	250
	Amateur Sports	Eveleth	Giants Ridge Facility	690
	Transportation	Statewide	2000 County/Local Bridges	13,000
	Transportation	Statewide	1998 County State Aid Hwy 90	590
	Human Services	Systemwide	1998 Asset Preservation	1,500
	Corrections	Systemwide	1998 Asset Preservation	250
	DTED	Statewide	2000 WIF	3,590
	Historical Society	Systemwide	1998 Site Preservation/Repair	850
	Historical Society	Silver Bay	Split Rock Lighthouse	700
	Finance	Statewide	Bond Sale Expense	77
2002, Chapter 393				
	University of MN	Systemwide	HEAPR	35,000
	University of MN	Minneapolis	Nicholson Hall Renovation	24,000
	University of MN	St. Paul	Plant Growth Phase II	17,700
	University of MN	Crookston	Bede Hall Replacement	7,701
	University of MN	Duluth	Lab Science Building	25,500
	University of MN	Systemwide	Classroom Improvements	2,000
	MNSCU	Systemwide	HEAPR	60,000

I. Project Description (continued)
($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	MNSCU	Alexandria	TC Classroom/Technology Building	9,150
	MNSCU	Century	CC Design Space Remodel	2,500
	MNSCU	St. Paul	Metro State Library	17,442
	MNSCU	Minneapolis	CC Consolidation Remodel Phase II	9,000
	MNSCU	Moorhead	Science Building	18,955
	MNSCU	Normandale	Science Phase II	9,900
	MNSCU	Winona	Science Lab Facility	30,000
	MNSCU	Systemwide	Science Lab Renovations	1,900
	Ctr for Arts Educ	Golden Valley	Asset Preservation	643
	Ctr for Arts Educ	Golden Valley	Performance Hall Catwalk	125
	DCFL	Red Lake	Red Lake Additions and Renovations	12,400
	MN State Academies	Faribault	Asset Preservation	1,500
	DNR	Statewide	Statewide Asset Preservation	2,600
	DNR	Statewide	Field Office Renovation and Improvement	1,000
	DNR	Statewide	Office Facilities Development	1,500
	DNR	Statewide	ADA Compliance	500
	DNR	Statewide	State Park Initiative	23,500
	DNR	Statewide	Metro Regional Parks	6,000
	DNR	Statewide	Forest Roads and Bridges	1,200
	DNR	Statewide	Luce Line	300
	DNR	Statewide	Douglas Trail	300
	DNR	Statewide	Willard Munger Trail	300
	DNR	Statewide	Well Sealing	600
	DNR	Statewide	Dam Repair, Reconstruction and Removal	650
	DNR	Statewide	Flood Hazard Mitigation Grants	30,000
	DNR	Statewide	RIM Critical Habitat	1,000
	PCA	PCA	Closed Landfill Bonding	10,000
	Environmental Assistance	Fergus Falls	Solid Waste Combustor	1,150
	Agriculture	Statewide	Rural Finance Authority Loan	15,000
	MN Zoological Gardens	Statewide	Asset Preservation	3,000
	Administration	Statewide	Statewide CAPRA	14,000
	Administration	Capitol Complex	Electrical Work	3,231
	Administration	St. Paul	New State Buildings	60,000
	Military Affairs	Systemwide	Asset Preservation and Kitchen Repair	2,500
	Military Affairs	Systemwide	ADA improvements	357
	Military Affairs	Systemwide	Facility Life Safety	1,000
	Transportation	Systemwide	Local Bridge Assistance	45,000
	Metropolitan Council	Metro	Northwest Metro Busway	20,000
	Commerce	Systemwide	Energy Investment Loans	5,000
	DHS	Systemwide	Systemwide Roof Replacement	2,789
	DHS	Systemwide	Systemwide Asset Preservation	4,000
	DHS	Systemwide	Systemwide Building Demolition	2,750
	DHS	Fergus Falls	Upgrade Program Facilities	3,000
	DHS	St. Peter	Convert Power to Low Pressure	3,619
	Vets Home	Systemwide	Asset Preservation	2,000
	Vets Home	Hastings	Building Preservation	8,553
	Vets Home	Silver Bay	Roof Replacement	2,345
	Corrections	Systemwide	DOC Asset Preservation	17,000
	Corrections	Lino Lakes	416 Bed Offender Housing	4,160
	Corrections	Shakopee	LC Renovation and Support Space	3,070
	DTED	Statewide	MPFA State Matching Funds	16,000
	Housing Finance	Statewide	Transitional Veterans Housing	16,200
	Historical Society	Systemwide	Asset Preservation	2,442
	Historical Society	Sibley	Sibley Historic Site Preservation	300
	Historical Society	St. Paul	Fort Snelling Improvements	500
	Finance	Statewide	Bond Sale Expenses	880

($ in Thousands)

Pursuant to a law enacted in 1991, in the Order authorizing the issuance of the Bonds the Commissioner of Finance has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "Authorization and Purpose" and on page B-2 of Appendix B. (See Appendix B page B-3).

II. Schedule of Bonds Being Refunded

General Obligation State Refunding Bonds, dated August 1, 1992, maturing in the years and amounts and bearing interest at the annual rates set forth below will be called for redemption and prepayment on August 1, 2002 at par plus accrued interest.

Maturing August	Principal Amount	Interest Rate
2003	$13,825,000	5.50%
2004	7,550,000	5.60
2005	7,450,000	5.70
2006	7,350,000	5.75
2007	2,275,000	5.75
	$38,450,000	

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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 and 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 State's operating funds included in this definition are the Accounting General Fund, MN State Colleges/Universities Fund, General Projects Fund, Minnesota Resources Fund, State Government Miscellaneous Special Revenue Fund, Health Related Boards Fund, 911 Emergency Fund, Building Code Fund, Natural Resources Funds, Health Care Access Fund, Miscellaneous Special Revenue funds, Endowment School Fund, Game and Fish funds, Reinvest in Minnesota Critical Habitat Plates Fund, Medical Education & Research Expendable Trust Fund, Tobacco Use Prevention Expendable Trust Fund, MNSCU Enterprise Activities Fund, Lottery Cash Flow Fund, State Enterprise funds, and State Internal Service funds. Cash contained in the Statutory General Fund is available for State cash flow purposes.

The cash flow projections are based on actual monthly cash flow observations for these funds beginning with July 1, 1999 through June 30, 2001. The patterns of cash flow observed during this period were used to form the bases for projecting future months.

Revenue, Expenditure and Fund balance information as of the end of the 2002 Legislative Session was used to compile the projected annual revenue and expenditure totals. The annual totals are distributed across future periods using patterns from historical cash flow observations. Discrete cash flow events are also taken into consideration.

The End of 2002 Legislative Session cash flow analysis for the State's Statutory General Fund indicates that the State will have a positive cash flow balance throughout the Current Biennium. Therefore, the State does not expect to do any short-term borrowing for cash flow purposes during the Current Biennium.

The 2002 Minnesota Legislature reduced the Cash Flow Account balance that had been $350 million. The Legislature also reduced the amount in the Budget Reserve Account from $653 million to $319 million. The Budget Reserve Account also provides a cash balance for cash flow purposes.

To provide additional cash for cash flow purposes, the 2002 Minnesota Legislature has authorized the Commissioner of Finance to use the Tobacco Endowment Funds for cash flow purposes. The Tobacco Endowment Funds currently have assets of approximately $1.1 billion.

The Tobacco Endowment Funds are currently invested in stocks and in bonds. The State Board of Investment, at its March 6, 2002 meeting, authorized the Executive Director, in consultation with the Board Deputies, to alter the asset allocation of the funds that may be subject to full or partial liquidation as a result of legislative budget actions. The Executive Director has consulted with the Board Deputies and is prepared to change the asset allocation to provide cash as needed.

The State has not done any short-term borrowing since January 1985 and has no short-term debt outstanding.

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Fiscal Year Ended June 30, 2002 (1) (2)
(Thousands of Dollars)

	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Total
Beginning Cash													
Balance (2)........................	4,903,818	4,420,547	3,539,546	3,842,427	3,927,285	3,731,073	3,667,027	4,068,334	3,815,615	3,565,852	3,482,211	3,728,080	
Receipts:													
Individual Income Taxes........	386,173	418,414	558,213	439,581	360,469	474,914	768,853	331,798	192,533	500,742	727,006	574,506	5,733,200
Sales and Use Taxes............	144,719	(394,468)	322,056	394,079	304,553	293,558	339,947	286,716	253,427	309,655	404,147	298,308	2,956,697
Corporate Income Taxes.......	21,357	14,333	115,167	31,382	(12,671)	88,218	15,906	3,483	153,441	20,875	11,101	66,946	529,540
Statewide Property Taxes......	-	-	-	-	-	-	-	-	-	-	148,365	147,635	296,000
Motor Vehicle Taxes............	45,508	57,132	14,209	45,567	47,642	26,167	33,579	21,687	31,915	42,062	17,788	34,971	418,228
Tobacco Product Taxes.........	3,932	19,198	16,072	46,014	16,112	13,997	14,840	16,338	13,371	13,466	(2,302)	(3,705)	167,333
Insurance Taxes.................	793	2,124	108	32,544	33,218	21,502	725	11,374	56,390	6,052	19,179	21,691	205,700
Other Excise Taxes.............	18,500	18,349	17,414	16,874	21,749	19,173	20,668	22,114	17,242	18,251	5,713	5,182	201,229
Investment Earnings............	16,321	14,441	15,004	11,174	10,399	9,083	8,216	7,576	7,257	6,844	7,080	6,709	120,103
Inter-governmental Grants &	28,270	94,393	14,514	15,446	14,250	16,827	16,786	29,608	18,380	12,615	8,687	10,193	279,968
Other...........................	397,245	265,711	271,333	120,453	254,049	636,087	363,727	253,766	181,606	254,142	269,999	285,483	3,553,602
Subtotal - Receipts................	1,062,819	509,627	1,344,088	1,153,114	1,049,768	1,599,525	1,583,247	984,461	925,562	1,184,706	1,616,764	1,447,919	14,461,601
Total Resources....................	5,966,637	4,930,174	4,883,634	4,995,541	4,977,053	5,330,598	5,250,274	5,052,795	4,741,177	4,750,557	5,098,974	5,175,999	
Expenditures:													
State Payroll..........................	168,183	156,390	157,235	149,619	237,842	160,145	171,165	168,900	164,650	165,889	191,891	243,200	2,135,108
Agency Operations..............	111,317	139,714	116,438	95,673	108,484	113,471	109,628	90,211	103,356	108,309	142,103	171,449	1,410,153
Payment to Individuals..........	332,904	268,099	287,956	206,536	225,307	327,399	229,021	189,963	231,246	240,744	100,433	98,459	2,738,067
Aid to Counties...................	194,524	152,459	42,596	43,971	27,525	194,973	26,749	65,058	23,997	48,305	(28,023)	(37,522)	754,612
Aid to Cities and Towns.........	332,131	6,689	58,085	4,209	9,240	338,705	7,604	10,035	1,236	2,729	(37,486)	(42,670)	690,507
Aid to School Districts...........	91,488	416,062	262,869	413,271	129,801	335,884	485,452	515,193	534,957	559,240	350,313	626,236	4,720,766
Higher Education													
Institutions and Aids.........	7,282	138,727	25,581	59,262	110,938	90,297	27,422	73,669	59,101	63,278	543,546	566,065	1,765,168
Aid to Other Governments......	24,085	12,624	5,124	35,209	6,019	18,628	45,077	2,469	2,483	2,925	(3,289)	(8,164)	143,190
Aid to Non-Gov't													
Organizations................	29,879	29,409	26,900	15,760	24,642	16,165	17,997	33,925	19,099	21,884	48,158	33,262	317,079
Other & Net Transfers..........	254,297	73,462	58,423	44,746	79,182	67,905	61,827	89,182	35,199	55,044	63,250	82,436	964,954
Debt Service (4)...................	0	(3,006)	0	0	287,000	0	0	(1,425)	0	0	-	3,006	285,575
Total Expenditures:................	1,546,090	1,390,628	1,041,207	1,068,256	1,245,980	1,663,571	1,181,940	1,237,180	1,175,326	1,268,347	1,370,895	1,735,757	15,925,177
Ending Cash Balance													
Without Borrowing:	4,420,547	3,539,546	3,842,427	3,927,285	3,731,073	3,667,027	4,068,334	3,815,615	3,565,852	3,482,211	3,728,080	3,440,242	
Minimum Statutory Cash													
Balance for the Month..	4,376,643	3,528,942	3,422,384	3,673,957	3,731,073	3,373,786	3,656,896	3,815,615	3,477,917	3,363,408	3,521,419	3,134,626	

Notes
(1) Forecasts for Fiscal Years 2002 and 2003 are based on the end of 2002 Legislative Session.
(2) Totals may differ from detail due to rounding.
(3) Beginning Cash is unaudited and consists of the statutory fund as described on Appendix page D-1.
(4) Includes FY2002 Debt Service Transfers

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Fiscal Year Ended June 30, 2003 (1) (2)
(Thousands of Dollars)

	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Total
Beginning Cash Balance (2)……	3,440,242	2,721,291	2,539,687	3,015,298	2,986,512	2,702,864	2,764,090	3,217,785	3,103,112	2,631,920	2,599,495	2,723,154	
Receipts:													
Individual Income Taxes……	387,767	407,730	606,150	415,594	401,680	540,211	908,620	320,618	232,902	630,347	669,064	528,718	6,049,400
Sales and Use Taxes……	143,545	388,074	331,972	353,252	301,405	302,179	381,110	281,673	267,744	313,400	309,917	494,862	3,869,132
Corporate Income Taxes……	23,308	17,528	125,587	28,334	8,230	108,499	2,827	9,926	160,895	27,392	16,460	99,264	628,250
Statewide Property Taxes……	-	-	-	-	-	296,000	-	-	-	-	-	298,851	594,851
Motor Vehicle Taxes……	20,388	25,602	25,327	23,297	20,251	19,428	18,440	17,205	23,791	24,998	27,907	27,769	274,401
Tobacco Product Taxes……	1,372	20,889	15,842	15,017	13,416	15,948	13,821	12,396	12,924	14,260	13,469	26,481	175,836
Insurance Taxes……	818	1,680	-	133	22,486	39,732	221	12,050	57,707	24,144	24,586	37,543	221,100
Other Excise Taxes……	14,079	13,703	14,629	13,750	14,032	12,761	13,200	11,788	9,716	11,976	12,824	14,503	156,961
Investment Earnings……	3,987	2,478	5,570	3,212	4,543	3,635	3,714	4,295	3,882	3,960	4,168	3,494	46,938
Inter-governmental Grants & Other……	207,055	233,039	302,239	154,650	174,176	334,884	318,716	214,238	140,505	160,328	173,970	182,775	2,596,576
Subtotal - Receipts……	802,320	1,110,723	1,427,316	1,007,238	960,219	1,673,277	1,660,669	884,189	910,066	1,210,805	1,252,365	1,714,259	14,613,445
Total Resources……	4,242,561	3,832,013	3,967,003	4,022,536	3,946,732	4,376,141	4,424,759	4,101,975	4,013,177	3,842,725	3,851,859	4,437,414	
Expenditures:													
State Payroll……	164,497	134,266	137,113	137,920	171,664	176,866	145,442	146,511	141,579	143,147	149,484	205,371	1,853,860
Agency Operations……	87,887	94,977	89,799	77,834	81,715	78,179	79,495	68,052	72,819	79,171	86,460	118,842	1,015,228
Payment to Individuals……	208,974	337,077	238,324	170,575	185,846	185,317	251,592	184,645	158,396	183,927	195,501	186,007	2,486,181
Aid to Counties……	197,884	40,197	41,693	36,490	26,695	194,602	20,165	30,253	36,323	31,868	39,240	49,174	744,583
Aid to Cities and Towns……	310,197	5,459	49,594	6,779	8,321	310,979	5,937	9,165	4,239	2,291	2,515	2,355	717,830
Aid to School Districts……	84,999	410,935	198,433	376,710	192,925	383,628	508,262	384,113	699,162	581,404	423,211	757,026	5,000,807
Higher Education Institutions and Aids……	196,164	171,507	151,695	131,875	90,904	180,346	119,213	117,500	199,999	144,020	160,450	167,059	1,830,731
Aid to Other Governments……	23,295	7,275	3,447	30,184	5,197	17,222	16,265	1,876	2,326	17,334	2,129	4,627	131,175
Aid to Non-Gov't Organizations……	34,710	30,640	16,065	18,400	24,666	13,330	24,246	23,606	11,201	17,518	22,625	13,606	250,614
Other & Net Transfers……	212,663	59,994	25,542	49,258	119,691	71,583	36,358	52,981	55,215	42,551	47,091	130,222	903,149
Debt Service (4)……	-	-	-	-	336,244	-	-	(19,839)	-	-	-	-	316,405
Total Expenditures:……	1,521,270	1,292,326	951,705	1,036,024	907,623	1,612,051	1,206,974	1,018,701	1,381,258	1,243,230	1,128,705	1,634,289	15,250,563
Ending Cash Balance Without Borrowing:	2,721,291	2,539,687	3,015,298	2,986,512	3,039,108	2,764,090	3,217,785	3,083,273	2,631,920	2,599,495	2,723,154	2,803,124	
Minimum Statutory Cash Balance for the Month..	2,633,551	2,437,853	2,562,262	2,758,423	2,642,455	2,670,653	2,764,076	3,016,414	2,620,181	2,428,144	2,531,577	2,529,680	

Notes
(1) Forecasts for Fiscal Years 2002 and 2003 are based on the end of 2002 Legislative Session.
(2) Totals may differ from detail due to rounding.
(3) Beginning Cash is unaudited and consists of the statutory fund as described on Appendix page D-1.
(4) Includes FY2003 Debt Service Transfers

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APPENDIX E

Obligations of State Agencies

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of June 1, 2002, 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 $2.4 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 $2,400,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the MHFA, which were outstanding as of June 1, 2002:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: June 1, 2002

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 6/01/2002 (in thousands)
Housing Development	1	6.40% to 6.95%	2002-2014	$ 44,240	$ 32,410
Rental Housing	18	3.85% to 8.00%	2001-2031	374,480	242,985
Residential Housing Finance	9	1.87% to 5.85%	2002-2033	383,200	375,455
Single Family Mortgage	96	2.85% to 8.05%	2002-2032	1,936,420	1,304,390
	124			$2,738,340	$1,955,240

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 June 1, 2002 was $652,151,842. 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 HEW's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of June 2002, MHESO had $225,000,000 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 issue its revenue bonds as specified to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities located or to be located on the campuses of the State Universities in the Minnesota State Colleges and Universities. As of June 1, 2002, 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 and from fees imposed upon students for student activities, student facilities or other sources.

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 $500,000,000. As of June 1, 2002, the MHEFA had $492,568,865 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 June 1, 2002, the MSABC had $6,902,224 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 June 1, 2002, 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 $103.1 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 June 1, 2002, the RFA had issued $30,998,400, 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 June 1, 2002, the MPFA had outstanding bonds of: Water Pollution Control Revenue Bonds, $651,070,000, Drinking Water Revenue Bonds, $19,870,000, and Transportation Revenue Bonds, $33,965,000, for a total outstanding amount of $704,905,000. 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 June 1, 2002, MAEDB will have outstanding $35,930,000 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 $601,496,064 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 (IRRRB). THE IRRRB 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 IRRRB is authorized to issue revenue bonds to accomplish the promotion of economic development. As of June 1, 2002 the IRRRB had $15,800,000 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, $39,990,000 of the revenue bonds will remain outstanding as of June 1, 2002, of which $22,895,000 were payable primarily from lease payments of NAI, and $17,095,000 were 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 $39,990,000 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 June 1, 2002, there were $28,575,000 of Minnesota State Retirement System bonds outstanding.

The 2002 Minnesota Legislature authorized, in Minnesota Statutes, Chapter 473I, the issuance of up to $330 million of State revenue bonds to make a loan to a municipality to be used to acquire and prepare a site for and to design, furnish and equip a baseball park. As of June 1, 2002, no bonds were 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, State Treasurer, and Secretary of State are popularly elected to four year terms. There are 20 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. 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).

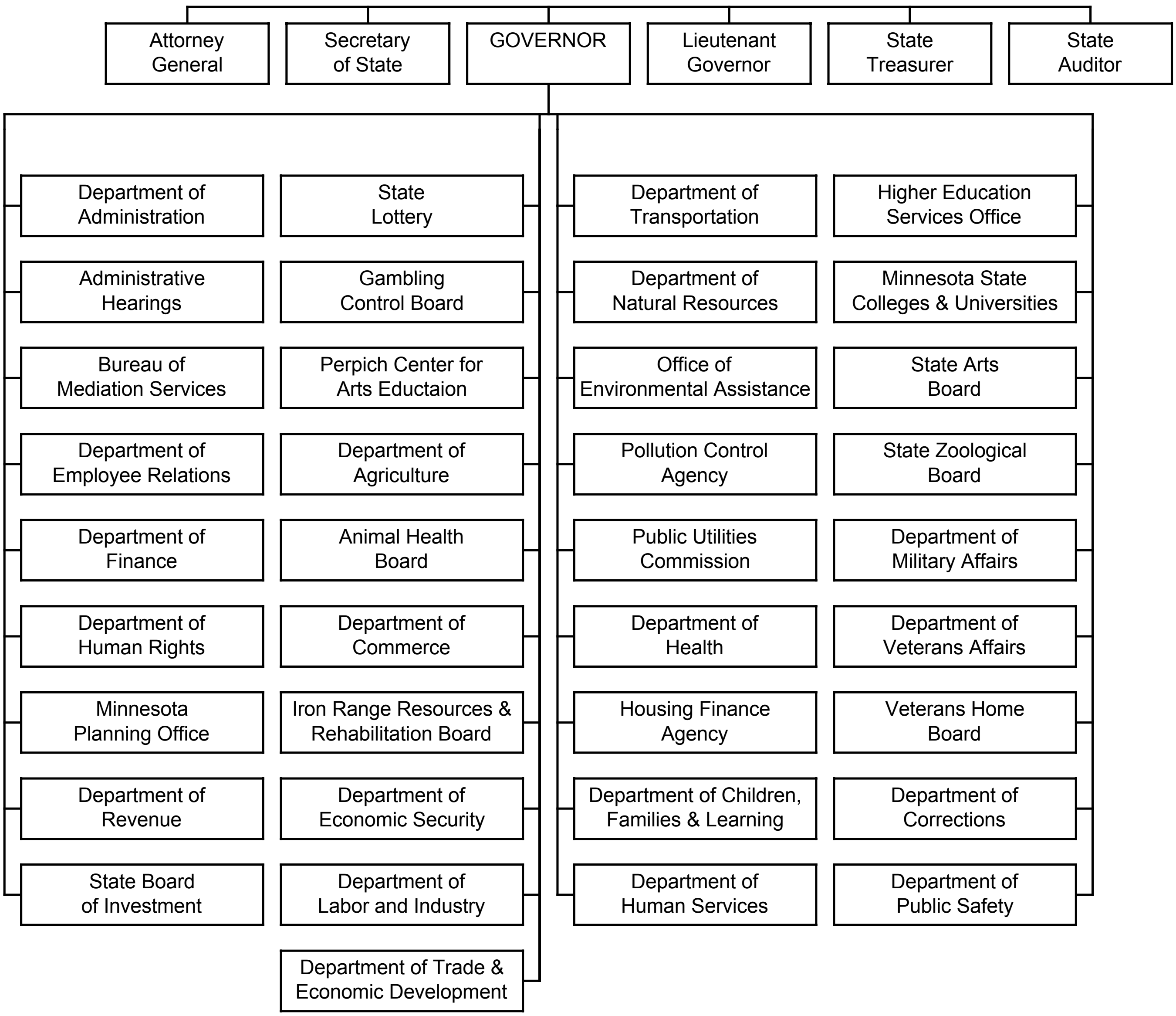
Preparation of revenue, expenditure and cash flow estimates.

Banking and cash management activities.

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 2000 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 five 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.

Treasurer

The primary function of the Office of the State Treasurer is to receive and account for all moneys paid into the State Treasury until the same is properly disbursed or invested. The Treasurer's computerized system of bank accounts provides a daily cash position pursuant to which all moneys not then obligated are certified for investment and future use.

Minnesota voters approved a constitutional amendment in November 1998 that will eliminate the Office of the State Treasurer in January 2003. The Minnesota Legislature has not determined to which office the Treasurer's responsibilities will be transferred.

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 17 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.

Tentative agreements were settled and implemented with units of AFSCME Council 6, the Minnesota Association of Professional Employees (MAPE), the Minnesota Government Engineers Council (MGEC), the Middle Management Association (MMA), and the State Residential Schools Education Association (SRSEA). The state employee labor contracts and plans were submitted to the 2002 Legislature for approval but were not acted on by the 2002 Legislature. This failure to act resulted in DOER's re-submission to the Legislative Subcommittee on Employee Relations of the negotiated agreements on May 20, 2002. The Legislative Subcommittee on Employee Relations must meet before June 20, 2002 to take action. If the Subcommittee does not meet prior to June 20, 2002, the negotiated agreements will by default receive interim approval until the 2003 Legislature acts.

The Commissioner's Plan and the Managerial Plan will be submitted for approval to the Legislative Subcommittee on Employee Relations some time after June 20, 2002.

Agreements that are still pending include:

- On March 13-14, the Corrections Officers Unit of the American Federation of State, County and Municipal Employees (AFSCME) Council 6 conducted an Interest Arbitration. The arbitration award was received and wages are pending approval by the Legislature.
- An arbitration will be held with the Minnesota Nurse's Association (MNA) in August and September.
- Bargaining with the Minnesota Law Enforcement Association (MLEA) continues in mediation.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of April 1, 2002
AFSCME (6 bargaining units)	19,000
MN Association of Professional Employees	10,500
Middle Management Association	2,833
MN Government Engineers Council	908
MN Nurses Association	819
MN Law Enforcement Association	707
State Residential Schools Education Association	162
State College Faculty Association	4,569
State University Interfaculty Organization	3,066
State University Admin and Service Faculty	536
Total Represented Employees	43,100
Total State Employment	53,700
Percent of All Executive Branch Employees Unionized	80%

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 Previous Biennium and Current 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. Absent any change in existing law, this obligation is expected to diminish over time, approaching zero by the year 2005.

5. *Legislators' Retirement Plan.* This plan is terminally funded. When a plan member retires, Accounting General Fund appropriations adequate to cover the cost of benefits for his projected life are transferred to the plan account.

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 Biennial Total	**Current Biennial Total**	**Next Biennium Total**
		($ in thousands)	
Constitutional Officers' Retirement	$ 643	$ 731	$ 822
Legislators' Retirement Plan	10,080	14,051	15,788
Judges' Retirement Plan(1)	3,903	4,373	4,913
Minneapolis Employees' Retirement Fund			
Amortization of Unfunded Liability(2)			
Adjustment for pre-1973 retirees(3)	8,890	6,464	6,464
Local Police or Fire Associations	16,481	22,762	15,226
Minneapolis Teachers' Retirement Assoc.(4)	30,897	30,908	30,908
St. Paul Teachers' Retirement Association(4)	5,654	5,654	5,654
Duluth Teachers' Retirement Association(4)	972	972	972
TOTAL	$77,520	$85,915	$80,747

(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. An open Accounting General Fund appropriation continues for a small group of retirees and survivors whose benefits are still covered on a pay-as-you-go basis.

(2) Beginning in Fiscal Year 1992, the State capped all amortization aid to the Minneapolis Employees Retirement Fund at $10,455,000. Effective July 1, 1998, that cap was reduced to $9,000,000. Any requirements beyond the capped aid are the exclusive obligation of the employer units.

(3) The pre-1973 adjustment to the Minneapolis Employees Retirement Fund was also capped beginning in Fiscal Year 1992, at $550,000 annually, and terminated at the end of Fiscal Year 2001.

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

2001 Pension Legislation

- Authorizes several changes to the PERA-General Plan to address PERA's funding deficiency, including changes in service crediting procedures, eligibility and coverage groups, and contribution rates. On January 1, 2002, the employee and employer regular contribution rate increased for both basic and coordinated members.
- Provides that a member of MSRS, PERA, or TRA may purchase service credit for parental or family leaves, not to exceed five years, by paying the full actuarial value of the service credit purchase.

2002 Pension Legislation

- Implements actuarial assumption changes, based on completed experience studies for the period July 1, 1996 to June 30, 2000.
- Includes Hennepin County Medical Center probation officers in the PERA-Correctional plan. Part-time Metropolitan Council Transit Police Officers are included in PERA-Police & Fire Plan.

- Provides that a legislator whose legislative service is not covered by Social Security may elect to have future and retroactive Social Security coverage for those services. Requires a legislator electing this option to make the employer and employee Social Security contributions.

TABLE G-2

Condition of Defined Benefit Pension Plans to Which Minnesota Provides Accounting General Fund Resources, July 1, 2001[(1)]
($ in Millions)

Plan	Current Assets	Accrued Benefit Liability	Funding Ratio	Members Active	Members Other
1. Funds For Which the State Has Custodial Responsibility					
State Teachers' Retirement Plan	$16,834	$15,904	105.9%	71,097	61,060
State Employees' Retirement Plan	7,367	6,573	112.1%	49,229	39,541
State Correctional Plan	431	398	108.2%	3,182	1,511
Highway Patrol Plan	573	489	117.0%	823	780
Judges' Plan	124	165	74.8%	292	262
Legislators' Plan[(2)]	43	75	56.8%	139	401
Constitutional Officers' Plan[(2)]	—	4	5.3%	0	17
Public Employees' Retirement Assoc.					
— General Plan	10,527	12,105	87.0%	138,759	158,358
— Police & Fire Plan	4,510	3,712	121.5%	9,858	7,162
— Local Gov't Correctional Plan[(3)]	25	25	98.3%	3,238	401
2. Other Funds to Which the State Contributes					
Minneapolis Employees' Retirement Fund	1,507	1,616	93.3%	959	5,253
Local Police & Fire Relief Associations	716	752	95.4%	201	1,615
St. Paul Teachers' Ret. Fund Assoc.	869	1,061	81.9%	4,671	4,045
Minneapolis Teachers' Ret. Fund Assoc.	1,062	1,610	66.0%	5,813	6,496
Duluth Teachers' Ret. Fund Assoc.	274	254	107.6%	1,420	1,886

(1) The information provided in this table reflects the condition of all funds as of June 30, 2001 except for local police & fire relief association funds. Information for the latter is for calendar year 1999. Figures for local police and fire combine data on 4 separate funds. The number of these funds reporting separately has declined as plans have consolidated within the statewide PERA Police & Fire Consolidation Fund.

(2) The Legislators' and Constitutional Officers' defined benefit retirement plans are not pre-funded. Legislator retirements are funded on a terminal basis with assets accumulated only for retirees and survivors: Constitutional Officer retirements are financed on a pay-as-you-go basis from annual appropriations — there are no separate assets reserved for this plan.

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

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APPENDIX H

Selected Economic and Demographic Statistics

Population Trends In The State

Minnesota resident population grew from 4,085,000 in 1980 to 4,390,000 in 1990 or, at an average annual compound rate of .7 percent as shown in Table 1. In comparison, U.S. population grew at an annual compound rate of .9 percent during this period. Between 1990 and 2000, data in Table 1 indicate Minnesota population grew at annual compound rate of 1.2 percent as compared to 1.2 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 2001 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 2001 was highly concentrated in the industrial machinery and instrument and miscellaneous categories. Of particular importance is the industrial machinery category in which 28.2 percent of the State's durable goods employment was concentrated in 2001, as compared to 18.9 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the 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 2001, 30.1 percent of the State's non-durable goods employment was concentrated in food and kindred industries, and 16.5 percent in paper and allied industries. This compares to 23.9 percent and 9.0 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 from 17.3 thousand in 1979 to 6.0 thousand in 2001. It is not expected that mining employment will return to 1979 levels. 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 1980 to 1990, overall employment growth in Minnesota lagged behind national growth as shown in Table 5. However, manufacturing has been a strong sector, with Minnesota employment outperforming its U.S. counterpart in both the 1980-1990 and 1990-2001 periods.

In spite of a strong manufacturing sector, during the 1980 to 1990 period total employment in Minnesota increased 17.9 percent while increasing 20.1 percent nationally. Most of Minnesota's relatively slower growth is associated with declining agricultural employment and with the two recessions in the U.S. economy during the early 1980s which were more severe in Minnesota than nationwide. Minnesota non-farm employment growth generally kept pace with the nation in the period after the 1981-82 recession ended in late 1982. In the period 1990 through 1996, non-farm employment growth in Minnesota exceeded national growth. Since then, Minnesota and U.S. employment have expanded at about the same rate. 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. Between 1990 and 2001, Minnesota's non-farm employment grew 25.6 percent compared to 20.9 percent nationwide. There are some preliminary indications that the recession which began in March, 2001 has been slightly more severe in Minnesota than in the national economy.

Performance Of The State's Economy

Since 1980, State per capita personal income has usually been within nine percentage points of national per capita personal income. As shown in Table 6, the State's per capita income, which is computed by dividing personal income by total resident population, has generally remained above the national average in spite of the early 1980s recessions and some difficult years in agriculture. In 2001, Minnesota per capita personal income was 108.3 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 2001. During the period 1980 to 1990, Minnesota ranked first in growth of personal income and first during the period 1990 to 2001. Table 8 shows that Minnesota does not rank first in personal income growth among neighboring states every year. Over the period 1980 to 1990, Table 9 shows Minnesota non-agricultural employment grew 20.3 percent while the entire North Central Region grew 14.4 percent. During the 1990-2001 period, Minnesota non-farm employment increased 25.6 percent, while regional employment increased 17.6 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2000 and 2001, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 3.3 percent in 2000, as compared to the national average of 4.0 percent. In 2001, Minnesota's unemployment rate averaged 3.7 percent, as compared to the national average of 4.8 percent.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Average Annual Compound % Change U.S.	Average Annual Compound % Change Minnesota
1970	203,799	3,815	1.3	1.1
1980	227,225	4,085	1.1	0.7
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	4,874	1.2	1.3
2000	282,125	4,931	1.2	1.2
2001	284,797	4,972	0.9	0.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2001
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durable	249.4	9.1	10,638	7.9
Manufacturing Non-Durable	174.0	6.4	7,027	5.2
Mining	6.0	0.2	563	0.4
Construction	121.9	4.5	6,861	5.1
Transportation and Public Utilities	133.8	4.9	7,070	5.2
Trade	633.4	23.2	30,502	22.5
Finance, Insurance and Real Estate	166.2	6.1	7,624	5.6
Services	806.3	29.5	41,024	30.3
Government	382.7	14.0	20,873	15.4
Agriculture	59.0	2.1	3,144	2.3
Total	2,732.7	100.0	135,326	100.0

Sources: U.S. Employment — DRI•WEFA, U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Economic Security, unpublished data, March 2001. 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 2000 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 2002.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2001
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Furniture, Lumber and Wood	28.4	11.4	1,321	12.4
Stone, Clay, Glass	10.5	4.2	571	5.4
Primary Metals	7.6	3.0	651	6.1
Fabricated Metals	36.0	14.4	1,479	13.9
Industrial Machinery	70.4	28.2	2,014	18.9
Electronic Equipment	34.2	13.7	1,612	15.2
Transportation Equipment	15.3	6.1	1,747	16.4
Instruments and Miscellaneous	47.0	18.8	1,244	11.7
Total	249.4	100.0	10,638	100.0

Sources: U.S. Employment — DRI•WEFA, 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 2000. 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 2001
(Thousands of Jobs)

Non-Durable Goods(1)	Minnesota	% of Total	U.S.	% of Total
Food and Kindred	52.5	30.1	1,685	23.9
Paper and Allied	28.7	16.5	635	9.0
Printing and Publishing	53.3	30.6	1,491	21.2
Chemicals	11.1	6.4	1,033	14.7
Rubber and Leather	20.6	11.8	1,018	14.5
Other Non Durables	7.8	4.5	1,165	16.6
Total	174.0	100.0	7,027	100.0

Sources: U.S. Employment — DRI•WEFA, 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 2000. 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 1980, 1990 AND 2001
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	1980	1990	2001	1980-1990	1990-2001	1980	1990	2001	1980-1990	1990-2001
Manufacturing Durable	225.7	231.5	249.4	2.6	7.7	12,159	11,109	10,638	(8.6)	(4.2)
Manufacturing Non-Durable(1)	145.5	169.3	174.0	16.4	2.8	8,058	7,919	7,027	(1.7)	(11.3)
Mining	15.6	8.1	6.0	(48.1)	(25.9)	1,027	709	563	(31.0)	(20.6)
Construction	76.5	79.5	121.9	3.9	53.3	4,346	5,119	6,861	17.8	34.0
Transportation and Public Utilities	99.1	109.5	133.8	10.5	22.2	5,146	5,777	7,070	12.3	22.4
Trade	442.8	519.5	633.4	17.3	21.9	20,310	25,774	30,502	26.9	18.3
Finance, Insurance and Real Estate	94.8	125.2	166.2	32.1	32.7	5,160	6,709	7,624	30.0	13.6
Services	369.7	549.2	806.3	48.6	46.8	17,890	27,934	41,024	56.1	46.9
Government	300.6	337.7	382.7	12.3	13.3	16,241	18,304	20,873	12.7	14.0
Agriculture	123.8	103.1	59.0	(16.7)	(42.8)	3,364	3,223	3,144	(4.2)	(2.5)
Total	1,894.1	2,232.6	2,732.7	17.9	22.4	93,701	112,577	135,326	20.1	20.2

Sources: Minnesota 1980, 1990 and 2001 — Minnesota Department of Economic Security, unpublished data.

U.S. 1980, 1990 and 2001, DRI•WEFA, 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 2000. 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 2002.

U.S. and Minnesota agricultural employment data for 2001 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.
1980	$10,320	$10,183	101.3
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	30,105	27,843	108.1
2000	31,935	29,469	108.4
2001	32,791	30,271	108.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1980-1990 and 1990-2001

State	1980 Personal Income (Millions)	1990 Personal Income (Millions)	1980-1990 Annual Compound Rate of Increase (%)	Regional Rank 1980-1990	2001 Personal Income (Millions)	1990-2001 Rate of Increase (%)	Regional Rank 1990-2000	1990 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2001 Population (Thousands)	2001 Per Capita Personal Income ($)	2001 Regional Rank
Illinois	126,662	237,593	6.49	8	408,860	5.06	5	11,453	20,744	1	12,482	32,755	2
Ohio	109,120	204,114	6.46	9	325,500	4.33	12	10,864	18,788	4	11,374	28,619	5
Michigan	95,967	177,104	6.32	11	295,110	4.75	9	9,311	19,020	3	9,991	29,538	3
Indiana	51,881	97,907	6.56	7	168,350	5.05	6	5,558	17,616	9	6,115	27,532	9
Wisconsin	47,881	89,025	6.40	10	156,180	5.24	3	4,905	18,152	6	5,402	28,911	4
Missouri	46,217	91,000	7.01	3	157,800	5.13	4	5,129	17,743	8	5,630	28,029	8
Minnesota	42,158	87,796	7.61	1	163,050	5.79	1	4,390	20,000	2	4,972	32,791	1
Iowa	28,181	48,313	5.54	12	79,753	4.66	10	2,781	17,372	10	2,923	27,283	10
Kansas	23,781	45,104	6.61	6	76,816	4.96	8	2,481	18,177	5	2,695	28,507	7
Nebraska	14,578	28,591	6.97	4	48,937	5.01	7	1,582	18,077	7	1,713	28,564	6
South Dakota	5,625	11,312	7.24	2	19,900	5.27	2	697	16,227	11	757	26,301	11
North Dakota	5,297	10,121	6.69	5	16,202	4.37	11	638	15,872	12	634	25,538	12

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION[1]
2000-2001

Rank	State	Percent Growth
1	Kansas	4.25
2	MINNESOTA	3.54
3	Missouri	3.51
4	Wisconsin	3.45
5	Nebraska	3.42
6	Illinois	3.21
7	Iowa	3.07
8	Indiana	2.64
9	Ohio	2.42
10	North Dakota	2.31
11	Michigan	1.81
12	South Dakota	1.47
	REGION	2.89

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	1980 Employment	1990 Employment	2001 Employment	% Increase 1980-1990	1990-2001
Illinois	4,850.3	5,288.3	6,004.6	9.0	13.5
Ohio	4,367.4	4,882.3	5,566.0	11.8	14.0
Michigan	3,442.8	3,969.6	4,586.5	15.3	15.5
Indiana	2,129.4	2,521.9	2,938.3	18.4	16.5
Wisconsin	1,938.1	2,291.5	2,825.7	18.2	23.3
Missouri	1,969.8	2,345.0	2,732.0	19.0	16.5
MINNESOTA	1,770.2	2,129.5	2,674.2	20.3	25.6
Iowa	1,109.9	1,226.3	1,468.8	10.5	19.8
Kansas	944.7	1,088.5	1,356.5	15.2	24.6
Nebraska	627.6	730.1	909.4	16.3	24.6
South Dakota	238.0	288.7	379.2	21.3	31.3
North Dakota	245.2	265.9	329.8	8.4	24.0
Region	23,633.4	27,027.6	31,771.0	14.4	17.6

Source: DRI•WEFA, @ Markets data bank. Minnesota employment data from Minnesota Department of Economic Security.

TABLE 10
MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1996-2001 AND THE FIRST FOUR MONTHS OF 2002 NOT SEASONALLY ADJUSTED

	Annual Average	
Year	**Minnesota**	**U.S.**
1996	4.0%	5.4%
1997	3.3%	4.9%
1998	2.5%	4.5%
1999	2.8%	4.2%
2000	3.3%	4.0%

Month	**Minnesota**	**U.S.**
2000		
January	4.0%	4.5%
February	3.7%	4.4%
March	3.6%	4.3%
April	3.2%	3.7%
May	2.7%	3.9%
June	3.5%	4.2%
July	3.0%	4.2%
August	3.0%	4.1%
September	3.4%	3.8%
October	2.9%	3.6%
November	3.2%	3.8%
December	3.2%	3.7%
Annual Average	3.3%	4.0%

Month	**Minnesota**	**U.S.**
2001		
January	4.2%	4.7%
February	4.0%	4.6%
March	4.0%	4.6%
April	3.9%	4.2%
May	3.2%	4.1%
June	4.0%	4.7%
July	3.5%	4.7%
August	3.3%	4.9%
September	3.6%	4.7%
October	3.4%	5.0%
November	3.6%	5.3%
December	3.8%	5.4%
Annual Average	3.7%	4.8%

Month	**Minnesota**	**U.S.**
2002		
January	4.9%	6.3%
February	4.8%	6.1%
March	4.8%	6.1%
April	4.5%	5.7%

Source: Minnesota Department of Economic Security.

TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank			Sales	Assets		Net Income	
01	00	Company	$000	$000	Rank	$000	Rank
34	37	Target	39,888,000	25,154,000	145	1,368,000	56
84	91	United Health Group.	23,454,000	12,486,000	224	913,000	92
86	97	Supervalu	23,194,300	6,407,200	318	82,000	338
121	190	U.S. Bancorp	16,443,000	171,390,000	25	1,706,500	40
126	118	Minnesota Mining & Mfg.	16,079,000	14,606,000	200	1,430,000	52
131	156	Best Buy	15,326,600	4,839,600	350	395,800	194
137	166	Xcel Energy	15,028,200	28,735,100	122	795,000	105
194	170	Northwest Airlines	9,905,000	12,955,000	219	(423,000)	453
218	222	St. Paul Cos..	8,943,000	38,321,000	91	(1,088,000)	476
244	223	Cenex Harvest States	7,875,200	3,057,300	418	NA	NA
264	278	General Mills	7,077,700	5,091,200	345	665,100	117
318	349	Medtronic	5,551,800	7,038,900	306	1,046,000	75
392	452	Hormel Foods.	4,124,100	2,162,700	453	182,400	272
395	416	Nash Finch	4,107,400	970,200	488	21,300	379
485	—	PepsiAmericas	3,170,700	3,419,300	401	18,900	384
495	—	C.H. Robinson Worldwide . . .	3,090,100	683,500	495	84,000	336

Source: *Fortune Magazine,* dated April 15, 2002

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APPENDIX I

Continuing Disclosure Undertaking

The Commissioner's Order authorizing the issuance of the Bonds will contain provisions enabling participating underwriters in the primary offering of the Bonds to comply with the requirements of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5), in substantially the following form:

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated September 25, 2001 (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 2002 (each a "Reporting Date"):

(A) The general purpose financial statements 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.:

Aaa Bonds which are rated "Aaa" are judged to be of the best quality. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Standard & Poor's Ratings Group:

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

Fitch Ratings:

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

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APPENDIX K
Form of Legal Opinion

The Honorable Pamela Wheelock
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $307,405,000 General Obligation State Bonds

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance of the State of Minnesota on behalf of the State, preliminary to and in issuance of $307,405,000 General Obligation State Bonds dated June 1, 2002 (the "Bonds"), consisting of $240,000,000 General Obligation State Various Purpose Bonds, $30,000,000 General Obligation State Trunk Highway Bonds and $37,405,000 General Obligation State Refunding Bonds. The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, rules, regulations and judicial decisions now in effect, it is our opinion that:

1. The Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Bonds (a) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes. Noncompliance by the State following the issuance of the Bonds with covenants made by the Commissioner of Finance in the Order authorizing the issuance of the Bonds relating to certain continuing requirements of the Code may result in inclusion of interest to be paid on the Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Bonds. No provision has been made for an increase in the interest payable on the Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Bonds.

Dated: June , 2002.