OFFICIAL STATEMENT DATED OCTOBER 19, 2004

NEW ISSUE

RATING: Moody's: Aa1
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.

$391,880,000
STATE OF MINNESOTA

General Obligation
State Bonds

Dated: November 1, 2004 **Due: November 1, as shown below**

Year	Amount	Interest Rate	Price or Yield	CUSIP 604128	Year	Amount	Interest Rate	Price or Yield	CUSIP 604128
2005	$10,775,000	3.00%	1.80 %	7P7	2015	$22,150,000	5.00%	3.52%	7Z5
2006	27,515,000	3.75	1.909	7Q5	2016	10,775,000	5.00	3.59	8A9
2007	28,890,000	5.00	2.04	7R3	2017	10,775,000	5.00	3.67	8B7
2008	28,885,000	5.00	2.33	7S1	2018	10,775,000	5.00	3.75	8C5
2009	33,360,000	5.00	2.65	7T9	2019	10,775,000	5.00	3.82	8D3
2010	28,820,000	5.00	2.85	7U6	2020	10,775,000	5.00	3.91	8E1
2011	28,760,000	5.00	3.02	7V4	2021	10,775,000	5.00	3.99	8F8
2012	28,685,000	5.00	3.17	7W2	2022	10,775,000	5.00	4.08	8G6
2013	28,585,000	5.00	3.32	7X0	2023	10,775,000	5.00	4.16	8H4
2014	28,480,000	5.00	3.42	7Y8	2024	10,775,000	5.00	4.24	8J0

(Plus accrued interest from November 1, 2004)

The Bonds comprise $180,000,000 General Obligation State Various Purpose Bonds, $40,000,000 General Obligation State Trunk Highway Bonds, and $171,880,000 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.

The Bonds maturing after November 1, 2014 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 about November 1, 2004.

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 OFFICIALS

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

COMMISSIONER OF FINANCE

Peggy S. Ingison

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$391,880,000

General Obligation
State Bonds

Dated November 1, 2004

INTRODUCTION

General

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 17 through 51, and Appendices A through K (this “Official Statement”), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $180,000,000 General Obligation State Various Purpose Bonds, $40,000,000 General Obligation State Trunk Highway Bonds and $171,880,000 General Obligation State Refunding Bonds of the State of Minnesota (the “State”) to be dated November 1, 2004 (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 $180,000,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises. Bonds in the principal amount of $40,000,000 are being issued for the purpose of financing the cost of certain construction, improvement and maintenance of the State trunk highway system. The Bonds are further described in the section hereof entitled “The Bonds — Authorization and Purpose” and in Appendix C hereto.

Bonds in the principal amount of $171,880,000 are being issued for the purpose of refunding $56,350,000 in principal amount of outstanding general obligation bonds of the State dated April 1, 1995 and $113,650,000 in principal amount of outstanding general obligation bonds of the State dated August 1, 1995 (the “Refunded Bonds”). Such proceeds of the Bonds will be placed in an irrevocable escrow fund and used, together with other available funds, to pay the principal of and interest on the bonds being refunded to the dates on which such bonds mature or have been called for redemption and prepayment. The bonds being refunded and the date on which they will be called for redemption are described in Appendix C.

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 May 1 and November 1 to maturity or prior redemption, commencing May 1, 2005. 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 issued in book entry form and in denominations of $5,000 or multiples thereof of a single maturity. The Bonds will be issued initially registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Accordingly, printed Bonds will not be available to purchasers of the Bonds. For a description of the book entry system pursuant to which the Bonds will be issued see the section hereof entitled "Book Entry System."

Bond Maturity Schedule

The Bonds are comprised of $180,000,000 General Obligation State Various Purpose Bonds, $40,000,000 General Obligation State Trunk Highway Bonds, and $171,880,000 General Obligation State Refunding Bonds. The maturity schedules are shown below.

$180,000,000 General Obligation State Various Purpose Bonds

Year	Principal Amount	Year	Principal Amount
2005	$ 8,775,000	2015	$8,775,000
2006	8,775,000	2016	8,775,000
2007	8,775,000	2017	8,775,000
2008	8,775,000	2018	8,775,000
2009	13,275,000	2019	8,775,000
2010	8,775,000	2020	8,775,000
2011	8,775,000	2021	8,775,000
2012	8,775,000	2022	8,775,000
2013	8,775,000	2023	8,775,000
2014	8,775,000	2024	8,775,000

$40,000,000 General Obligation State Trunk Highway Bonds

Year	Principal Amount	Year	Principal Amount
2005	$2,000,000	2015	$2,000,000
2006	2,000,000	2016	2,000,000
2007	2,000,000	2017	2,000,000
2008	2,000,000	2018	2,000,000
2009	2,000,000	2019	2,000,000
2010	2,000,000	2020	2,000,000
2011	2,000,000	2021	2,000,000
2012	2,000,000	2022	2,000,000
2013	2,000,000	2023	2,000,000
2014	2,000,000	2024	2,000,000

$171,880,000 General Obligation State Refunding Bonds

Year	Principal Amount
2006	$16,740,000
2007	18,115,000
2008	18,110,000
2009	18,085,000
2010	18,045,000
2011	17,985,000
2012	17,910,000
2013	17,810,000
2014	17,705,000
2015	11,375,000

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 the sale of the Bonds.

Revenue and Expenditure Forecasting

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

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

Budget — Current Biennium

Approved revenue and expenditure measures for the biennium ending June 30, 2005 (the "Current Biennium") are summarized as set forth below. The General Fund is defined on page 18 and the Trunk Highway Fund is defined on page 41.

CURRENT BIENNIUM
GENERAL FUND
END OF 2004 LEGISLATIVE SESSION AND AFTER EXECUTIVE ACTIONS
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 369
Non-dedicated Revenues	26,662
Dedicated Revenues, Transfers In and Other	1,556
Total Resources	$28,587
Expenditures	27,955
Projected Unreserved Balance at June 30, 2005	$ 632
Cash Flow Account	0
Budget Reserve Account	631
Projected Unrestricted Balance at June 30, 2005	$ 1

CURRENT BIENNIUM
TRUNK HIGHWAY FUND
END OF 2004 LEGISLATIVE SESSION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 14
Highway User Taxes	1,549
Federal Aid(1)	791
Dedicated Revenues, Transfers In and Other	633
Total Resources	$2,987
Expenditures	2,958
Projected Unreserved Balance at June 30, 2005	$ 29

Economic Update

Net non-dedicated General Fund revenues totaled $3.0 billion during the first quarter of Fiscal Year 2005, $43 million (1.5 percent) more than end of session estimates. Modest negative variances in the individual income tax, sales tax, and motor vehicle sales tax were offset by stronger than expected corporate tax receipts. Receipts from the insurance gross premiums tax and the mortgage and deed taxes were also significantly above forecast. Total receipts were 2.1 percent greater than in the first quarter of Fiscal Year 2004.

Bonds Outstanding

The total amount of State general obligation bonds outstanding on November 1, 2004, including this issue will be approximately $3.5 billion. The total amount of general obligation bonds authorized but unissued as of November 1, 2004, will be approximately $887.6 million. See Appendix B, pages B-1 and B-2.

Cash Flow Information

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout the Current Biennium. 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

(1) See table and footnote on page 44.

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

THE BONDS

Authorization and Purpose

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

Statutory Provisions. The $180,000,000 General Obligation State Various Purpose Bonds and $40,000,000 General Obligation State Trunk Highway Bonds being issued comprise bonds authorized by several different laws.

General Obligation State Various Purpose Bonds.

Second Special Session Laws 1997, Chapter 2, as amended, authorizes the issuance of $38,308,100 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 $260,000 are included in this issue.

Laws 1999, Chapter 240, as amended, authorizes the issuance of $464,710,000 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 $3,800,000 are included in this issue.

Laws 1999, Chapter 240, authorizes the issuance of $38,440,000 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 $100,000 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 $350,000 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, 116.17 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 $21,000,000 are included in this issue.

Special Session Laws 2001, Chapter 12, authorizes the issuance of $118,205,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17 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 $3,500,000 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, 116.17 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 $3,400,000 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, 116.17 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 $89,390,000 are included in this issue.

Special Session Laws 2002, Chapter 1, authorizes the issuance of $16,315,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17, 174.50 to 174.51 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 $3,000,000 are included in this issue.

Special Session Laws 2003, Chapter 20, authorizes the issuance of $236,915,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to 16A.675, 116.17, 174.50 to 174.51 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 $55,200,000 are included in this issue.

General Obligation State Trunk Highway Bonds.

Special Session Laws 2003, Chapter 19, Article 3, authorizes the issuance of $400,400,000 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 $40,000,000 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 $171,880,000 are included in this issue. The issuance of such Bonds was approved by resolution of the State Executive Council on March 5, 2003.

Security(1)

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State to the payment of the principal of and interest on the Bonds when due. The Minnesota Constitution, Article XI, requires the maintenance of a State bond fund (the "Debt Service Fund"), and provides that when the full faith and credit of the State has been pledged for the payment of State general obligation bonds, the State Auditor is required to levy each year a tax on all taxable property in the State in the amount needed, if any, with the balance then on hand in the Debt Service Fund, to pay all principal and interest due and to become due on such State bonds through July 1 of the second ensuing year.

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (as defined on page 18) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfer of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

Minnesota Statutes, Section 16A.641, makes an annual appropriation to the Debt Service Fund from the General Fund of the amount that, added to the amount already on hand in the Debt Service Fund, is an amount needed to pay the principal of and interest on all State bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the General Fund to the Debt Service Fund for the Bonds included in this issue will be made by December 1 of each year. (Also see information on page 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 of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula may be made within six years of the last previous change. The current distribution formula was established in the 1997 legislative session.

(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 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 November 1, 2014 will not be subject to redemption prior to their stated maturity dates, but Bonds maturing on or after November 1, 2015 will be subject to redemption and prepayment by the State at its option on November 1, 2014 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 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;

(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; and

(8) because of the Code's basis reduction rules for amortizable bond premium, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if the Bonds are sold for an amount equal to or less than their original cost.

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

LEGAL OPINIONS

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

FINANCIAL ADVISOR

The State has retained Public Financial Management of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the refunding portion of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading for our own account, or distributing municipal securities or other public securities.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement Supplement, which comprises pages 17 through 51 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 22 to the State Financial Statements for the Fiscal Year Ended June 30, 2003, 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 22 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.

Items described in Note 22 to State Financial Statements for the Fiscal Year Ended June 30, 2003.

1. *Tort Claims.* The Tort Claims appropriations for the Fiscal Year ending June 30, 2004 is $761,000 and for the Fiscal Year ending June 30, 2005 is also $761,000.

2. *AT&T Corp. v. Commissioner of Revenue.* Minnesota Tax Court and Minnesota Supreme Court. The Tax Court upheld the Commissioner of Revenue's denial of the refund claim on January 7, 2004, and plaintiff appealed the tax court's decision to the Minnesota Supreme Court. This case was settled and the Minnesota Supreme Court dismissed the appeal on June 8, 2004.

3. *Austin, et al. v. Goodno.* Ramsey County District Court. On February 27, 2004, the district court issued a ruling favorable to the plaintiffs that requires the Minnesota Department of Human Services to, among other things, obtain the United States Department of Agriculture's approval before implementing any amendments to MFIP. The Minnesota Department of Human Services appealed the ruling of the district court to the Minnesota Court of Appeals and the matter is still pending before the Minnesota Court of Appeals. On February 27, 2004, the Court ruled in plaintiffs' favor on cross-motions for summary judgment. DHS appealed to the Court of Appeals with argument on October 7, 2004.

4. *Automatic Merchandising Council, et al., v. Commissioner of Revenue, et al.,* Ramsey County District Court, the Minnesota Court of Appeals, and the Minnesota Supreme Court. The Minnesota Supreme Court affirmed the decision of the Minnesota Court of Appeals on June 24, 2004.

5. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Ramsey County District Court and Minnesota Court of Appeals. Plaintiffs have appealed the district court's upholding of the statute to the Minnesota Court of Appeals. The appeal is currently pending before the Minnesota Court of Appeals and a decision is expected by mid-September of 2005. On September 23, 2004, Plaintiffs filed a petition for review in the Minnesota Supreme Court, which is pending. The fee will generate an estimated $12.9 million over the current biennium. If the Supreme Court accepts review, it will likely issue a decision in the fall of 2005.

6. *AARM et al. v. Goodno, Masterman, et al. v. Goodno et al.* U.S. District Court. The parties reached a settlement in the *Masterman* lawsuit in late June of 2004. On August 18, 2004, the court issued a ruling on four motions in the *ARRM* case. As to the State, the court denied plaintiff's motion for injunction and dismissed some of plaintiff's claims pursuant to the State's motion to dismiss. The parties are engaged in discovery and exploring whether settlement may be possible.

7. *Northern States Power Power Co,. d/b/a Xcel Energy, Inc. v. Minnesota Metropolitan council, Minnesota Department of Transportation, et al.* Hennepin County District Court. The Minnesota Supreme Court dismissed Xcel Energy's appeal on August 4, 2004.

8. *Rukavina, et al. v. Pawlenty, et al.,* Ramsey County District Court and Minnesota Court of Appeals. The Minnesota Court of Appeals affirmed the District Court's decision on the legality of the Commissioner's unallotment of funds from the Minnesota Minerals 21st Century Fund and determined that the individual and legislator plaintiffs lacked standing, but reversed the District Court's determinations that an association of counties and municipalities did not have standing. Plaintiffs filed a petition for review, which is pending.

9. *Sprint Spectrum LP, Sprint Communications Company, LP,* and *United Telephone Company of Minnesota v. Comm'r of Revenue,* Minn. Tax Court Nos. 7299, 7308, 7309; and *XO Communications, Inc. v. Comm'r of Revenue,* Minn. Tax Court Nos. 7430 & 7442. The Supreme Court reversed the Tax Court in Sprint on April 1, 2004, holding that Sprint was entitled to the refunds claimed, in an amount to be determined following audit of its claims. The *XO* case was then remanded to the Tax Court by the Supreme Court, following the Sprint decision. The parties in *XO* stipulated to have the case remanded to the Commissioner to audit the refund claims and the Tax Court entered judgment on July 6, 2004. In addition, Qwest Communication, which had a similar refund claim in excess of $25.5 million denied by the Tax Court, and which decision was affirmed by an evenly divided Supreme Court in 2002, has asked the Tax Court to reopen the judgment in its case in light of *Sprint.* Qwest Communication's claim was settled and dismissed on August 13, 2004.

New Actions and Items.

A. *Union Pacific Railroad Co. & Soo Line Railroad Co. v. Salomone, et al.* Federal District Court. No. CV 04-924 JRT/JSM. Plaintiffs, two railroad common carriers, challenge the imposition of Minnesota's sales and use tax on their purchase and use in Minnesota of diesel fuel for locomotives and off-road vehicles. Plaintiffs allege that the tax is discriminatory under the Railroad Revitalization and Regulatory Reform Act of 1976 ("4 R Act") because their principal competitors, motor carriers, airlines, and barges, are not taxed under the same regime or pay little or no tax. The plaintiff's are seeking declaratory and injunctive relief prohibiting enforcement and collection of the tax. A determination in plaintiffs' favor could result in revenue collection losses in excess of $10 million when applied to plaintiffs and other railroad common carriers operating in Minnesota.

B. *Hutchinson Technology, Inc. v. Commissioner of Revenue,* Tax Ct. Nos. 7398-R & 7504-R. The Tax Court held: (1) that Hutchinson Technology's wholly-owned FSC subsidiary qualified as a foreign operating corporation under Minn. Stat. § 290.01, subd. 6b; (2) that Hutchinson Technology was not entitled to the dividend received deduction provided under Minn. Stat. § 290.21, subd. 4(a)(1); and (3) that Hutchinson Technology was entitled to the reduction of income for fees received under Minn. Stat. § 290.01, subd. 19(11) (1994). All three issues are currently before the Minnesota Supreme Court. If the Supreme Court rules in favor of the taxpayer on all three of these issues, the Revenue Department estimates a potential revenue loss over the Current Biennium of approximately $117 million. A Supreme Court decision on these issues is expected in late spring - early summer 2005.

C. *Polaris Industries, Inc. v. Commissioner of Revenue,* Tax Ct. No. 7694-R. The primary issue in this corporate franchise tax case is whether a payment of $58,050,860, made by the Appellant to settle a patent and trade secrets infringement lawsuit, is a non-business expense allocable to Minnesota, Appellant's domicile, or a business expense subject to apportionment. The statute in question is Minn. Stat. § 290.17, subd. 1(b). A decision in the Appellant's favor would result in a potential revenue loss for the Current Biennium well in excess of $10 million, since there are other cases pending before the Department of Revenue involving the same legal issue.

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 Citigroup Global Markets, Inc. as Underwriters, for a price of $430,884,158.25 and accrued interest, with the Bonds to bear interest at the rates set forth on the cover page of this Official Statement.

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

RATINGS

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

AUTHORIZATION OF OFFICIAL STATEMENT

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

Peggy S. Ingison
Commissioner of Finance
State of Minnesota

The Official Statement Supplement

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2003 are included herein as Appendix A. These financial statements provide financial information for the State's general fund, as defined by generally accepted accounting principles, as set forth in the audited financial statements included in Appendix A and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise fund, of which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor of the State to the extent indicated in his report included in Appendix A. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in the Appendix in reliance upon the report of the Legislative Auditor and upon the expertise of the Legislative Auditor in accounting and auditing.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2003 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2004 will be available by December 31, 2004. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2004 and the three-month period ending September 30, 2004 with comparative data for the same period ending June 30, 2003 and September 30, 2003 are summarized on pages 22 and 23.

FINANCIAL INFORMATION

Budgeting Process

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

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

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

The Current Biennium budget process officially began when the Governor issued budgetary policies and objectives in July 2002. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2002. In November 2002, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor for submission to the Legislature in February 2003. In February 2003, the Department of Finance prepared a revised forecast of revenues and expenditures, and on the basis of this forecast, the Governor provided supplemental budget recommendations to the Legislature in March 2003. Legislative hearings were conducted, after which the Legislature enacted appropriation and tax bills having the effect of either adopting or modifying the Governor's proposals. The Governor signed into law most of the bills passed by the Legislature, and also exercised his authority to veto certain items of appropriation. The financial summary presented under the heading "BUDGET — CURRENT BIENNIUM" portrays the effects of the appropriation and tax bills that were enacted by the Legislature and approved by the Governor. The Department of Finance has also developed planning estimates for the Next Biennium, based upon the Current Biennium revenue and expenditure forecasts and existing laws.

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

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

Pages 24 to 38 show in summary form the results of the Revenue and Expenditure Forecasts, the Governor's Recommendations to the Legislature and the legislative changes made for the Current Biennium.

General Fund

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

Revenues, expenditures, transfers and fund balance information in budgetary fund statements may differ from those in the State's GAAP based Comprehensive Annual Financial Report ("CAFR") (see Appendix A). The primary difference is the recognition of accruals, reimbursements, deferred revenue, intrafund transactions and the budgetary basis of accounting for encumbrances. In the modified accrual basis used in the CAFR, expenditures are recognized when goods or services are received regardless of the year encumbered. In budgetary fund statements, encumbrances are recognized as expenditures in the year encumbered. The budgetary fund statements do not represent the State's official financial report but rather are prepared as a supplement to the budget documents.

Cash Flow Account

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

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

Budget Reserve Account

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

The Legislature established the Budget Reserve Account at $522 million for the Current Biennium. The Legislature did provide that if on the basis of a future revenue and expenditure forecast, the

Commissioner of Finance determines that there will be a positive unrestricted budgetary General Fund balance at the close of the biennium, and after the first $350 million of the balance is allocated to the Cash Flow Account, the Budget Reserve Account receives the next allocation until its balance is $653 million.

The Budget Reserve Account was increased from $522 million at the end of 2003 legislature session to $631 million at the November 2003 forecast. After closing the books for the Previous Biennium, $104 million was available to be allocated to the Budget Reserve Account. In addition, a $6 million excess in the assigned risk plan was transferred to the Budget Reserve Account.

Control Procedures

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

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

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

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

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

REVENUE AND EXPENDITURE FORECASTING

General

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

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

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

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

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

Capital gains realizations have become an increasingly volatile and important share of Minnesota's income tax base. Net capital gains realizations by Minnesota resident taxpayers are estimated to have totaled $9.0 billion in tax year 2000, 7.8 percent of resident's adjusted gross income. In tax year 2002 net capital gains realizations by Minnesota residents were estimated to total $2.8 billion or 2.5 percent of adjusted gross income.

Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth, and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium level rather than adjust instantaneously to a shock to model variables. The Finance Department's model forecasted no growth in net capital gains realizations for tax year 2003. For tax years 2004 and 2005 net realizations are forecast to increase by 15 percent per year.

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

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

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

The February 2004 baseline forecast from GII, the scenario which GII considered to be the most likely at the time it was made, was the baseline for the February 2004 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. GII estimated potential GDP growth at 3.3 percent over the 2002 to 2005 period. Forecast growth rates for 2003 through 2005 are more or less consistent with the potential rate of growth. Inflation, as measured by the implicit price deflator for GDP, was expected to remain moderate.

GII FEBRUARY 2004
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2001 Actual %	Calendar Year 2002 Actual %	Calendar Year 2003 Forecast %	Calendar Year 2004 Forecast %	Calendar Year 2005 Forecast %
REAL GDP Growth Rate	0.5	2.2	3.1	4.8	3.8
GDP DEFLATOR (Inflation)	2.4	1.5	1.6	1.5	1.4
NOMINAL GDP Growth Rate	2.9	3.8	4.8	6.4	5.2

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2004 revenue and expenditure forecast is scheduled for release in early December 2004. The November 2004 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

Economic Update

Net non-dedicated General Fund revenues totaled $3.0 billion during the first quarter of Fiscal Year 2005, $43 million (1.5 percent) more than end of session estimates. Modest negative variances in the individual income tax, sales tax, and motor vehicle sales tax were offset by stronger than expected corporate tax receipts. Receipts from the insurance gross premiums tax and the mortgage and deed taxes were also significantly above forecast. Total receipts were 2.1 percent greater than in the first quarter of Fiscal Year 2004.

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the State's General Fund revenues and expenditures for the Fiscal Years ending June 30, 2001 through 2003, and for the additional time periods shown. For the Fiscal Years ended June 30, 2001 through 2003 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2003 and June 30, 2004 and for the three-month periods ending September 30, 2003 and September 30, 2004, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2003, 2004 and 2005, 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
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES
(THOUSANDS OF DOLLARS)
UNAUDITED

	Fiscal Year Ended June 30 (1) 2001	2002	2003	July 1,2002 through June 30 2003 (1)	July 1,2003 through June 30 2004 (1)	July 1,2003 through September 30 2003 (1)	July 1,2004 through September 30 2004 (1)
UNRESTRICTED REVENUES:							
Income Tax - Individual	$6,735,631	$6,259,345	$6,458,630	$6,353,096	$6,178,116	$1,424,831	$1,481,974
Income Tax - Corporation	868,511	631,826	700,221	752,120	651,987	170,461	228,052
Sales Tax	3,225,935	3,996,652	3,983,067	4,087,685	3,731,709	948,405	964,913
Statewide Property Tax (2)	0	305,573	585,416	561,460	273,539	90	245
Inheritance and Gift Tax	53,727	63,990	130,814	129,081	85,081	26,781	20,891
Liquor, Wine and Malt Beverage Tax	61,724	53,922	64,973	63,241	60,180	17,265	14,431
Cigarette and Tobacco Tax	179,771	157,021	178,721	173,957	143,159	48,101	34,613
Mining Taxes	2,190	165	2,019	2,019	2,005	591	0
Gross Earnings Taxes	192,000	163,749	242,218	237,454	215,474	53,638	73,829
Motor Vehicle Excise Tax (3)	545,979	405,072	292,852	280,293	263,490	108,044	101,039
Income Reciprocity Tax	42,991	44,791	49,876	49,010	46,242	0	0
Department Earnings (4)	124,731	344,660	370,354	366,023	451,281	110,173	107,735
Investment Income	197,781	82,777	21,384	20,047	14,038	4,255	3,413
Tobacco Settlement	130,254	178,565	150,002	152,566	168,467	100	100
All Other Revenues (5)	568,746	679,944	734,338	721,797	694,441	150,268	120,175
TOTAL UNRESTRICTED REVENUES	$12,929,971	$13,368,052	$13,964,884	$ 13,949,849	$ 12,979,210	$ 3,063,002	$ 3,151,412
RESTRICTED REVENUES (6)	537,407	54,941	76,148	76,148	71,005	17,651	17,149
LESS REVENUE REFUNDS:							
Income Tax - Individual	810,653	820,159	980,831	980,831	942,606	23,374	33,986
Income Tax - Corporation	158,809	177,508	127,532	127,532	108,950	12,675	10,835
Sales Tax	236,056	224,079	162,808	162,808	184,624	52,701	42,856
All Other	16,687	22,763	28,856	28,856	32,924	5,185	5,343
TOTAL REFUNDS	$1,222,205	$1,244,508	$1,300,028	$ 1,300,028	$ 1,269,104	$ 93,935	$ 93,020
NET REVENUES	$12,245,173	$12,178,485	$12,741,004	$ 12,725,969	$ 11,781,111	$ 2,986,717	$ 3,075,540

(1) For Fiscal Years 2001, 2002 and 2003, the schedule of revenues includes all revenues for the fiscal year, including revenue accurals at June 30. For the twelve-month periods ended June 30, 2003 and 2004 and the three-month periods ended September 30, 2003 and 2004, only current receipts have been included.

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

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

(4) Departmental Earnings Revenue increased after Fiscal Year 2001 due to all non-dedicated Departmental Earnings previously recorded in a separate fund now being recorded in the General Fund.

(5) Other Revenues increased after Fiscal Year 2001 due to lottery proceeds and a portion of Regional Treatment Center revenues previously recorded in a separate fund now being recorded in the General Fund.

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

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

	Fiscal Year Ended June 30 (1)			July 1,2002 through June 30 2003 (1)	July 1,2003 through June 30 2004 (1)	July 1,2003 through September 30 2003 (1)	July 1,2004 through September 30 2004 (1)
	2001	2002	2003				
EXPENDITURES:							
Personal Services (2)	$1,624,757	$1,002,723	$1,118,911	$957,576	$869,592	$196,237	$ 192,343
Purchased Services (2)	543,563	377,895	334,492	284,850	240,154	28,453	58,035
Materials and Supplies (2)	116,170	49,748	59,872	47,461	38,416	8,138	9,564
Capital Outlay:							
Equipment (2)	63,981	16,991	22,145	22,145	15,557	1,994	2,809
Real Property	8,418	38,723	57,682	57,682	(783)	(1,094)	242
Grants and Subsidies:							
Individuals	2,571,957	2,942,472	3,513,188	3,240,161	3,083,805	1,021,705	1,090,503
Municipalities and Towns	794,997	775,956	862,138	774,874	660,726	323,430	248,871
Counties	727,640	744,154	894,507	808,026	716,610	271,472	220,973
School Districts	4,715,898	4,949,922	6,019,367	5,535,364	5,623,675	1,811,583	2,191,336
Private Organizations	207,061	194,628	185,857	161,036	145,006	33,655	39,299
University of Minnesota	503,652	544,626	568,702	519,061	397,413	48,507	44,389
Other	185,945	176,750	162,121	149,711	129,344	38,577	36,868
TOTAL EXPENDITURES	$ 12,064,039	$ 11,814,588	$ 13,798,982	$12,557,948	$11,919,516	$ 3,782,657	$ 4,135,231
NET TRANSFERS OUT	807,844	852,123	591,225	82,459	412,284	82,459	412,284
TOTAL EXPENDITURES and NET TRANSFERS OUT	$ 12,871,883	$ 12,666,711	$ 14,390,207	$12,640,407	$12,331,800	$ 3,865,116	$ 4,547,515

(1) For Fiscal Years 2001, 2002 and 2003, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For the twelve-month periods ended June 30, 2003 and 2004 and the three-month periods ended September 30, 2003 and 2004, only current year expenditures have been included.

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

BUDGET — CURRENT BIENNIUM

November 2002 Forecast — Current Law

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

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

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

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

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

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

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

COMPARISON OF CURRENT BIENNIUM
TO PREVIOUS BIENNIUM
NOVEMBER 2002 FORECAST

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

February 2003 Governor's Budget Recommendation

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

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

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

Revenues Proposed in the Governor's Budget:

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

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

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

Expenditures Proposed in the Governor's Budget:

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

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

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

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

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

Payment and Collection Schedules Adjusted:

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

Reserves:

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

Next Biennium:

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

February 2003 Forecast — Current Law

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

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

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

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

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

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

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

April 2003 Governor's Budget Recommendation Revisions

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

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

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

Additional Resource Changes Proposed by the Governor:

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

Additional Expenditure Changes Proposed by the Governor:

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

Budget Reserves:

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

Next Biennium:

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

2003 Regular and First Special Legislative Sessions

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

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

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

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

Enacted Budget Summary:

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

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

Resources:

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

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

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

Expenditures:

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

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

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

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

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

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

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

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

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

Payment and Collection Schedules Adjusted:

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

Reserves, Future Forecast Contingencies:

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

Next Biennium:

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

Federal 2003 Jobs and Growth Reconciliation Act

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

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

Minnesota received $195 million in temporary assistance through an enhanced federal medical assistance percentage. These federal funds did not affect General Fund revenues or expenditures.

Current law provisions, contingent upon receipts of these federal monies, will delay some of the eligibility and financial participation changes in the enacted budget for the Medical Assistance and Minnesota Care programs.

November 2003 Forecast — Current Law

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium in November 2003. The November 2003 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
NOVEMBER 2003 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 369
Non-dedicated Revenues	26,680
Dedicated Revenues, Transfers In and Other	1,555
Total Resources	$28,604
Expenditures	28,158
Projected Unreserved Balance at June 30, 2005	$ 446
Budget Reserve Account	631
Projected Unrestricted Balance at June 30, 2005	$ (185)

Forecast revenues were expected to total $28.235 billion, $407 million, or 1.4 percent less than end-of-session estimates. The four major tax sources reduced revenues by $458 million. Individual income tax revenues were $490 million less and sales tax revenues were $124 million less than forecast. Offsetting these reductions was a $140 million forecast increase in corporate income tax collections and a $16 million forecast increase in motor vehicle sales tax collections. All other revenues accounted for an increase of $51 million. Lower actual tax collections and lower projected wage growth were the source of much of the forecast reduction.

Projected current law spending was reduced to $28.158 billion, $143 million, or 0.6 percent less than end of session estimates. The decrease was net of $84 million in authorized spending moving forward from the Previous Biennium to the Current Biennium. Three areas accounted for a majority of the reduction. Early Childhood Education through Grade 12 (“E-12”) Education estimates were reduced $93 million due to a reduction in forecast pupil units. Health and human services estimates were reduced $94 million due largely to the recognition of federal medical assistance percentage dollars. Debt service estimates were lowered by $21 million due mainly to State bond refinancing. These increases were offset in part by a $40 million increase in estimated property tax aids and credits.

The Budget Reserve Account was increased from $522 million at the end of session to $631 million at the November 2003 forecast. After closing the books for the Previous Biennium, $104 million was available to be allocated to the Budget Reserve Account. In addition, a $6 million excess in the assigned risk plan was transferred to the Budget Reserve Account.

February 2004 Forecast — Current Law

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2004. The February 2004 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2004 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 368
Non-dedicated Revenues	26,658
Dedicated Revenues, Transfers In and Other	1,556
Total Resources	$28,582
Expenditures	28,111
Projected Unreserved Balance at June 30, 2005	$ 471
Budget Reserve Account	631
Projected Unrestricted Balance at June 30, 2005	$ (160)

The projected deficit for the Current Biennium was reduced by $25 million compared to the November 2003 forecast. Changes to forecast revenues and expenditures were small. A $46 million decline in spending estimates was partially offset by a $21 million drop in projected revenues.

Forecast revenues were expected to total $28.214 billion for the Current Biennium. The five major taxes including, Individual Income Tax; Sales Tax; Corporate Income Tax; Motor Vehicle Sales Tax and Statewide Property Tax, were projected to be $109 million less than forecast in November 2003. Individual income tax receipts accounted for $87 million of that decline. Other tax and non-tax revenues were expected to exceed November's forecast by $88 million.

Projected current law spending was reduced to $28.111 billion, $46 million less than forecast in November 2003. Lower spending estimates for E-12 education of $30 million and health and human services estimates of $15 million accounted for most of the change.

March 2004 Governor's Budget Recommendations

In early March 2004 the Governor submitted a supplemental budget recommendation to the Legislature for the Current Biennium to eliminate the $160 million projected deficit that was based on the November 2003 and February 2004 forecasts of General Fund revenues and expenditures. The Governor's recommendations provided for budget changes totaling $160 million to offset this shortfall and provided an unreserved General Fund balance of $0 million by June 30, 2005, while maintaining a $281 million budget reserve and establishing a $350 million Cash Flow Account. The Governor's March 2004 recommendation is detailed below:

CURRENT BIENNIUM
GENERAL FUND
March 2004 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 369
Non-dedicated Revenues	26,706
Dedicated Revenues, Transfers In and Other	1,631
Total Resources	$28,706
Expenditures	28,074
Projected Unreserved Balance at June 30, 2005	$ 632
Cash Flow Account	350
Budget Reserve	281
Projected Unrestricted Balance at June 30, 2005	$ 0

Revenue Changes Proposed in the Governor's Budget:

The March 2004 Governor's recommendation proposed a net increase of $123 million in General Fund resources from the February 2004 forecast for the Current Biennium. This increase in resources included $50 million from revenue compliance and payment adjustments that included up front payment of sales taxes on car and small truck leases expected to yield $35.6 million of biennial revenues and improved cigarette tax collections by changing collections to the distributor rather than the retail level. This change was expected to yield $7 million in one-time revenues in the biennium. In addition to these tax changes, the Governor recommended that $76 million be transferred to the General Fund from existing balances in the Health Care Access Fund, the 21st Century Minerals Fund, and the Unclaimed Lottery Prize Fund.

Expenditure Changes Proposed in the Governor's Budget:

The March 2004 Governor's supplemental budget for the Current Biennium reduced General Fund spending by $37 million from the February 2004 forecast. This net reduction in spending included $70 million in targeted program reductions, $25 million in general operating budget reductions, and provided $62 million in funding for emergency items, a limited number of high priority initiatives, and funding for the Governor's 2004 capital budget. Targeted program reductions proposed by the Governor varied by major spending category, but the largest items included a $40 million reduction in Human Services provider reimbursement rates and a $20 million reduction from surpluses in higher education aid funding. Proposed reductions to state agency operations accounted for $19 million or an average 3.5 percent reduction to fiscal year 2005 appropriations. Higher education was reduced $50 million or 4.0 percent. E-12 Education, higher education institutions and Local Government Aids were unaffected by the proposed reductions.

Budget Reserves Recommendations:

The Governor recommended transferring $350 million from the Budget Reserve Account to the Cash Flow Account. The Cash Flow Account was used to eliminate the deficit in the previous biennium and since that time maintained a zero balance. The February 2004 forecast balance in the Budget

Reserve Account was $631.4 million. The recommended transfer would result in a budget reserve balance of $281.4 million and a Cash Flow Account balance of $350 million. The Cash Flow Account is typically used to manage state cash flow shortages. Unlike the Budget Reserve Account, the Cash Flow Account is inaccessible to offset a budget deficit without legislative action.

2004 Legislative Session

The legislature adjourned on May 16, 2004, without enacting recommended measures affecting the Current Biennium. Current Biennium estimates of resources, expenditures, and fund balances at the end of the 2004 legislative session is detailed below.

CURRENT BIENNIUM
GENERAL FUND
END OF 2004 LEGISLATIVE SESSION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 369
Non-dedicated Revenues	26,654
Dedicated Revenues, Transfers In and Other	1,556
Total Resources	$28,579
Expenditures	28,107
Projected Unreserved Balance at June 30, 2005	$ 472
Cash Flow Account	0
Budget Reserve Account	631
Projected Unrestricted Balance at June 30, 2005	$ (159)

The 2004 Legislature passed a number of relatively minor budget items affecting the General Fund. Both the House and Senate passed budget measures that would eliminate the $160 million forecast deficit for the Current Biennium as well as a number of other changes that provided funding for additional priorities. However the House and Senate were unable to resolve differences in the proposals and were not able to agree on a budget solution during the regular legislative session.

May 2004 Executive Actions

Because the legislature did not successfully act on the Governor's recommendations, on May 27, 2004 the Governor took executive actions to eliminate the forecast $160 million deficit for the Current Biennium. These executive actions did not require approval of the legislature.

The Governor directed the following actions to eliminate the forecast deficit. First, the Governor instructed executive branch agencies to reduce operating spending for the Current Biennium by $17 million. This reduction was approximately three percent of agencies' operating budgets for the second year of the Current Biennium. Second, the Governor directed that an anticipated $114.6 million transfer from the General Fund to the Health Care Access Fund be reduced by $110 million. Legislation in 2003 provided authority to transfer funds as necessary to the Health Care Access Fund to implement federal medical assistance changes associated with emergency funding provided to the states in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Rescinding the majority of this transfer increases the projected General Fund balance by $110 million. Thirdly, the failure of the legislature to enact a capital bonding bill reduces forecast debt service for the General Fund by $8.3 million from that previously forecast. Additionally the Governor directed that a general obligation bond sale, previously scheduled for late June 2004, for bonding projects authorized in previous legislative sessions be delayed until July 2004. This action reduces forecast debt service $18 million in the Current Biennium. Finally, the Governor directed the Minnesota Department of Revenue to shift resources to enhanced revenue tax compliance activities. Actions to expand audits of lawful gambling taxes, insurance taxes, corporate franchise and sales taxes, combined with a broader program to identify non-filers of business taxes and increase delinquent tax collection activities are expected to yield an additional $8 million during the Current Biennium. The statement of General Fund revenues, expenditures and fund balances after executive action is detailed below.

CURRENT BIENNIUM
GENERAL FUND
May 2004 AFTER EXECUTIVE ACTIONS
($ in Millions)

Resources	
Unreserved Balance at June 30, 2003	$ 369
Non-dedicated Revenues	26,662
Dedicated Revenues, Transfers In and Other	1,556
Total Resources	$28,587
Expenditures	27,955
Projected Unreserved Balance at June 30, 2005	$ 632
Cash Flow Account	0
Budget Reserve	631
Projected Unrestricted Balance at June 30, 2005	$ 1

Capital Budget:

The 2004 Legislature did not pass a capital budget.

Special Legislative Session:

The Governor has indicated that under certain circumstances he would be willing to call a special legislative session to consider bills including bills regarding the Current Biennium budget and a capital budget. The Governor has not called a special legislative session as of the date of this Official Statement.

Next Biennium:

The planning estimates for the Next Biennium, based upon the February 2004 forecast, indicate that the State budget, based upon current law, will not be in structural balance, meaning that projected total expenditures will be in excess of projected total revenues.

CURRENT BIENNIUM ESTIMATES — REVENUES AND EXPENDITURES

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Current Biennium based on 2004 legislative session and Governor's Executive Actions. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
MAY 2004 AFTER GOVERNOR'S EXECUTIVE ACTIONS
($ in Thousands)

	Fiscal Year 2004	Fiscal Year 2005	Current Biennium
Forecast Resources			
Prior Year Ending Balance[1]	$ 368,922	$ 923,775	$ 368,922
Net Non-dedicated Revenues	13,103,326	13,558,381	26,661,707
Dedicated Revenues	45,050	45,050	90,100
Transfers From Other Funds	1,130,318	315,313	1,445,631
Prior Year Adjustments	10,100	10,100	20,200
Subtotal Current Resources	14,288,794	13,928,844	28,217,638
Total Revenues Plus Prior Year Ending Balance	14,657,716	14,852,619	28,586,560
Authorized Expenditures & Transfers			
E-12 Education	5,722,409	6,036,774	11,759,183
Property Tax Aids & Credits	1,428,566	1,349,248	2,777,814
Higher Education	1,287,455	1,273,328	2,560,783
Health & Human Services	3,487,504	3,718,977	7,206,481
Environment, Agriculture & Economic Dev	365,496	339,486	704,982
Transportation	79,031	81,131	160,162
Criminal Justice	716,040	724,282	1,440,322
State Government	332,334	312,704	645,038
Debt Service	265,706	359,372	625,078
Cancellation Adjustment	(456)	(19,761)	(20,217)
Subtotal Expenditures & Transfers	13,684,085	14,175,541	27,859,626
Dedicated Revenue Expenditures	49,856	45,050	94,906
Total Expenditures and Transfers	13,733,941	14,220,591	27,954,532
Unreserved Balance	923,775	632,028	632,028
Budget Reserve	409,677	631,434	631,434
Unrestricted Balance	$ 514,098	$ 594	$ 594

(1) Fiscal Year 2003 ended with an Unrestricted General Fund balance of $180.4 million and an Unreserved General Fund Balance of $368.9 million.

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

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF NON-DEDICATED REVENUES
MAY 2004 AFTER GOVERNOR'S EXECUTIVE ACTIONS
($ in Thousands)

	Fiscal Year 2004	Fiscal Year 2005	Current Biennium
Net Nondedicated Revenues:			
Income Tax — Individual	$ 5,526,900	$ 5,930,000	$11,456,900
Income Tax — Corporate	645,600	740,200	1,385,800
Sales Tax	4,082,546	4,230,994	8,313,540
Motor Vehicle Sales Tax	281,246	289,803	571,049
Statewide Property Tax	603,579	617,582	1,221,161
Estate Tax	86,000	74,000	160,000
Liquor, Wine & Beer	69,368	65,771	135,139
Cigarette & Tobacco	162,799	151,915	314,714
Mining	1,569	839	2,408
Mortgage Registry Tax	211,800	117,100	328,900
Deed Transfer Tax	118,700	108,000	226,700
Gross Earnings Taxes	248,155	261,655	509,810
Lawful Gambling Taxes	60,037	60,055	120,092
Medical Assistance Surcharges	249,482	254,153	503,635
Income Tax Reciprocity	46,242	47,507	93,749
Tax Compliance	0	7,851	7,851
Tobacco Settlements	168,467	167,642	336,109
Investment Income	17,300	10,000	27,300
DHS RTC Collections	42,666	53,372	96,038
Lottery Revenue	36,176	36,176	72,352
Departmental Earnings	257,900	223,296	481,196
All Other Nondedicated Revenue	222,720	146,712	369,432
Tax and Non-Tax Refunds	(35,926)	(36,242)	(72,168)
Total Net Nondedicated Revenues	$13,103,326	$13,558,381	$26,661,707

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 2004 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 $296. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents.

SINGLE FILER

Taxable Income	Tax
on the first $19,440	5.35 percent
on all over $19,440, but not over $63,860	7.05 percent
on all over $63,860	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $28,420	5.35 percent
on all over $28,420, but not over $112,910	7.05 percent
on all over $112,910	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 $23,940	5.35 percent
on all over $23,940, but not over $96,180	7.05 percent
on all over $96,180	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.
1.0% Health Maintenance Organizations (beginning January 1, 2004)

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 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 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 $990 tax per licensed nursing home bed, a 1.56% tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6% tax on the total premium revenue of health maintenance organizations.

Other Sources

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

The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs. A single exception is the one-time emergency aid provided to states under the Federal 2003 Jobs and Growth Reconciliation Act. Minnesota's share of flexible assistance grants was $167 million. These grants were deposited in the General Fund as non-dedicated receipts.

Tobacco Settlement

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

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of 11,914 miles of highways, 4,714 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 payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula may be made within six years of the last previous change. The current distribution formula was established in the 1997 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. 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 were $630 million to the Highway User Tax Distribution Fund in Fiscal Year 2004, after refunds, collection costs and other transfers (e.g., estimated revenues from taxes paid on non-highway fuel transferred to other state accounts). Of this amount, $370 million was transferred to the Trunk Highway Fund. Revenues are estimated to increase at a rate from 1.5% to 2.0% annually due to increased vehicle miles traveled, offset slightly by increases in fuel efficiency of the entire fleet of vehicles. This would result in estimated collections of $638 million in Fiscal Year 2005 to the Highway User Tax Distribution Fund, with a resulting transfer of $376 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25% times 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 weight greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes generated $486 million in Fiscal Year 2004, after refunds and collection costs, of which $292 million was transferred to the Trunk Highway Fund. An expected 2.8% net growth in registrations would result in estimated collections of $493 million in Fiscal Year 2005 to the Highway User Tax Distribution Fund, with a resulting transfer of $291 million to the Trunk Highway Fund.

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 General Fund. Action by the 2000, 2001, and 2003 Legislatures changed this policy. In Fiscal Year 2002, $189.4 million or 30.86% of the revenue from this tax was deposited into the Highway User Tax Distribution Fund. In Fiscal Year 2003 32% of the revenue from this tax was deposited into the Highway User Tax Distribution Fund. From Fiscal Year 2004 through 2007, 30% of this tax will be deposited into the Highway User Tax Distribution Fund. In Fiscal Year 2008 and thereafter, 32% of the revenue from this tax will be deposited into the Highway User Tax Distribution Fund. The revenue received by the Highway User Tax Distribution Fund from this source was $178 million in Fiscal Year 2004, and is projected to be $188 million in Fiscal Year 2005. The resulting transfer to the Trunk Highway Fund was $105 million in Fiscal Year 2004 and would be $111 million in Fiscal Year 2005.

The 2000 Legislature authorized $100 million of Trunk Highway Bonds, which was used for “reconstruction and replacement of key bridges on the state trunk highway system; for construction, improvement, and maintenance of the interregional corridor system; for the improvement of highways classified as bottlenecks; 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 million of proceeds 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.

On September 19, 2002, a special session of the Legislature passed flood relief legislation, which included canceling General Fund appropriations enacted by the 2000 Legislature for trunk highway construction projects totaling $10.1 million and authorized $10.1 million of Trunk Highway Bonds to fund the same Trunk Highway construction projects.

The 2003 Legislature passed legislation that canceled General Fund appropriations enacted by the 2000 Legislature for trunk highway construction projects totaling $110 million and authorized $110.1 million of Trunk Highway Bonds to fund the same Trunk Highway construction projects.

The 2003 Legislature also provided a new $400 million bond authorization for trunk highway improvements. This funding is to be used for “(1) trunk highway improvements within the seven-county metropolitan area primarily for improving traffic flow...” and for “(2) trunk highway improvements on at-risk interregional corridors located outside the seven-county metropolitan area.” Up to $68 million of the bond proceeds may be used for program delivery purposes. The 2003 Legislature also authorized the Commissioner of Transportation to spend up to $400 million of Federal Highway Administration revenue designated as advance construction funds.

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

CURRENT BIENNIUM
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
(Thousands of Dollars)

	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2005	Biennium
Estimated Resources			
Balance Forward from Prior Year	$ 13,614	$ 9,583	$ 13,614
Revenues			
Federal Grants[(1)]	348,600	442,700	791,300
Departmental Earnings	35,195	36,412	71,607
Investment Income	3,400	4,500	7,900
Other Income	44,374	31,702	76,076
Bond Sale Proceeds	510,510	0	510,510
Total Receipts	$ 942,079	$ 515,314	$1,457,393
Transfers from Other Funds			
General Fund Reimbursement	4,640	4,640	9,280
HUTD Reimbursement	610	610	1,220
Hwy Users Tax Distribution Fund	771,596	777,773	1,549,369
Plant Management Fund	1,070	1,070	2,140
Special Revenue Fund	3,500	3,700	7,200
Total Transfers	781,416	787,793	1,569,209
Total Resources Available	$1,737,109	$1,312,690	$3,040,216
Estimated Uses			
Expenditures			
Transportation			
Transportation, department of	$1,102,022	$1,147,702	$2,249,724
Transportation-TH Bonds	510,000	0	510,000
Public Safety, Department of	97,894	98,054	195,948
Contingent Account	200	200	400
Subtotal-Transportation	$1,710,116	$1,245,956	$2,956,072
State Government			
Tort Claims	600	600	1,200
Finance-Bond Sale Expense	510	0	510
Subtotal-State Government	1,110	600	1,710
Total Expenditures	$1,711,226	$1,246,556	$2,957,782
Transfers to Other Funds			
Air Transportation Revolving	11	11	22
Debt Service Fund	16,289	37,138	53,427
Total Transfers	16,300	37,149	53,449
Total Uses	$1,727,526	$1,283,705	$3,011,231
Unrestricted Balance	$ 9,583	$ 28,985	$ 28,985

(1) In the absence of a transportation reauthorization act from the federal government, Mn/DOT has had to estimate the amount of federal aid funding that will eventually be made available. On September 30, 2003, the Transportation Equity Act for the 21st Century (TEA-21), which provided the legal basis by which federal funds are made available to states, expired. Congress and the Executive Branch agreed to maintain the provisions and funding levels of the final year of TEA-21, until a new legislative authorization act could be passed. Subsequently, six extensions have been made, most recently on September 30, 2004 that extended funding through November 30, 2004. Due to the uncertainty regarding the dollar amount of federal appropriated funds that will eventually be apportioned to Minnesota, the Trunk Highway Fund tables show the original budgetary Federal-aid estimates. Future financial statements will reflect the actual amount of reauthorization funds.

The estimated expenditures for state road construction for the Current Biennium include $150 million in federal advance construction funds. These funds will be used in conjunction with bond proceeds. Federal advance construction is a financing method authorized and promoted by the Federal Highway Administration. It allows a state to encumber the necessary funds to begin construction of federal-aid projects in advance of the scheduled federal funds being available for those projects. Advance construction requires the use of state Trunk Highway Funds cash balances to front-end project construction costs. The Trunk Highway Fund is later reimbursed with federal funds. Mn/DOT utilized use of $296 million of Federal Highway Administration advance construction financing in the Previous Biennium.

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 more than $1 billion of needs were identified in each of these two areas.

The table below depicts the spending for highway construction and related purposes associated with the appropriations made by the 2003 Legislature for the Current Biennium and additional amounts anticipated to be spent from the new $400 million appropriation from the proceeds of trunk highway bonds. The last item in the table, “Program Delivery,” is included to show the anticipated use of bond funds in the Current Biennium for that purpose. Program delivery expenditures will also be made from other portions of Mn/DOT’s budget.

CURRENT BIENNIUM
TRUNK HIGHWAY IMPROVEMENT PROGRAM
($ in Millions)

Improvement Category	Trunk Highway Funds and Federal Funds	Bond Funds	Total
Major Construction	$ 652.6	$ 91.8	$ 744.4
Reconstruction	109.0		109.0
Bridge Replacement	42.2		42.2
Bridge Repair	26.5		26.5
Reconditioning	51.7		51.7
Resurfacing	94.7		94.7
Road Repair	28.1		28.1
Safety	47.1		47.1
Traffic Management	33.3		33.3
Municipal Agreements	29.5		29.5
Right of Way	100.9	29.4	130.3
Miscellaneous Agreement	106.8		106.8
Program Delivery	0.0	33.3	33.3
Total	$1,322.4(1)	$154.5	$1,476.9

(1) The total expenditures, excluding the amount provided by bond funds, consists of $622.4 million of state highway user tax revenues and $700.0 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, 2001 through June 30, 2003, and for the additional time periods shown. For the Fiscal Years ended June 30, 2001 through June 30, 2003 the revenues and expenditures shown include all revenues and expenditures for that Fiscal Year, including revenue received and expenditures made after June 30 of such Fiscal Year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2003 and June 30, 2004 and for the three-month periods ending September 30, 2003 and September 30, 2004, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2003, 2004 and 2005. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the table on page 48 are presented by object of expenditure.

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

	Fiscal Year Ended June 30[1] 2001	2002	2003	July 1, 2002 Through June 30, 2003[1]	July 1, 2003 Through June 30, 2004[1]	July 1, 2003 Through September 30, 2003	July 1, 2004 Through September 30, 2004
Revenues:							
Taxes:[2]							
Motor Fuel	$ 378,505	$ 357,048	$ 393,938	$ 380,075	$ 397,090	$108,093	$102,667
Motor Vehicle	298,087	289,217	297,986	299,170	306,734	71,746	65,221
Less: Revenue Refunds	(43,868)	(37,371)	(35,187)	(35,185)	(36,554)	(5,059)	(5,244)
Net Taxes	$ 632,724	$ 608,894	$ 656,737	$ 644,060	$ 667,270	$174,780	$162,644
General Fund Approp[2]	88,235						
Motor Vehicle Sales Tax	0	111,578	113,129	113,129	94,682	19,797	17,094
Federal Grants	389,876	317,461	584,638	234,125	340,014	99,636	94,623
Drivers License	22,121	21,105	22,551	22,035	23,654	5,769	6,003
Penalties & Fines	5,142	4,059	5,694	5,695	5,832	1,515	1,357
Investment Income	19,042	11,756	6,899	6,534	2,280	408	622
Bond Proceeds	30,000	55,000	13,000	13,000	142,500	142,500	80,100
Other Revenue	45,178	37,083	46,060	47,650	48,963	21,005	10,901
TH Revenue Refunds	(2,259)	(2,117)	(2,080)	(2,080)	(1,957)	(20)	(19)
Total Revenues	$1,230,059	$1,164,819	$1,446,628	$1,084,148	$1,323,238	$465,390	$373,325

(1) For Fiscal Years 2001, 2002 and 2003 the schedule of revenues includes all revenue for the Fiscal Year, including accruals at June 30. For the twelve-month periods ended June 30, 2003 and June 30, 2004 and the three-month periods ended September 30, 2003 and September 30, 2004, only current year receipts, without auditing year-end accruals have been included.

(2) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration and Motor Vehicle sales taxes and the 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
(Thousands of Dollars)

	Fiscal Year Ended June 30(1)			July 1, 2002 Through June 30, 2003(1)	July 1, 2003 Through June 30, 2004(1)	July 1, 2003 Through September 30, 2003	July 1, 2004 Through September 30, 2004
	2001	2002	2003				
Expenditures:							
Personal Services	$ 364,703	$ 368,118	$ 394,330	$379,417	$ 375,792	$ 75,733	$ 70,821
Purchased Services	108,916	96,779	98,710	73,243	126,668	15,469	16,983
Materials and Supplies	70,899	53,369	70,286	54,226	51,124	4,966	7,207
Capital Outlay:							
Equipment	39,510	26,179	37,833	22,354	13,989	567	874
Capital Outlay & Real Property(2)	642,470	563,998	942,038	191,202	570,936	21,375	19,774
Grants and Subsidies:							
Individuals	22	21	21	19	28	2	3
Counties	121	1,199	110	0	249	0	0
School Districts	0	5	0	0	0	0	0
Private Organizations	0	11	19	0	0	0	0
Other	687	933	778	724	933	231	245
All Other	0	0	0	0	4,197	0	0
Total Expenditures	$1,227,328	$1,110,611	$1,544,125	$721,185	$1,143,916	$118,343	$115,907
Transfers:							
Debt Service	6,352	7,449	8,823	8,823	16,289	0	0
Other Transfers	(5,188)	(6,235)	(6,206)	(2,999)	(2,912)	4,965	(2,814)
Net Transfers	$ 1,164	$ 1,214	$ 2,617	$ 5,824	$ 13,377	$ 4,965	$ (2,814)
Total Expenditures and Net Transfers Out	$1,228,491	$1,111,825	$1,546,742	$727,009	$1,157,293	$123,308	$113,093

(1) For Fiscal Years 2001, 2002 and 2003, the schedule of expenditures includes all expenditures for the respective fiscal years, plus encumbrances outstanding as of June 30. For the twelve-month periods ended June 30, 2003 and June 30, 2004 and the three-month periods ended September 30, 2003 and September 30, 2004, 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. For Fiscal Year 2001, 2002 and 2003, 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 General Fund. A separate fund, called the Health Care Access Fund, was established as a special revenue fund to account for revenues and expenditures for the MinnesotaCare® program. Program revenues are derived primarily from a 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs. For calendar years 2002 and 2003, these permanent taxes were temporarily lowered to 1.5 percent and to zero, respectively. The enacted budget for the Current Biennium requires the balance in the Health Care Access Fund to be transferred to the General Fund on June 30, 2005. The maximum amount that may be transferred is $192.4 million.

As part of his 2004 budget balancing plan, the Governor took Executive Action to reduce a discretionary transfer of $114.6 million from the General Fund to the Health Care Access Fund by $110 million.

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

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

Resources	
Unreserved Balance at June 30, 2003	$177
Transfer in from General Fund	5
Revenues	752
Total Resources	934
Expenditures	718
Projected Unreserved Balance at June 30, 2005	$216
Transfer to General Fund	192
Projected Unrestricted Balance at June 30, 2005	$ 24*

*A maximum of $192.4 million will be transferred from the Health Care Access Fund to the General Fund at the end of Fiscal Year 2005.

SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

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

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

Under State law school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of October 19, 2004, there were approximately $520 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

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

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

School districts are authorized to issue general obligation bonds only when authorized by school district electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due. As of October 19, 2004 the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2031, is approximately $9.9 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 October 19, 2004 is about $491 million, with the maximum amount of principal and interest payable in any one month being $397 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 and lease obligations, 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 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.

Counties are authorized under Minnesota Statutes, Section 641.24 to enter into lease agreements with certain governmental units for the acquisition of jail or other law enforcement facilities. Counties provide for payment of rentals under such leases through the levy of a tax without limitation as to rate or amount.

The program enrolls county general obligation bonds issued for the following purposes: jails, correctional facilities, law enforcement facilities, social services and human services facilities, and solid waste facilities; and lease obligations for the purposes as specified above.

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

As of October 1, 2004, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2025, is approximately $89 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 of October 19, 2004 is $3,361,756 with the maximum amount of principal and interest payable in any one month being $2,006,158. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the counties.

APPENDIX A

State Financial Statements
For the Fiscal Year
Ended June 30, 2003

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APPENDIX A

Table of Contents

BASIC FINANCIAL STATEMENTS

OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
State of Minnesota • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Mr. Dan McElroy, Commissioner of Finance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of and for the year ended June 30, 2003, which collectively comprise the state's basic financial statements as listed in the Appendix A Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on those financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), a business-type activity. The MnSCU financial statements represent 80 percent of the total assets and 36 percent of the operating revenues of the primary government's total business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent of the total assets and 99 percent of the revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted paragraphs 12 through 15 of Statement No. 38, *Certain Financial Statement Note Disclosures* for the year ended June 30, 2003. The state adopted paragraphs 6 through 11 of Statement No. 38 for the year ended June 30, 2002. This standard establishes and modifies certain financial statement disclosure requirements.

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

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 5, 2003

Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2003, and identifies changes in the financial position of the state, which occurred during the fiscal year. Please read this overview in conjunction with the letter of transmittal, which can be found preceding this narrative, and with the state's financial statements and notes to the financial statements.

Overview of the Financial Statements

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

This annual financial report has four parts:

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

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

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

Government-wide Financial Statements

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

The government-wide financial statements can be found immediately following this discussion and analysis.

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

- An increase or decrease in the state's net assets from one year to the next indicates whether the financial position of the state is improving or deteriorating.
- Other indicators of the state's financial condition include the condition of its infrastructure, and economic events and trends that affect future revenues and expenses.

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

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

Governmental Activities

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

Business-type Activities

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

Discretely Presented Component Units

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

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

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

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

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

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

State Fund and Component Unit Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains twenty-eight individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balance*s for the General, Federal and Debt Service funds, which are reported as major funds. Information from the remaining twenty-five funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary Funds

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

Enterprise funds, a component of proprietary funds, are used to report activities that provide goods and services to outside (non-government) customers, including the general public. Internal service funds are an accounting device used to accumulate and allocate costs internally for goods and/or services provided by one program of the state to another. Because the activities reported by internal service funds predominantly benefit governmental functions rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The state maintains seventeen individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the other fifteen funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

Fiduciary Funds

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

The state's fiduciary funds are the pension trust funds, the Investment Trust Fund (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pool), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements elsewhere in this report.

Component Units

As mentioned above, component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units *statements of net assets* and the component units *statement of changes in net assets* provide detail for each major component unit and aggregate the detail for nonmajor component units. Individual nonmajor component unit detail can be found in the combining financial statements elsewhere in this report. A *statement of cash flows* is included for the two nonmajor component units that do not issue separately audited financial statements.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2003 by $7.9 billion (presented as *net* assets). Of this amount, a deficit of $347 million was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors.

- The state's total net assets decreased by $1.6 billion (17.3%) during fiscal year 2003. Net assets of governmental activities decreased by $1.4 billion (17.4%), while net assets of the business-type activities showed a decrease of $221.7 million (16.2%).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $3.9 billion, a decrease of $1.8 billion compared to the prior year. This amount includes an unreserved fund balance deficit $168 million.

- The General Fund includes a deficit of $1.007 billion in the undesignated unreserved fund balance. The remaining governmental funds reported $396 million of undesignated unreserved fund balance, which is available for spending at the government's discretion and $443 million in designated fund balance.

Long-Term Debt

- The state's total long-term debt obligations increased by $466 million (9.0%) during the current fiscal year. The increase is primarily from the issuance of general obligation bonds to finance various state purposes and proceeds on refunding bonds, which were not due to the escrow agent until subsequent year-end.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled $7.897 billion at the end of 2003, compared to $9.546 billion at the end of the previous year. All of the governmental activities and the majority of the business type activities net assets were either restricted by investment in capital assets or restricted for specific purposes. The remaining unrestricted net assets – resources available for future spending – reported a deficit balance of $347 million.

Net Assets
June 30, 2003
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current Assets	$ 8,265,240	$ 9,746,874	$ 787,781	$ 941,012	$ 9,053,021	$ 10,687,886
Noncurrent Assets:						
Capital Assets	7,197,543	6,673,700	977,480	912,145	8,175,023	7,585,845
Other Assets	782,448	340,370	74,084	84,407	856,532	424,777
Total Assets	$ 16,245,231	$ 16,760,944	$ 1,839,345	$ 1,937,564	$ 18,084,576	$ 18,698,508
Current Liabilities	$ 4,698,850	$ 4,088,695	$ 369,059	$ 271,551	$ 5,067,909	$ 4,360,246
Noncurrent Liabilities	4,793,304	4,491,673	326,685	300,682	5,119,989	4,792,355
Total Liabilities	$ 9,492,154	$ 8,580,368	$ 695,744	$ 572,233	$ 10,187,898	$ 9,152,601
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 4,998,667	$ 3,516,294	$ 812,780	$ 776,233	$ 5,811,447	$ 4,292,527
Restricted	2,280,661	2,300,180	151,812	431,695	2,432,473	2,731,875
Unrestricted	(526,251)	2,364,102	179,009	157,403	(347,242)	2,521,505
Total Net Assets	$ 6,753,077	$ 8,180,576	$ 1,143,601	$ 1,365,331	$ 7,896,678	$ 9,545,907

The largest portion, $5.8 billion of $7.9 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens; consequently, these assets are not available to fund the daily activities of the state. Capital assets are not considered to be convertible to cash and cannot be used to pay for the debt related to the capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $2.4 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used.

The remaining net assets balance represents a deficit in unrestricted net assets of $347 million. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the non-capital portion of net assets for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities decreased $1.649 billion (17.3%) over the course of this fiscal year. This resulted from a $1.427 billion (17.4%) decrease in net assets of governmental activities, and a $221.7 million (16.2%) decrease in net assets of business-type activities.

Changes in Net Assets
Fiscal Year Ended June 30, 2003
(In Thousands)

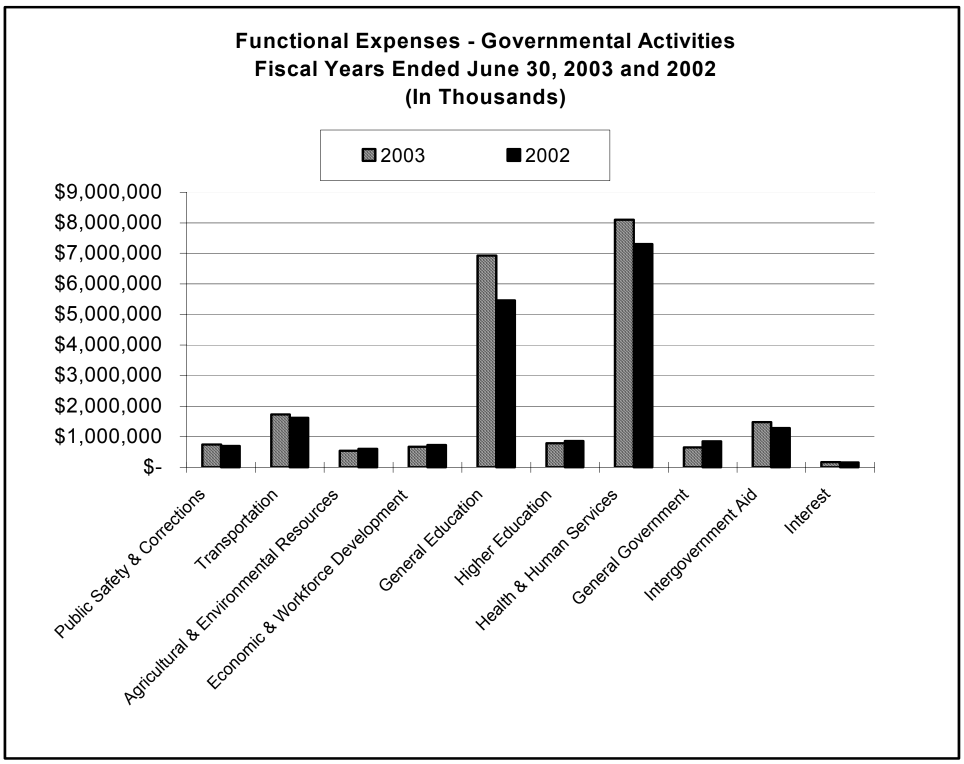
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for Services	$ 1,211,341	$ 1,398,808	$ 1,697,647	$ 1,396,840	$ 2,908,988	$ 2,795,648
Operating Grants and Contributions	5,219,388	4,697,961	369,481	437,777	5,588,869	5,135,738
Capital Grants	131,632	21,508	2,274	24,333	133,906	45,841
General Revenues:						
Individual Income Taxes	5,497,328	5,419,220	-	-	5,497,328	5,419,220
Corporate Income Taxes	636,214	428,614	-	-	636,214	428,614
Sales Taxes	3,924,424	3,777,259	-	-	3,924,424	3,777,259
Property Taxes	594,094	308,337	-	-	594,094	308,337
Motor Vehicle Taxes	606,137	616,616	-	-	606,137	616,616
Fuel Taxes	656,326	614,285	-	-	656,326	614,285
Other Taxes	1,981,468	1,862,382	-	-	1,981,468	1,862,382
Tobacco Settlement	261,525	380,024	-	-	261,525	380,024
Investment/Interest Income	24,049	83,432	15,697	35,853	39,746	119,285
Other Revenues	203,206	71,621	9,294	721	212,500	72,342
Total Revenues	$ 20,947,132	$ 19,680,067	$ 2,094,393	$ 1,895,524	$ 23,041,525	$ 21,575,591
Expenses:						
Public Safety and Corrections	$ 750,143	$ 702,345	$ -	$ -	$ 750,143	$ 702,345
Transportation	1,727,604	1,619,806	-	-	1,727,604	1,619,806
Agricultural and Environmental Resources	541,828	609,199	-	-	541,828	609,199
Economic and Workforce Development	671,469	731,568	-	-	671,469	731,568
General Education	6,929,870	5,461,074	-	-	6,929,870	5,461,074
Higher Education	785,524	865,729	-	-	785,524	865,729
Health and Human Services	8,102,781	7,307,133	-	-	8,102,781	7,307,133
General Government	652,005	849,938	-	-	652,005	849,938
Intergovernmental Aid	1,480,533	1,287,768	-	-	1,480,533	1,287,768
Interest	169,023	161,129	-	-	169,023	161,129
State Colleges and Universities	-	-	1,386,493	1,296,697	1,386,493	1,296,697
Unemployment Insurance	-	-	1,054,281	946,562	1,054,281	946,562
Lottery	-	-	273,884	296,985	273,884	296,985
Other	-	-	153,397	132,479	153,397	132,479
Total Expenses	$ 21,810,780	$ 19,595,689	$ 2,868,055	$ 2,672,723	$ 24,678,835	$ 22,268,412
Excess (Deficiency) before Transfers and Special Item	$ (863,648)	$ 84,378	$ (773,662)	$ (777,199)	$ (1,637,310)	$ (692,821)
Transfers	(548,291)	(615,758)	548,291	615,758	-	-
Special Item	30,000	134,000	-	-	30,000	134,000
Change in Net Assets	$ (1,381,939)	$ (397,380)	$ (225,371)	$ (161,441)	$ (1,607,310)	$ (558,821)
Net Assets, Beginning	$ 8,180,576	$ 3,821,999	$ 1,365,331	$ 331,930	$ 9,545,907	$ 4,153,929
Prior Period Adjustments	(41,919)	(27,819)	-	-	(41,919)	(27,819)
Change in Accounting Principle	-	2,542,001	-	1,263,574	-	3,805,575
Change in Fund Structure	(3,641)	2,241,775	3,641	(68,732)	-	2,173,043
Net Assets, Ending	$ 6,753,077	$ 8,180,576	$ 1,143,601	$ 1,365,331	$ 7,896,678	$ 9,545,907

Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 25 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 2 percent came from other general revenues.

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

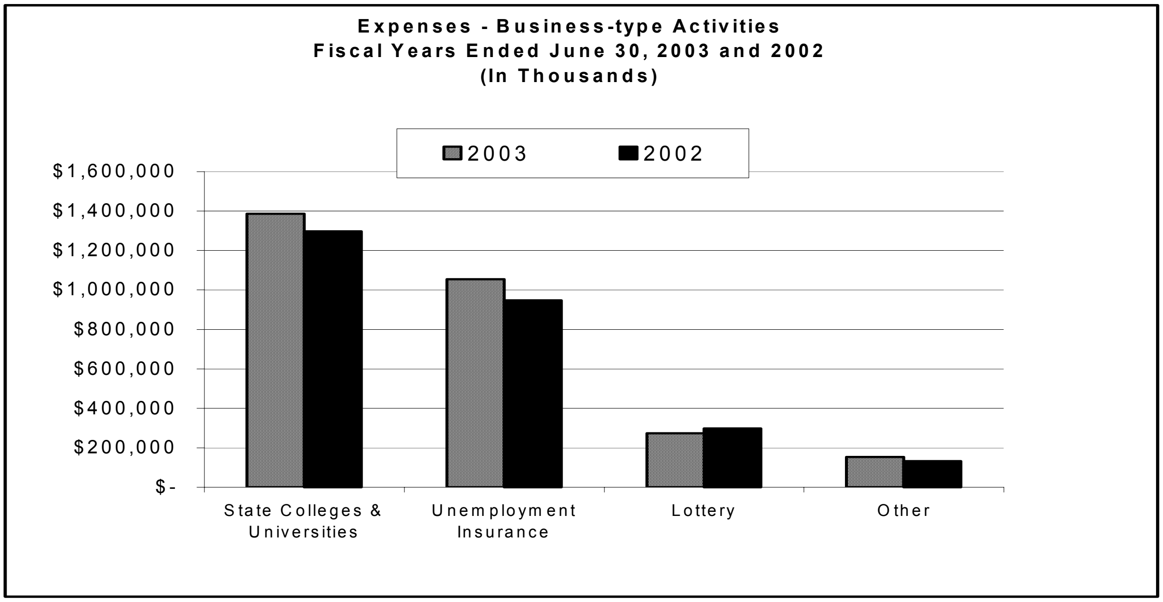
Governmental Activities

Governmental activities decreased the state's net assets by $1.427 billion, which primarily resulted from relatively flat revenues as a result of the economic downturn with an increase in governmental activities expenses. The increase in expenses is primarily attributable to the increase in general education resulting from a property tax reform with the state assuming the full cost of the general education levy in fiscal 2003. This increase was partially offset by an increase in property tax revenue of $286 million.



Business-type Activities

The business-type activities had a decrease in net assets of $221.7 million. This decrease was due primarily to a $301 million decrease in net assets in the Unemployment Insurance Fund, which was offset by a $74 million increase in net assets of the State Colleges and Universities Fund. The decrease in the Unemployment Insurance Fund net assets resulted from an increase in the unemployment rate corresponding to a downturn in the economy.



State Funds Financial Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $3.851 billion, a decrease of $1.8 billion in comparison with the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the General Fund was a deficit of $1.007 billion, a decrease of $1.546 billion in comparison with the prior year. This decrease primarily resulted from a slow rebounding economy from the economic downturn, which resulted in revenues not sufficient to cover increases in grants and subsidies associated with education and Health and Human Services expenditures.

As stated above, the increase in General Education of $1.469 billion is primarily attributed to a property tax reform with the state assuming the full cost of the levy in fiscal 2003. This increase in expenditure was partially offset by an increase in property tax revenue of $286 million. The increase in Health and Human Services primarily resulted from an increase in health care costs and caseloads for the Medical Assistance and General Assistance Medical Care Programs.

Proprietary Funds

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

The state's net assets decreased by $221.7 million during the current year as a result of operations in the proprietary funds. This primarily resulted from a $301 million decrease in net assets in the Unemployment Insurance Fund due to an increase in the unemployment rate in Minnesota associated with the economic downturn. During fiscal year 2003, the state received a loan payable from the Federal Unemployment Account to cover unemployment benefits in the Unemployment Insurance Trust Fund. The amount outstanding on this loan at June 30, 2003 was $130 million.

General Fund Budgetary Highlights

Several significant economic forecast and budget actions events occurred prior to and during fiscal year 2003. These are material to understanding changes in General Fund balances that occurred in fiscal year 2003. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 16A.152, require that the budget be balanced for the biennium. The following represent actions taken by the Minnesota legislature and the governor affecting fiscal year 2003.

Actions Establishing the Fiscal Year 2003 Budget

The budget for state fiscal year 2003 was initially adopted in June 2001. The enacted budget included anticipated General Fund resources of $16.053 billion, spending of $14.664 billion, and general reserves and an undesignated balance of $1.389 billion. The most significant component was major property tax reform and relief beginning in fiscal year 2003. This major change 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 new statewide property tax on commercial-industrial and seasonal recreational property began for property taxes payable in 2002. This change increased General Fund revenues $286 million in fiscal year 2003, while payments to school districts increased to $4.4 billion, $1.2 billion over levels for fiscal year 2002.

By February 2002, economic forecasts recognized the effect of the recession on the U.S. and Minnesota economies. Typical with the experience of other states, the slow recovery of national economic conditions and a decline in state employment and wages resulted in a general decline in forecast tax collections. As a result, a $2.289 billion General Fund budgetary deficit was forecast for June 30, 2003. This equaled approximately 9.7 percent of projected General Fund spending for the biennium.

During the 2002 legislative session, revenue and expenditure measures were enacted to re-balance the budget for the biennium. Actions included $223 million in spending cuts, $605 million transferred from other governmental funds, an increase in bonding to finance previously authorized cash capital projects, and $509 million of changes to selective payment and collection schedules. General Fund reserves were reduced $856 million. These actions primarily affected state fiscal year 2003.

Total spending was reduced $925 million. Permanent spending reductions totaled $223 million, or approximately 10 percent of previously authorized spending for all areas, excluding K-12 education. The balance was composed of $483 million in payment scheduling changes and $219 million in one-time spending reductions. The payment changes largely affected formula entitlement payments to school districts that are funded in a manner that requires a final payment to be paid in the following state fiscal year. The payment schedule was modified from a 90 percent payment with a 10 percent settle-up in the following fiscal year to an 83 percent payment with a 17 percent settle-up. This action results in increasing year-end accrued liabilities on a GAAP basis.

Finally, General Fund reserves and balances were reduced $856 million. The Budget Reserve Account was reduced from $653 million to $319 million. A $350 million balance in the Cash Flow Account balance was eliminated, and $172 million was released from other dedicated accounts.

Budget Actions During Fiscal Year 2003

During fiscal year 2003, economic forecasts reduced tax and non-tax receipts $386 million, and drew down the budget reserve to $24 million.

In February 2003, the commissioner of Finance acted to reduce state spending under the provisions of Minnesota Statutes, Section 16A.152. With the approval of the Governor, the remaining $24 million balance was released from the budget reserve, reducing the forecast deficit to $332 million. A reduction of $282 million was made to unexpended allotments of appropriations and prior transfers from the General Fund. These reductions, along with $50 million in savings from administrative action that delayed for 90 days payments of refunds of sales taxes on capital equipment, acted to balance revenues and expenditures for fiscal year 2003.

The 2003 Legislature enacted additional changes. The effect of these changes increased General Fund resources by $73 million through transfers from the Workers' Compensation Special Fund, State Airports Fund, Solid Waste Fund, State Operated Community Services Special Fund, and reserves in the Higher Education Services Office's SELF Loan program. Authorized spending was reduced further by $118 million. Refinancing $110 million in General Fund transportation projects with Trunk Highway Fund bonds was the largest component of that change.

Budget and GAAP Based Financial Outlook

On December 3, 2003, the Department of Finance released the forecast for the 2004/2005 biennium. Based on the forecast, the state's financial outlook has weakened slightly since the end of the legislative session and projects a deficit of $185 million in absence of legislative or executive action. Both state statutes and constitution require a balanced budget for the biennium. Even though the state will balance the budget by the end of the biennium on a budgetary basis, it is likely that the state's General Fund will continue to show deficits on a GAAP basis over the 2004-2005 biennium.

The enacted 2004-2005 biennial budget will be further impacted by additional changes from fiscal year 2003. Material one-time transfers of $1.292 billion will be made to the General Fund in fiscal years 2004 and 2005 from the Medical Education and Research, Tobacco Use Prevention, and Health Care Access Funds, as well as other various small reserve accounts held by the state. In addition, the payment schedule for the K-12 education aids to school districts will change from the 83 percent payment with a 17 percent settle-up in the following fiscal year to an 80 percent payment with a 20 percent settle-up.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2003, was $10 billion, less accumulated depreciation of $1.8 billion, resulting in a net book value of $8.2 billion. This investment in capital assets includes land, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

Capital Assets
June 30, 2003
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Capital Assets not Depreciated:						
Land	$ 1,378,064	$ 1,216,599	$ 59,664	$ 51,833	$ 1,437,728	$ 1,268,432
State Capitol	20,263	18,569	-	-	20,263	18,569
Construction in Progress	198,185	322,822	82,354	77,941	280,539	400,763
Infrastructure	4,620,135	4,311,441	-	-	4,620,135	4,311,441
Art and Historical Treasures	100	100	-	-	100	100
Total Capital Assets not Depreciated	$ 6,216,747	$ 5,869,531	$ 142,018	$ 129,774	$ 6,358,765	$ 5,999,305
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 1,393,620	$ 1,205,374	$ 1,454,703	$ 1,388,802	$ 2,848,323	$ 2,594,176
Infrastructure	41,670	31,238	-	-	41,670	31,238
Library Collections	-	-	42,878	42,731	42,878	42,731
Equipment, Furniture, Fixtures	357,690	346,788	291,045	278,855	648,735	625,643
Total Capital Assets Depreciated	$ 1,792,980	$ 1,583,400	$ 1,788,626	$ 1,710,388	$ 3,581,606	$ 3,293,788
Less: Accumulated Depreciation	812,184	779,231	953,164	928,017	1,765,348	1,707,248
Capital Assets Net of Depreciation	$ 980,796	$ 804,169	$ 835,462	$ 782,371	$ 1,816,258	$ 1,586,540
Total	$ 7,197,543	$ 6,673,700	$ 977,480	$ 912,145	$ 8,175,023	$ 7,585,845

Under GASB Statement No. 34, the state has adopted an alternative process referred to as the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 2,659 bridges that are maintained by the Minnesota Department of Transportation.

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2002, indicated that the average PQI for principal arterial pavement was 3.39 and 3.30 for all other pavements. The state has maintained a stable condition of pavement over the past four years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2002, indicated that 96 percent of principal arterial system bridges and 92 percent of all other system bridges were in fair to good condition. The state has consistently improved the condition of bridges over the past several years.

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

Debt Administration

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

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

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

In June 2003, Moody's Investors Service downgraded the state's bond rating from Aaa to Aa1. Moody's stated "the roots of the large deficit that confronted policymakers for the 2004-05 biennium can be traced to the 2002 legislative session, when the state policymakers addressed the then $2.3 billion budget gap for the 2002-03 biennium with a series of non-recurring fixes. These fixes included a drawdown of the remaining budget reserve, as well as a number of payment shifts and transfers. These fixes allowed the state to balance its budget through 2003, but did not address the longer-term structural balance issues that Minnesota faced again in the 2003 session." Moody further comments on the actions taken in the 2003 legislative session to address the 2004-05 biennial budget by stating "While the enacted budget produces surplus funds to contribute to reserves at the end of each of the two years, the first year relies heavily on one-shot budget actions, principally the transfer of tobacco funds to the general fund. The more difficult budget-balancing actions are largely deferred to the second year."

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

Outstanding Bonded Debt
June 30, 2003
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
General Obligation	$ 3,295,545	$ 2,923,221	$ 125,950	$ 108,874	$ 3,421,495	$ 3,032,095
Revenue	-	-	52,925	53,365	52,925	53,365
Total	$ 3,295,545	$ 2,923,221	$ 178,875	$ 162,239	$ 3,474,420	$ 3,085,460

During fiscal year 2003, the state issued the following bonds:

- $267 million in general obligation state various purpose bonds
- $13 million in general obligation state trunk highway bonds

In addition to the general obligation bonds noted above, the state issued $392 million of refunding bonds in June 2003. The payment to the escrow agent was due August 1, 2003, which was subsequent year-end.

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Obligations in the notes to the financial statements.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives.

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

STATEMENT OF NET ASSETS
JUNE 30, 2003
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,574,353	$ 460,484	$ 5,034,837	$ 1,441,139
Investments	913,701	20,947	934,648	878,855
Accounts Receivable	1,753,882	263,813	2,017,695	233,314
Due from Component Units	10,761	-	10,761	-
Due from Primary Government	-	-	-	125,434
Accrued Investment/Interest Income	14,079	402	14,481	34,653
Federal Aid Receivable	676,982	16,278	693,260	16,135
Inventories	15,069	17,516	32,585	34,138
Loans and Notes Receivable	30,621	77	30,698	274,959
Internal Balances	9,322	(9,322)	-	-
Securities Lending Collateral	265,426	14,628	280,054	83,208
Other Assets	1,044	2,958	4,002	14,147
Total Current Assets	$ 8,265,240	$ 787,781	$ 9,053,021	$ 3,135,982
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 29,204	$ 29,204	$ 440,477
Investments-Restricted	-	5,999	5,999	141,648
Accounts Receivable-Restricted	-	-	-	34,428
Other Assets-Restricted	-	121	121	3,038
Due from Component Units	120,639	-	120,639	-
Investments	-	-	-	1,046,688
Accounts Receivable	391,235	-	391,235	220,398
Loans and Notes Receivable	211,312	33,656	244,968	2,873,031
Depreciable Capital Assets (Net)	980,796	835,462	1,816,258	2,983,684
Nondepreciable Capital Assets	1,596,612	142,018	1,738,630	614,467
Infrastructure (Not depreciated)	4,620,135	-	4,620,135	-
Other Assets	59,262	5,104	64,366	9,567
Total Noncurrent Assets	$ 7,979,991	$ 1,051,564	$ 9,031,555	$ 8,367,426
Total Assets	$ 16,245,231	$ 1,839,345	$ 18,084,576	$ 11,503,408
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,413,856	$ 176,778	$ 3,590,634	$ 158,950
Due to Component Units	125,434	-	125,434	-
Due to Primary Government	-	-	-	16,555
Deferred Revenue	434,111	23,306	457,417	150,809
Accrued Bond Interest Payable	34,806	168	34,974	67,076
General Obligation Bonds Payable	255,512	8,298	263,810	530,390
Bond Premium Payable	4,811	-	4,811	-
Loans and Notes Payable	11,867	131,426	143,293	1,647
Revenue Bonds Payable	-	1,515	1,515	503,973
Claims Payable	123,949	-	123,949	76,712
Compensated Absences Payable	14,850	7,747	22,597	56,962
Workers' Compensation Liability	11,428	1,255	12,683	-
Capital Leases Payable	2,800	2,979	5,779	-
Securities Lending Collateral	265,426	14,628	280,054	83,208
Other Liabilities	-	959	959	88,482
Total Current Liabilities	$ 4,698,850	$ 369,059	$ 5,067,909	$ 1,734,764
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 46,412
Deferred Revenue-Restricted	-	-	-	116,719
Accrued Bond Interest Payable-Restricted	-	-	-	7,767
Due to Primary Government	-	-	-	120,639
Deferred Revenue	-	-	-	57,280
General Obligation Bonds Payable	3,040,033	117,652	3,157,685	997,715
Bond Premium Payable	87,576	1,694	89,270	-
Loans and Notes Payable	12,331	4,060	16,391	7,574
Revenue Bonds Payable	-	51,410	51,410	2,511,373
Claims Payable	1,329,889	-	1,329,889	324,556
Compensated Absences Payable	216,749	94,819	311,568	16,402
Workers' Compensation Liability	100,680	3,486	104,166	-
Capital Leases Payable	6,046	9,504	15,550	-
Funds Held in Trust	-	7,155	7,155	88,236
Federal Student Loan Financing	-	32,787	32,787	-
Other Liabilities	-	4,118	4,118	42,726
Total Noncurrent Liabilities	$ 4,793,304	$ 326,685	$ 5,119,989	$ 4,337,399
Total Liabilities	$ 9,492,154	$ 695,744	$ 10,187,898	$ 6,072,163

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2003
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 4,998,667	$ 812,780	$ 5,811,447	$ 2,274,820
Restricted for:				
Capital Projects	$ 61,512	$ -	$ 61,512	$ -
Debt Service	367,250	-	367,250	-
Transportation	829,638	-	829,638	-
Environmental Resources	427,416	-	427,416	-
Economic and Workforce Development	41,852	-	41,852	-
School Aid-Nonexpendable	552,993	-	552,993	-
Unemployment Benefits	-	52,431	52,431	-
State Colleges and Universities	-	99,381	99,381	-
Component Units	-	-	-	1,960,169
Total Restricted	$ 2,280,661	$ 151,812	$ 2,432,473	$ 1,960,169
Unrestricted	$ (526,251)	$ 179,009	$ (347,242)	$ 1,196,256
Total Net Assets	$ 6,753,077	$ 1,143,601	$ 7,896,678	$ 5,431,245

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBU-TIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 750,143	$ 101,157	$ 104,743	$ 10,329
Transportation	1,727,604	16,445	354,799	121,303
Agricultural and Environmental Resources	541,828	179,037	56,180	-
Economic and Workforce Development	671,469	125,832	320,449	-
General Education	6,929,870	34,038	571,653	-
Higher Education	785,524	249	(215)	-
Health and Human Services	8,102,781	571,531	3,764,754	-
General Government	652,005	183,052	47,025	-
Intergovernment Aid	1,480,533	-	-	-
Interest	169,023	-	-	-
Total Governmental Activities	$ 21,810,780	$ 1,211,341	$ 5,219,388	$ 131,632
Business-type Activities:				
State Colleges and Universities	$ 1,386,493	$ 583,236	$ 181,232	$ 2,137
Unemployment Insurance	1,054,281	608,634	188,209	-
Lottery	273,884	351,815	-	-
Other	153,397	153,962	40	137
Total Business-type Activities	$ 2,868,055	$ 1,697,647	$ 369,481	$ 2,274
Total Primary Government	$ 24,678,835	$ 2,908,988	$ 5,588,869	$ 133,906
Component Units:				
University of Minnesota	$ 2,154,930	$ 693,507	$ 661,984	$ 37,310
Metropolitan Council	640,754	284,371	146,012	227,260
Housing Finance	404,253	162,650	198,516	-
Others	316,588	135,905	112,651	-
Total Component Units	$ 3,516,525	$ 1,276,433	$ 1,119,163	$ 264,570

General Revenues:
Taxes:
Individual Income Taxes
Corporate Income Taxes
Sales Taxes
Property Taxes
Motor Vehicle Taxes
Fuel Taxes
Other Taxes
Tobacco Settlement
Unallocated Investment/Interest Income
Other Revenues
State Grants Not Restricted
Special Item
Transfers
Total General Revenues, Transfers and Special Item
Change in Net Assets
Net Assets, Beginning, as Reported
Prior Period Adjustments
Change in Fund Structure
Net Assets, Beginning, as Restated
Net Assets, Ending

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT TOTAL	COMPONENT UNITS
$ (533,914)		$ (533,914)	
(1,235,057)		(1,235,057)	
(306,611)		(306,611)	
(225,188)		(225,188)	
(6,324,179)		(6,324,179)	
(785,490)		(785,490)	
(3,766,496)		(3,766,496)	
(421,928)		(421,928)	
(1,480,533)		(1,480,533)	
(169,023)		(169,023)	
$ (15,248,419)		$ (15,248,419)	
	$ (619,888)	$ (619,888)	
	(257,438)	(257,438)	
	77,931	77,931	
	742	742	
	$ (798,653)	$ (798,653)	
$ (15,248,419)	$ (798,653)	$ (16,047,072)	
			$ (762,129)
			16,889
			(43,087)
			(68,032)
			$ (856,359)
$ 5,497,328	$ -	$ 5,497,328	$ -
636,214	-	636,214	-
3,924,424	-	3,924,424	-
594,094	-	594,094	-
606,137	-	606,137	-
656,326	-	656,326	-
1,981,468	-	1,981,468	120,034
261,525	-	261,525	-
24,049	15,697	39,746	45,012
203,206	9,294	212,500	100,417
-	-	-	858,735
30,000	-	30,000	(164,000)
(548,291)	548,291	-	-
$ 13,866,480	$ 573,282	$ 14,439,762	$ 960,198
$ (1,381,939)	$ (225,371)	$ (1,607,310)	$ 103,839
$ 8,180,576	$ 1,365,331	$ 9,545,907	$ 5,350,972
(41,919)	-	(41,919)	(23,566)
(3,641)	3,641	-	-
$ 8,135,016	$ 1,368,972	$ 9,503,988	$ 5,327,406
$ 6,753,077	$ 1,143,601	$ 7,896,678	$ 5,431,245

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003
(IN THOUSANDS)

	GENERAL	FEDERAL	DEBT SERVICE	NONMAJOR FUNDS	TOTAL
ASSETS					
Cash and Cash Equivalents	$ 727,207	$ 212	$ 738,869	$ 2,970,207	$ 4,436,495
Investments	31,144	-	126,486	734,287	891,917
Accounts Receivable	1,585,764	218,100	23	313,805	2,117,692
Interfund Receivables	67,847	8,121	5	130,008	205,981
Due from Component Units	-	-	131,400	-	131,400
Accrued Investment/Interest Income	6,402	-	1,430	5,882	13,714
Federal Aid Receivable	-	607,824	-	69,158	676,982
Inventories	-	204	-	13,770	13,974
Loans and Notes Receivable	1,823	359	-	239,751	241,933
Advances to Other Funds	5,647	-	-	-	5,647
Securities Lending Collateral	104,807	-	36,407	115,549	256,763
Investment in Land	-	-	-	15,423	15,423
Total Assets	$ 2,530,641	$ 834,820	$ 1,034,620	$ 4,607,840	$ 9,007,921
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 2,186,029	$ 752,577	$ -	$ 399,962	$ 3,338,568
Interfund Payables	15,742	32,243	14,294	133,923	196,202
Due to Component Units	110,082	498	-	14,854	125,434
Deferred Revenue	1,046,081	42,259	3,265	148,573	1,240,178
Securities Lending Collateral	104,807	-	36,407	115,549	256,763
Total Liabilities	$ 3,462,741	$ 827,577	$ 53,966	$ 812,861	$ 5,157,145
Fund Balances:					
Reserved Fund Balances:					
Reserved for Encumbrances	$ 67,296	$ -	$ -	$ 246,406	$ 313,702
Reserved for Refunding Bonds	-	-	391,680	-	391,680
Reserved for Local Governments	-	-	-	454,100	454,100
Reserved for Trust Principal	-	-	-	1,790,860	1,790,860
Other Reserved Fund Balances	7,470	7,243	588,974	464,893	1,068,580
Total Reserved Fund Balances	$ 74,766	$ 7,243	$ 980,654	$ 2,956,259	$ 4,018,922
Unreserved Fund Balances:					
Designated for:					
Special Revenue Funds	$ -	$ -	$ -	$ 442,662	$ 442,662
Undesignated, reported in:					
General Fund	(1,006,866)	-	-	-	(1,006,866)
Capital Project Funds	-	-	-	44	44
Special Revenue Funds	-	-	-	396,014	396,014
Total Unreserved Fund Balance	$ (1,006,866)	$ -	$ -	$ 838,720	$ (168,146)
Total Fund Balances	$ (932,100)	$ 7,243	$ 980,654	$ 3,794,979	$ 3,850,776
Total Liabilities and Fund Balances	$ 2,530,641	$ 834,820	$ 1,034,620	$ 4,607,840	$ 9,007,921

The notes are an integral part of the financial statements.

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

JUNE 30, 2003
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 3,850,776
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 4,620,135	
Depreciable Capital Assets	1,693,681	
Nondepreciable Capital Assets	1,581,189	
Accumulated Depreciation	(742,547)	
Total Capital Assets		7,152,458
Net effect of state revenues that will be collected after year-end but not available to pay for current period expenditures and refunds of revenues that will be paid after year-end		810,907
The pension assets resulting from contributions in excess of the annual required contributions are not financial resources and therefore are not reported in the funds		58,837
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		105,122
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds Payable	$ (3,295,545)	
Bond Premium Payable	(92,387)	
Accrued Interest Payable on Bonds	(34,806)	
Loans and Notes Payable	-	
Claims Payable	(1,453,838)	
Workers' Compensation Liability	(112,108)	
Capital Leases Payable	(8,846)	
Compensated Absences Payable	(227,493)	
Total Liabilities		(5,225,023)
Net Assets of Governmental Activities		$ 6,753,077

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	GENERAL	FEDERAL	DEBT SERVICE	NONMAJOR FUNDS	TOTAL
Net Revenues:					
Individual Income Taxes	$ 5,477,799	$ -	$ -	$ -	$ 5,477,799
Corporate Income Taxes	572,689	-	-	-	572,689
Sales Taxes	3,820,259	-	2,194	-	3,822,453
Property Taxes	585,416	-	-	-	585,416
Motor Vehicle Taxes	412,735	-	-	696,355	1,109,090
Fuel Taxes	-	-	-	645,886	645,886
Other Taxes	1,113,867	-	-	388,641	1,502,508
Tobacco Settlement	150,002	-	-	111,523	261,525
Federal Revenues	83,714	4,862,887	-	319,002	5,265,603
Licenses and Fees	191,146	-	-	225,854	417,000
Departmental Services	44,930	20,073	-	176,106	241,109
Investment/Interest Income	21,384	530	18,128	64,362	104,404
Securities Lending Income	2,675	-	878	3,980	7,533
Other Revenues	264,388	255,926	10,753	147,531	678,598
Net Revenues	$ 12,741,004	$ 5,139,416	$ 31,953	$ 2,779,240	$ 20,691,613
Expenditures:					
Current:					
Public Safety and Corrections	$ 473,851	$ 123,157	$ -	$ 151,474	$ 748,482
Transportation	220,232	167,459	-	1,336,415	1,724,106
Agricultural and Environmental Resources	192,799	30,726	-	371,171	594,696
Economic and Workforce Development	152,824	338,179	-	259,460	750,463
General Education	6,306,356	568,558	-	54,615	6,929,529
Higher Education	764,193	1,811	-	19,883	785,887
Health and Human Services	3,609,619	3,842,645	-	639,051	8,091,315
General Government	517,322	13,581	68	73,510	604,481
Intergovernment Aid	1,480,315	-	-	218	1,480,533
Securities Lending Rebates and Fees	2,553	-	839	3,576	6,968
Total Current Expenditures	$ 13,720,064	$ 5,086,116	$ 907	$ 2,909,373	$ 21,716,460
Capital Outlay	54,388	8,579	-	509,567	572,534
Debt Service	24,530	313	383,903	11,912	420,658
Total Expenditures	$ 13,798,982	$ 5,095,008	$ 384,810	$ 3,430,852	$ 22,709,652
Excess of Revenues Over (Under) Expenditures	$ (1,057,978)	$ 44,408	$ (352,857)	$ (651,612)	$ (2,018,039)
Other Financing Sources (Uses):					
General Obligation Bond Issue Proceeds	$ -	$ -	$ 4,500	$ 251,862	$ 256,362
Loan Proceeds	-	-	-	14,897	14,897
Proceeds from Refunding Bonds	-	-	391,680	-	391,680
Bond Issue Premium	-	-	58,252	-	58,252
Transfers-In	474,536	13,673	337,032	1,640,271	2,465,512
Transfers-Out	(1,065,761)	(58,003)	-	(1,865,066)	(2,988,830)
Capital Leases	2,761	-	-	373	3,134
Net Other Financing Sources (Uses)	$ (588,464)	$ (44,330)	$ 791,464	$ 42,337	$ 201,007
Special Item	$ 30,000	$ -	$ -	$ -	$ 30,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (1,616,442)	$ 78	$ 438,607	$ (609,275)	$ (1,787,032)
Fund Balances, Beginning, as Reported	$ 685,459	$ 7,165	$ 542,047	$ 4,463,915	$ 5,698,586
Prior Period Adjustments	-	-	-	(59,340)	(59,340)
Change in Fund Structure	(1,117)	-	-	-	(1,117)
Fund Balances, Beginning, as Restated	$ 684,342	$ 7,165	$ 542,047	$ 4,404,575	$ 5,638,129
Change in Inventory	-	-	-	(321)	(321)
Fund Balances, Ending	$ (932,100)	$ 7,243	$ 980,654	$ 3,794,979	$ 3,850,776

The notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

Net change in fund balances for governmental funds	$ (1,787,032)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation in the current period	509,478
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities reported with governmental activities	(9,583)
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used	(321)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	252,791
Bond proceeds provide current financial resources to governmental funds; however issuing debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(704,599)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase	(3,134)
Repayment of long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	360,461
Change in net assets of governmental activities	$ (1,381,939)

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUDGETARY BASIS
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 6,049,400	$ 5,500,400	$ 5,380,324
Corporate Income Taxes	628,250	529,800	580,182
Sales Taxes	3,869,132	3,933,600	3,907,766
Property Taxes	594,851	583,975	585,416
Motor Vehicle Taxes	404,544	417,569	506,513
Other Taxes	934,099	1,121,141	1,080,759
Tobacco Settlement	151,592	152,905	152,566
Investment/Interest Income	40,000	24,400	20,604
Other Revenues	470,075	491,817	667,118
Net Revenues	$ 13,141,943	$ 12,755,607	$ 12,881,248
Expenditures:			
Public Safety and Corrections	$ 474,789	$ 483,856	$ 483,847
Transportation	308,175	239,396	239,367
Agricultural and Environmental Resources	233,538	202,163	202,092
Economic and Workforce Development	67,500	119,510	119,438
General Education	5,713,442	5,691,249	5,690,411
Higher Education	807,347	767,588	767,498
Health and Human Services	3,459,825	3,606,592	3,521,134
General Government	557,423	548,921	543,751
Intergovernment Aid	1,485,774	1,494,956	1,494,903
Total Expenditures	$ 13,107,813	$ 13,154,231	$ 13,062,441
Excess of Revenues Over (Under) Expenditures	$ 34,130	$ (398,624)	$ (181,193)
Other Financing Sources (Uses):			
Transfers-In	$ 328,780	$ 421,079	$ 461,008
Transfers-Out	(1,093,108)	(1,093,108)	(1,093,108)
Net Other Financing Sources (Uses)	$ (764,328)	$ (672,029)	$ (632,100)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (730,198)	$ (1,070,653)	$ (813,293)
Fund Balances, Beginning, as Reported	$ 1,157,471	$ 1,157,471	$ 1,157,471
Prior Period Adjustments	-	-	40,755
Fund Balances, Beginning, as Restated	$ 1,157,471	$ 1,157,471	$ 1,198,226
Budgetary Fund Balances, Ending	$ 427,273	$ 86,818	$ 384,933
Less: Appropriation Carryover	-	-	85,651
Less: Budgetary Reserve	319,105	-	103,677
Undesignated Fund Balances, Ending	$ 108,168	$ 86,818	$ 195,605

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2003
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 391,514	$ 48	$ 68,922	$ 460,484	$ 137,858
Investments	17,480	-	3,467	20,947	21,784
Accounts Receivable	29,985	212,651	21,177	263,813	27,425
Interfund Receivables	14,294	2,823	2,353	19,470	-
Accrued Investment/Interest Income	383	-	19	402	365
Federal Aid Receivable	9,443	6,835	-	16,278	-
Inventories	8,141	-	9,375	17,516	1,095
Deferred Costs	2,112	-	846	2,958	1,044
Loans and Notes Receivable	77	-	-	77	-
Securities Lending Collateral	14,628	-	-	14,628	8,663
Total Current Assets	$ 488,057	$ 222,357	$ 106,159	$ 816,573	$ 198,234
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 25,595	$ -	$ 3,609	$ 29,204	$ -
Investments-Restricted	5,999	-	-	5,999	-
Other Assets-Restricted	121	-	-	121	-
Deferred Costs	-	-	-	-	425
Loans and Notes Receivable	33,656	-	-	33,656	-
Depreciable Capital Assets (Net)	801,285	-	34,177	835,462	29,662
Nondepreciable Capital Assets	140,198	-	1,820	142,018	-
Other Assets	1,602	-	3,502	5,104	-
Total Noncurrent Assets	$ 1,008,456	$ -	$ 43,108	$ 1,051,564	$ 30,087
Total Assets	$ 1,496,513	$ 222,357	$ 149,267	$ 1,868,137	$ 228,321
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 122,830	$ 26,192	$ 27,756	$ 176,778	$ 75,288
Interfund Payables	-	11,750	17,042	28,792	457
Deferred Revenue	18,908	2,047	2,351	23,306	4,840
Accrued Bond Interest Payable	-	-	168	168	-
General Obligation Bonds Payable	8,088	-	210	8,298	-
Loans and Notes Payable	1,489	129,937	-	131,426	11,867
Revenue Bonds Payable	1,205	-	310	1,515	-
Workers' Compensation Liability	1,255	-	-	1,255	-
Capital Leases	2,578	-	401	2,979	-
Compensated Absences Payable	6,859	-	888	7,747	261
Securities Lending Collateral	14,628	-	-	14,628	8,663
Total Current Liabilities	$ 177,840	$ 169,926	$ 49,126	$ 396,892	$ 101,376
Noncurrent Liabilities:					
Accounts Payable	$ -	$ -	$ 4,118	$ 4,118	$ -
General Obligation Bonds Payable	113,810	-	3,842	117,652	-
Loans and Notes Payable	4,060	-	-	4,060	12,331
Revenue Bonds Payable	36,230	-	15,180	51,410	-
Workers' Compensation Liability	3,486	-	-	3,486	-
Capital Leases	8,408	-	1,096	9,504	-
Compensated Absences Payable	86,250	-	8,569	94,819	3,845
Advances from Other Funds	-	-	-	-	5,647
Funds Held in Trust	7,155	-	-	7,155	-
Federal Student Loan Financing	32,787	-	-	32,787	-
Other Liabilities	2,349	-	304	2,653	-
Total Noncurrent Liabilities	$ 294,535	$ -	$ 33,109	$ 327,644	$ 21,823
Total Liabilities	$ 472,375	$ 169,926	$ 82,235	$ 724,536	$ 123,199
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 794,297	$ -	$ 18,483	$ 812,780	$ 5,669
Restricted for:					
Unemployment Benefits	$ -	$ 52,431	$ -	$ 52,431	$ -
Donations	9,209	-	-	9,209	-
Perkins Loans	4,177	-	-	4,177	-
Bond Covenants	19,399	-	-	19,399	-
Debt Service	12,601	-	-	12,601	-
Capital Projects	47,245	-	-	47,245	-
Faculty Contracts	4,342	-	-	4,342	-
Legislatively Mandated Purposes	2,408	-	-	2,408	-
Total Restricted	$ 99,381	$ 52,431	$ -	$ 151,812	$ -
Unrestricted	$ 130,460	$ -	$ 48,549	$ 179,009	$ 99,453
Total Net Assets	$ 1,024,138	$ 52,431	$ 67,032	$ 1,143,601	$ 105,122

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition	$ 419,642	$ -	$ -	$ 419,642	$ -
Room and Board	39,907	-	-	39,907	-
Net Sales	41,242	-	382,311	423,553	12,320
Rental and Service Fees	-	-	97,464	97,464	136,455
Insurance Premiums	-	567,540	23,349	590,889	441,629
Federal Revenues	161,352	188,209	-	349,561	-
State Grants	55,542	-	-	55,542	-
Other Income	26,903	41,094	2,653	70,650	7,530
Total Operating Revenues	$ 744,588	$ 796,843	$ 505,777	$ 2,047,208	$ 597,934
Less: Cost of Goods Sold	-	-	250,226	250,226	8,930
Gross Margin	$ 744,588	$ 796,843	$ 255,551	$ 1,796,982	$ 589,004
Operating Expenses:					
Purchased Services	$ 151,049	$ -	$ 39,722	$ 190,771	$ 127,724
Salaries and Fringe Benefits	895,635	-	90,905	986,540	42,565
Student Financial Aid	84,579	-	-	84,579	-
Unemployment Benefits	-	1,052,410	-	1,052,410	-
Claims	-	-	18,072	18,072	370,017
Depreciation	66,555	-	4,018	70,573	11,238
Amortization	-	-	52	52	145
Supplies and Materials	64,236	-	4,522	68,758	5,833
Repairs and Maintenance	44,450	-	-	44,450	-
Indirect Costs	-	-	8,623	8,623	2,639
Other Expenses	64,022	-	7,882	71,904	14,398
Total Operating Expenses	$ 1,370,526	$ 1,052,410	$ 173,796	$ 2,596,732	$ 574,559
Operating Income (Loss)	$ (625,938)	$ (255,567)	$ 81,755	$ (799,750)	$ 14,445
Nonoperating Revenues (Expenses):					
Investment Income	$ 5,987	$ 7,366	$ 2,333	$ 15,686	$ 5,312
Private Grants	19,880	-	-	19,880	-
Grants and Subsidies	2,137	-	177	2,314	(153)
Securities Lending Income	246	-	-	246	206
Other Nonoperating Revenues	9,917	-	217	10,134	116
Interest and Financing Costs	(8,483)	(1,871)	(503)	(10,857)	(1,219)
Grants, Aids and Subsidies	(7,484)	-	-	(7,484)	-
Securities Lending Rebates and Fees	(235)	-	-	(235)	(197)
Other Nonoperating Expenses	-	-	(2,754)	(2,754)	(3,000)
Gain (Loss) on Disposal of Capital Assets	(861)	-	19	(842)	(120)
Total Nonoperating Revenues (Expenses)	$ 21,104	$ 5,495	$ (511)	$ 26,088	$ 945
Income (Loss) Before Transfers & Contributions	$ (604,834)	$ (250,072)	$ 81,244	$ (773,662)	$ 15,390
Capital Contributions	86,364	-	330	86,694	-
Transfers-In	592,802	2,823	2,223	597,848	-
Transfers-Out	-	(53,445)	(82,806)	(136,251)	(24,973)
Change in Net Assets	$ 74,332	$ (300,694)	$ 991	$ (225,371)	$ (9,583)
Net Assets, Beginning, as Reported	$ 949,806	$ 353,125	$ 62,400	$ 1,365,331	$ 114,705
Change in Fund Structure	-	-	3,641	3,641	-
Net Assets, Beginning, as Restated	$ 949,806	$ 353,125	$ 66,041	$ 1,368,972	$ 114,705
Net Assets, Ending	$ 1,024,138	$ 52,431	$ 67,032	$ 1,143,601	$ 105,122

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 523,671	$ 520,452	$ 498,513	$ 1,542,636	$ 606,329
Receipts from Grants	220,202	193,009	-	413,211	-
Receipts from Other Revenue	-	-	2,430	2,430	7,787
Receipts from Repayment of Program Loans	7,124	-	-	7,124	-
Financial Aid Disbursements	(84,579)	-	-	(84,579)	-
Payments to Claimants	-	(1,066,388)	(18,513)	(1,084,901)	(379,515)
Payments to Suppliers	(311,124)	-	(99,696)	(410,820)	(147,741)
Payments to Employees	(901,651)	-	(94,070)	(995,721)	(42,467)
Payments to Others	-	-	(203,678)	(203,678)	(5,079)
Payments of Program Loans	(7,876)	-	-	(7,876)	-
Net Cash Flows from Operating Activities	$ (554,233)	$ (352,927)	$ 84,986	$ (822,174)	$ 39,314
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 19,514	$ -	$ 40	$ 19,554	$ -
Transfers-In	592,802	-	2,799	595,601	-
Transfers-Out	-	(53,445)	(78,349)	(131,794)	(24,972)
Advances to Other Funds	-	-	(241)	(241)	-
Advances from Other Funds	-	350,279	-	350,279	6,578
Repayments of Advances to Other Funds	-	-	24	24	-
Repayments of Advances from Other Funds	-	(220,341)	-	(220,341)	(6,207)
Interest Paid	-	(1,871)	-	(1,871)	-
Other Nonoperating Expense	(7,484)	-	(3,107)	(10,591)	(806)
Net Cash Flows from Noncapital Financing Activities	$ 604,832	$ 74,622	$ (78,834)	$ 600,620	$ (25,407)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 86,364	$ -	$ 245	$ 86,609	$ (153)
Investment in Capital Assets	(139,746)	-	(5,867)	(145,613)	(10,459)
Proceeds from Disposal of Capital Assets	79	-	146	225	1,760
Proceeds from Capital Debt	23,638	-	-	23,638	-
Proceeds from Insurance Settlement	11,214	-	-	11,214	-
Proceeds from Loans	2,375	-	-	2,375	10,336
Capital Lease Payments	-	-	(264)	(264)	(33)
Repayment of Loan Principal	-	-	-	-	(13,022)
Repayment of Bond Principal	(6,492)	-	(468)	(6,960)	-
Interest Paid	(8,482)	-	(1,423)	(9,905)	(1,234)
Net Cash Flows from Capital and Related Financing Activities	$ (31,050)	$ -	$ (7,631)	$ (38,681)	$ (12,805)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 26,811	$ -	$ 232	$ 27,043	$ 4,982
Purchase of Investments	(22,969)	-	-	(22,969)	(5,074)
Investment Earnings	5,732	7,365	1,967	15,064	4,742
Net Cash Flows from Investing Activities	$ 9,574	$ 7,365	$ 2,199	$ 19,138	$ 4,650
Net Increase (Decrease) in Cash and Cash Equivalents	$ 29,123	$ (270,940)	$ 720	$ (241,097)	$ 5,752
Cash and Cash Equivalents, Beginning, as Reported	$ 387,986	$ 270,988	$ 70,725	$ 729,699	$ 132,106
Change in Fund Structure	-	-	1,086	1,086	-
Cash and Cash Equivalents, Beginning, as Restated	$ 387,986	$ 270,988	$ 71,811	$ 730,785	$ 132,106
Cash and Cash Equivalents, Ending	$ 417,109	$ 48	$ 72,531	$ 489,688	$ 137,858

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (625,938)	$ (255,567)	$ 81,755	$ (799,750)	$ 14,445
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 66,555	$ -	$ 4,384	$ 70,939	$ 11,512
Amortization	-	-	52	52	145
Loan Principal Repayments	7,124	-	-	7,124	-
Loans Issued	(7,876)	-	-	(7,876)	-
Bad Debt Expense	3,481	-	-	3,481	-
Change in Valuation of Assets	18,690	-	-	18,690	-
Change in Assets and Liabilities:					
Accounts Receivable	(2,804)	(94,238)	(3,620)	(100,662)	13,973
Inventories	(250)	-	(89)	(339)	175
Other Assets	1,451	-	(3,244)	(1,793)	1,110
Accounts Payable	(18,082)	(3,877)	4,459	(17,500)	(3,887)
Compensated Absences Payable	4,213	-	798	5,011	(143)
Deferred Revenues	1,145	755	450	2,350	1,983
Other Liabilities	(1,942)	-	41	(1,901)	1
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 71,705	$ (97,360)	$ 3,231	$ (22,424)	$ 24,869
Net Cash Flows from Operating Activities	$ (554,233)	$ (352,927)	$ 84,986	$ (822,174)	$ 39,314
Noncash Investing, Capital and Financing Activities:					
Donated Assets	$ 2,502	$ -	$ -	$ 2,502	$ -
Change in Fair Value of Investments	-	-	902	902	-
Capital Assets Acquired Through Leases	6,755	-	-	6,755	30
Capital Assets Purchased on Account	10,304	-	-	10,304	-
Disposal of Capital Assets	-	-	-	-	608
Buildings Capitalized under Notes Payable	2,972	-	-	2,972	-
Accrual of Computer Equipment as an Investment in Capital Assets	-	-	-	-	632
Trade-in Allowance for Investment in Capital Assets	-	-	-	-	79
General Fund Capital Assets Transfers-In	-	-	-	-	219

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2003
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT	AGENCY	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 47,516	$ -	$ 47,840	$ 95,356
Investment Pools, at fair value:				
Cash Equivalent Investments	$ 1,898,631	$ 44,247	$ -	$ 1,942,878
Investments:				
Repurchase Agreements	$ 8,731	$ -	$ -	$ 8,731
Commercial Paper	19,748	154	-	19,902
US Treasury Obligations	1,524,508	16,191	-	1,540,699
Mortgage Backed	3,948,608	52,538	-	4,001,146
Corporate Obligations	3,222,892	49,799	-	3,272,691
Foreign and Other Obligations	205,523	2,206	-	207,729
Corporate Stocks	23,085,530	235,393	-	23,320,923
Other Equity	1,899,329	-	-	1,899,329
Total Investments	$ 33,914,869	$ 356,281	$ -	$ 34,271,150
Accrued Interest and Dividends	$ 107,691	$ 1,526	$ -	$ 109,217
Net Receivables (Payables)	(1,290,403)	(12,320)	-	(1,302,723)
Total Investment Pool Participation	$ 34,630,788	$ 389,734	$ -	$ 35,020,522
Receivables:				
Employer Contributions	$ 13,767	$ -	$ -	$ 13,767
Member Contributions	5,987	-	-	5,987
Accounts Receivable	-	-	11,820	11,820
Interfund Receivables	2,412	-	-	2,412
Other Receivables	48,975	-	-	48,975
Accrued Interest and Dividends	66	-	-	66
Total Receivables	$ 71,207	$ -	$ 11,820	$ 83,027
Securities Lending Collateral	$ 2,713,740	$ 27,328	$ -	$ 2,741,068
Depreciable Capital Assets (Net)	30,598	-	-	30,598
Nondepreciable Capital Assets	429	-	-	429
Total Assets	$ 37,494,278	$ 417,062	$ 59,660	$ 37,971,000
LIABILITIES				
Accounts Payable	$ 10,838	$ 68	$ 21,479	$ 32,385
Interfund Payables	2,412	-	-	2,412
Deferred Revenue	10	-	-	10
Accrued Expense	1	-	-	1
Revenue Bonds Payable	28,124	-	-	28,124
Bond Interest	54	-	-	54
Compensated Absences Payable	1,732	-	-	1,732
Securities Lending Collateral	2,713,740	27,328	-	2,741,068
Funds Held in Trust	-	-	38,181	38,181
Total Liabilities	$ 2,756,911	$ 27,396	$ 59,660	$ 2,843,967
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 34,737,367	$ 389,666	$ -	$ 35,127,033

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2003
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT	TOTAL
Additions:			
Contributions:			
Employer	$ 569,029	$ -	$ 569,029
Member	656,532	-	656,532
Contributions From Other Sources	7,267	-	7,267
Participating Plans	-	60,247	60,247
Total Contributions	$ 1,232,828	$ 60,247	$ 1,293,075
Net Investment Income:			
Investment Income	$ 777,126	$ 15,730	$ 792,856
Less: Investment Expense	(46,134)	(272)	(46,406)
Net Investment Income	$ 730,992	$ 15,458	$ 746,450
Securities Lending Revenues (Expenses):			
Securities Lending Income	$ 51,713	$ 538	$ 52,251
Borrower Rebates	(34,831)	(418)	(35,249)
Management Fees	(3,535)	-	(3,535)
Net Securities Lending Revenue	$ 13,347	$ 120	$ 13,467
Total Investment Income	$ 744,339	$ 15,578	$ 759,917
Transfers From Other Funds	$ 10,869	$ -	$ 10,869
Other Additions	10,603	-	10,603
Total Additions	$ 1,998,639	$ 75,825	$ 2,074,464
Deductions:			
Benefits	$ 2,255,996	$ -	$ 2,255,996
Refunds/Withdrawals	157,978	17,558	175,536
Administrative Expenses	32,997	-	32,997
Transfers to Other Funds	10,869	-	10,869
Total Deductions	$ 2,457,840	$ 17,558	$ 2,475,398
Net Increase (Decrease)	$ (459,201)	$ 58,267	$ (400,934)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 35,196,568	$ 331,399	$ 35,527,967
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 34,737,367	$ 389,666	$ 35,127,033

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2002 and JUNE 30, 2003
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 700,097	$ 132,240	$ 263,423	$ 345,379	$ 1,441,139
Investments	316,363	140,803	-	421,689	878,855
Accounts Receivable	2,499	16,194	162,054	52,567	233,314
Due from Other Governmental Units	-	650	-	-	650
Due from Primary Government	-	15,423	110,011	-	125,434
Accrued Investment/Interest Income	13,543	667	-	20,443	34,653
Federal Aid Receivable	-	15,467	-	668	16,135
Inventories	1,483	15,046	17,593	16	34,138
Deferred Costs	-	-	8,808	4,689	13,497
Loans and Notes Receivable	-	127	12,879	261,953	274,959
Securities Lending Collateral	-	26,598	51,742	4,868	83,208
Total Current Assets	$ 1,033,985	$ 363,215	$ 626,510	$ 1,112,272	$ 3,135,982
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 157,808	$ 160,393	$ 78,102	$ 44,174	$ 440,477
Investments-Restricted	123,282	-	-	18,366	141,648
Accounts Receivable-Restricted	-	34,428	-	-	34,428
Other Assets-Restricted	-	3,038	-	-	3,038
Investments	-	-	844,780	201,908	1,046,688
Accounts Receivable	-	-	1,706	218,692	220,398
Loans and Notes Receivable	1,478,002	27,455	54,921	1,312,653	2,873,031
Depreciable Capital Assets (Net)	733	1,260,029	1,722,141	781	2,983,684
Nondepreciable Capital Assets	-	496,221	115,548	2,698	614,467
Other Assets	-	470	2,655	6,442	9,567
Total Noncurrent Assets	$ 1,759,825	$ 1,982,034	$ 2,819,853	$ 1,805,714	$ 8,367,426
Total Assets	$ 2,793,810	$ 2,345,249	$ 3,446,363	$ 2,917,986	$ 11,503,408
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 14,078	$ 50,397	$ 63,819	$ 26,160	$ 154,454
Payable to Other Governmental Units	-	1,723	-	-	1,723
Due to Primary Government	-	2,615	4,761	9,179	16,555
Deferred Revenue	-	6,728	103,649	40,432	150,809
Accrued Bond Interest Payable	43,464	3,578	5,692	14,342	67,076
General Obligation Bonds Payable	-	78,385	452,005	-	530,390
Loans and Notes Payable	-	-	1,585	62	1,647
Revenue Bonds Payable	460,173	735	805	42,260	503,973
Grants Payable	-	-	-	2,773	2,773
Claims Payable	-	10,709	23,198	42,805	76,712
Compensated Absences Payable	75	2,383	54,044	460	56,962
Securities Lending Collateral	-	26,598	51,742	4,868	83,208
Other Liabilities	-	-	85,135	3,347	88,482
Total Current Liabilities	$ 517,790	$ 183,851	$ 846,435	$ 186,688	$ 1,734,764
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 46,412	$ -	$ -	$ 46,412
Deferred Revenue-Restricted	-	116,719	-	-	116,719
Accrued Bond Interest Payable-Restricted	-	7,767	-	-	7,767
Due to Primary Government	-	-	59,520	61,119	120,639
Deferred Revenue	-	-	57,280	-	57,280
General Obligation Bonds Payable	-	755,047	242,668	-	997,715
Loans and Notes Payable	-	-	4,993	2,581	7,574
Revenue Bonds Payable	1,386,506	12,188	9,261	1,103,418	2,511,373
Claims Payable	-	8,235	13,926	302,395	324,556
Compensated Absences Payable	1,218	4,935	9,518	731	16,402
Funds Held in Trust	88,116	-	-	120	88,236
Other Liabilities	-	2,415	39,367	944	42,726
Total Noncurrent Liabilities	$ 1,475,840	$ 953,718	$ 436,533	$ 1,471,308	$ 4,337,399
Total Liabilities	$ 1,993,630	$ 1,137,569	$ 1,282,968	$ 1,657,996	$ 6,072,163
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 733	$ 1,131,078	$ 1,142,311	$ 698	$ 2,274,820
Restricted	799,447	139,750	-	1,020,972	1,960,169
Unrestricted	-	(63,148)	1,021,084	238,320	1,196,256
Total Net Assets	$ 800,180	$ 1,207,680	$ 2,163,395	$ 1,259,990	$ 5,431,245

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2002 AND JUNE 30, 2003
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 404,253	$ 640,754	$ 2,154,930	$ 316,588	$ 3,516,525
Program Revenues:					
Charges for Services	$ 162,650	$ 284,371	$ 693,507	$ 135,905	$ 1,276,433
Operating Grants and Contributions	198,516	146,012	661,984	112,651	1,119,163
Capital Grants and Contributions	-	227,260	37,310	-	264,570
Net (Expense) Revenue	$ (43,087)	$ 16,889	$ (762,129)	$ (68,032)	$ (856,359)
General Revenues:					
Taxes	$ -	$ 120,034	$ -	$ -	$ 120,034
Investment Income	-	10,638	24,472	9,902	45,012
Other Revenues	701	380	96,002	3,334	100,417
Total General Revenues	$ 701	$ 131,052	$ 120,474	$ 13,236	$ 265,463
State Grants Not Restricted	$ 52,911	$ -	$ 633,747	$ 172,077	$ 858,735
Special Item	-	-	-	(164,000)	(164,000)
Total General Revenues, Grants	$ 53,612	$ 131,052	$ 754,221	$ 21,313	$ 960,198
Change in Net Assets	$ 10,525	$ 147,941	$ (7,908)	$ (46,719)	$ 103,839
Net Assets, Beginning, as Reported	$ 789,655	$ 1,055,398	$ 2,171,303	$ 1,334,616	$ 5,350,972
Prior Period Adjustments	-	4,341	-	(27,907)	(23,566)
Net Assets, as Restated	$ 789,655	$ 1,059,739	$ 2,171,303	$ 1,306,709	$ 5,327,406
Net Assets, Ending	$ 800,180	$ 1,207,680	$ 2,163,395	$ 1,259,990	$ 5,431,245

The notes are an integral part of the financial statements.

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Notes to the Financial Statements

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

Note 1 - Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements of the state of Minnesota (the state) have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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

Financial Reporting Entity of the State of Minnesota

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

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

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

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

- Housing Finance Agency (HFA) - HFA provides money for loans and technical assistance for the construction and rehabilitation of housing for families of low and moderate incomes. The HFA board is comprised of seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. HFA issues bonds in its own name.

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

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

- Agricultural and Economic Development Board (AEDB) - AEDB provides services to state government by administering state programs for agricultural and economic development. AEDB consists of seven members, four of whom are commissioners of state departments. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.

- Higher Education Services Office (HESO) - HESO makes and guarantees loans to qualified post-secondary students. HESO provides the state grant and loan program services for which the state provides administrative funding. Revenue bonds are issued in HESO’s name with limitations set by the legislature. The governor appoints all voting members of the board, who appoint the director of HESO.

- Minnesota Partnership for Action Against Tobacco (MPAAT) - MPAAT issues grants to health, community and academic organizations throughout Minnesota in support of research and cessation activities that will encourage and help tobacco users quit. MPAAT is funded by tobacco lawsuit settlement proceeds. Although the state does not appoint a voting majority of MPAAT’s governing board and is neither able to impose its will on MPAAT nor is there a potential financial benefit/burden to the state, the state feels that excluding MPAAT from the reporting entity would fail to provide a complete overview of tobacco settlement funds.

- Minnesota Technology, Incorporated (MTI) - MTI fosters long-term economic growth and job creation by stimulating innovation and the development of new products, services, and production processes through technology transfer, applied research, and financial assistance. The primary government appoints a voting majority of the board of directors, actions of the president are subject to the control of the board, and the state's General Fund provides a majority of the funding for MTI.

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

- Public Facilities Authority (PFA) - PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. A state agency provides administrative services to PFA. The state provides funding for PFA. The authority is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

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

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

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

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

Housing Finance Agency 400 Sibley Street Suite 300 St. Paul, Minnesota 55101	Minnesota Partnership for Action Against Tobacco 590 Park Street Suite 400 St. Paul, Minnesota 55103
Metropolitan Council Mears Park Centre 230 East 5th Street St. Paul, Minnesota 55101	Minnesota Technology, Incorporated 111 3rd Avenue South Minneapolis, Minnesota 55401
University of Minnesota 657A West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454	National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449
Higher Education Services Office 1450 Energy Park Drive Suite 350 St. Paul, Minnesota 55108	Public Facilities Authority Department of Employment & Economic Development 500 Metro Square Building, 121 East 7th Place St. Paul, Minnesota 55101
Workers' Compensation Assigned Risk Plan Park Glen Management Company 4500 Park Glen Road, Suite 410 Minneapolis, Minnesota 55416	

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

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

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

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

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

Minnesota State Colleges and Universities
Financial Reporting Unit
500 Wells Fargo Place, 30 East 7th Street
St. Paul, Minnesota 55101

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

Financial Reporting Structure of the State of Minnesota

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report on the state as a whole while the fund financial statements emphasize fund types. This reporting model focuses on the state as a whole in the government-wide financial statements and on the major individual funds in the fund financial statements. Both types of statements categorize primary activities as governmental or business-type.

Government-wide Financial Statements

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

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

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

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

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

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

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

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

Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are not included in the government-wide financial statements. The emphasis in fund statements is on the major funds in either the governmental or business-type categories. Nonmajor funds are summarized into single columns.

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

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

Classification of Funds

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

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

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

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

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

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

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

The state has three major governmental funds. The General Fund is the principal operating fund used to account for most of the general activities of the state. The Federal Fund receives and disburses federal government grants and reimbursements. The Debt Service Fund accounts for the accumulation of resources for, and the payment of, most general obligations long-term debt principal and interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Laws of Minnesota Special Session 2001 established a state general tax (property tax) against commercial-industrial and seasonal recreational property. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. Levies are determined based on the formula contained in the laws. The state preliminarily certifies the state general levy rate to each county no later than November 1 of each year for taxes payable in the following calendar year. The state certifies the final state general tax levy on January 1 of each year to each county.

Property taxes are due to counties in two installments for each year - May 15 and October 15. The counties pay the state general tax to the state on three dates - June 30, December 1, and January 25 for any adjustments or changes. Local units of government, as agents for the state, assess the state general tax. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

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

Cash Equivalents and Investments

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

Investments - Investments are reported at fair value. The basis for determining the fair value of investments that is not based on market quotations includes analysis of future cash flows, audited financial statements, and independent appraisals. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the Minnesota State Board of Investment. See Note 2 - Cash and Investments for additional information regarding cash and investments.

Inventories

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

Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in various enterprise funds as restricted net assets. The excess of restricted assets over liabilities payable from restricted assets will first be used for bonds payable.

Securities Lending

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

Income Tax Credits

The Minnesota Department of Revenue processes several types of tax credits as part of the individual income tax system. For financial reporting purposes, some credits are accounted for as revenue reductions, while others are reported as expenditures. Income tax credits that are limited by the amount of the individual's tax liability before considering such credits are reported as revenue reductions.

Credits that may be received even if they exceed the individual's tax liability are reported as expenditures because the essence of the transaction is payment of a grant using the income tax system as a filing and payment mechanism. The amount of the credit is not part of determining tax liability. These credits are Education, Working Family, and Child and Dependent Care.

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis. 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 upon termination from state employment. For governmental funds, the current and noncurrent liabilities for compensated absences are reported only in the government-wide Statement of Net Assets. All other fund types report the liability for compensated absences as a liability of the specific fund.

Capital Assets

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

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

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

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

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets which reflects a reasonable value of the assets and cost required to maintain the service potential at established minimum standards in lieu of depreciation. Transportation infrastructure capital assets, such as highways, curbs, bridges, and lighting systems, are reported on the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in notes to the Required Supplementary Information.

See Note 6 - Capital Assets for further information on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

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

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

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

See Note 12 - Long-Term General Obligations for further information.

Deferred Compensation Plan

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

Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts will be held in trust, in custodial accounts or in qualifying contracts, as required by federal law. The state is not liable for any investment losses under the plan, but does have the duty of due care of a prudent investor for investments managed by SBI.

Restricted Net Assets

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

Net Assets/Fund Balance

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

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

Budgeting and Budgetary Control

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations are available for either year of the biennium. The governor's budget for the biennium is developed by the Department of Finance and presented to the legislature for approval. Specific appropriations are required for all expenditures from the General Fund and all special revenue funds except the Federal, Petroleum Tank Cleanup, Maximum Effort School Loan, Iron Range Resources and Rehabilitation, and Miscellaneous Special Revenue funds. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

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

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

See Note 20 – Budgetary Basis vs. GAAP for additional information.

Interfund Activity and Balances

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

Special Items

GASB Statement No. 34 defines a special item as a significant transaction or event within the control of management, but either unusual in nature or infrequent in occurrence. The following two special items are reported as special items in the government-wide statement of activities:

- Payment of $134,000,000 by the Workers' Compensation Assigned Risk Plan (WCARP) to the General Fund as required by the Laws of Minnesota 2002. The payment was received and reported by the General Fund during the year ended June 30, 2002. WCARP reported the payment as a special item for their fiscal year ended December 31, 2002.

- Payment of $30,000,000 by the Higher Education Services Office to the General Fund as required by Laws of Minnesota 2003.

Note 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, 2002 or June 30, 2003, whichever is applicable. Warrants outstanding is the amount of negotiable warrants issued by the state, but not presented for collection as of June 30, 2003.

Cash and Cash Equivalents
As of June 30, 2003
(In Thousands)

Carrying Amount	Primary Government	Component Units
Cash in Bank	$ 53,046	$ 38,694
Warrants Outstanding	(184,566)	-
Checks Outstanding	-	(25,493)
Cash on Hand and Imprest Cash	2,397	-
Cash Equivalents:		
Cash Management Investment Pools	7,133,599	760,225
Other	97,799	1,108,190
Total Cash and Cash Equivalents[1]	$ 7,102,275	$ 1,881,616

[1]Includes fiduciary funds of $2,038,234.

Deposits

At June 30, 2003, the primary government's bank balance was $131,065,000. For component units at December 31, 2002 or June 30, 2003, whichever is applicable, the bank balances were $26,249,000. These bank balances were adjusted by items in transit to arrive at the state's cash in bank balance. 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. At June 30, 2003, a collateral shortage was due to a large wire transfer failure. The amount of the wire transfer exceeded pre-authorized security amount limits established at the bank. On June 30, 2003, the state's collateral was approximately $59 million under the amount required by law.

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

The following tables show the primary government's and component units' investments, including cash equivalents, at their carrying and fair values.

Primary Government - Investments
As of June 30, 2003
(In Thousands)

Investment Type	Fair Value
Repurchase Agreements	$ 1,110,429
Commercial Paper	3,620,160
Short-Term Corporate Notes	75,683
U.S. Treasury Obligations	1,672,954
Mortgage Backed	4,457,664
Corporate Obligations	3,454,938
Foreign and Other Obligations	276,583
Corporate Stocks	22,654,962
Other Equity	3,040,197
Total Investments in Risk Category 1	$ 40,363,570
Trustee Managed Pools (Not Categorized)	2,079,625
Total Investments[1]	$ 42,443,195

[1]Includes $34,271,150 for fiduciary funds and $7,231,398 of cash equivalents.

Component Units
Investments at December 31, 2002 or June 30, 2003, As Applicable
(In Thousands)

Investment Type	Risk 1	Risk 2	Fair Value
Repurchase Agreements	$ 105,091	$ 19,571	$ 124,662
Commercial Paper	265,602	-	265,602
U.S. Treasury Obligations	1,003,531	-	1,003,531
Mortgage Backed	434,784	-	434,784
Corporate Obligations	682,972	-	682,972
Municipal and Other Obligations	65,699	-	65,699
Corporate Stocks	274,676	-	274,676
Other Equity	1,022	-	1,022
Total Investments	$ 2,833,377	$ 19,571	$ 2,852,948
Trustee Managed Pools/Mutual Funds	-	-	1,082,658
Total Investments[1]	$ 2,833,377	$ 19,571	$ 3,935,606

[1]Includes $1,868,415 of cash equivalents.

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.

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

During the fiscal year, State Street and Wells Fargo lent on behalf of the state, certain securities held by State Street or Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. 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.

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

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

Primary Government
Securities Lending Analysis
As of June 30, 2003
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 256,858	$ 3,275,226
Collateral Held	$ 261,731	$ 3,387,546
Average Duration	21 days	70 days
Average Weighted Maturity	9 days	493 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, 2003, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

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

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

Note 3 - Disaggregation of Receivables

The following reflects the components of net accounts receivable as reported in the government-wide Statement of Net Assets at June 30, 2003.

Components of Net Receivables
As of June 30, 2003
(In Thousands)

	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Business-type Activities (Enterprise Funds)	Total
Taxes:					
Corporate and Individual	$ 458,258	$ -	$ -	$ -	$ 458,258
Sales and Use	379,067	-	853	-	379,920
Property	289,389	-	-	-	289,389
Health Care Provider	-	-	48,260	-	48,260
Highway Users	-	-	67,096	-	67,096
Other	111,220	-	12,878	-	124,098
Child Support	172,759	173,408	-	-	346,167
Unemployment Insurance	-	-	-	189,056	189,056
Workers' Compensation	-	-	114,901	-	114,901
Other	175,071	44,692	97,242	74,757	391,762
Net Receivables	$ 1,585,764	$ 218,100	$ 341,230	$ 263,813	$ 2,408,907

[1]Includes Internal Service Funds.

In addition to the receivables shown in the above table, the Debt Service Fund (major governmental fund) has $23,000 of other receivables, bringing total receivables at the government-wide level to $2,408,930,000.

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

- Corporate and Individual Taxes $183,685,000
- Sales and Use Taxes $55,319,000
- Child Support $271,990,000
- Other Receivables $88,380,000

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

- Corporate and Individual Taxes $80,023,000
- Sales and Use Taxes $16,723,000
- Child Support $234,906,000
- Other Receivables $59,583,000

Note 4 - Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2003, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2003
(In Thousands)

	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds
Student Loan Program	$ 128	$ -	$ -	$ 33,733
Economic Development	200	46,766	87,469	-
School Districts	-	17,297	-	-
Energy	-	-	4,153	-
Agricultural	1,009	42,339	-	-
Transportation	-	27,191	-	-
Resources	486	13,775	-	-
Other	-	1,081	39	-
Total	$ 1,823	$ 148,449	$ 91,661	$ 33,733

Component Units
Loans and Notes Receivable
As of June 30, 2003
(In Thousands)

Housing Finance Authority	$ 1,478,002
Metropolitan Council	27,582
University of Minnesota	67,800
Agricultural and Economic Development Board	23,252
Higher Education Services Office	430,626
Public Facilities Authority	1,068,879
Rural Finance Authority	51,849
Total	$ 3,147,990

Note 5 - Interfund Transactions

Primary Government

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

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

Interfund Receivables and Payables
As of June 30, 2003
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 29,548
Nonmajor Governmental Funds	28,048
Nonmajor Enterprise Funds	10,251
Total Due to General Fund From Other Funds	$ 67,847
Due to the Federal Fund From:	
Nonmajor Governmental Funds	$ 8,121
Total Due to Federal Fund From Other Funds	$ 8,121
Due to the Debt Service Fund From:	
General Fund	$ 5
Total Due to Debt Service Fund From Other Funds	$ 5
Due to the State Colleges and Universities Fund From:	
Debt Service Fund	$ 14,294
Total Due to State Colleges and Universities From Other Funds	$ 14,294
Due to the Fiduciary Funds From:	
Fiduciary Funds	$ 2,412
Total Due to Fiduciary Funds From Other Fiduciary Funds	$ 2,412
Due to the Unemployment Insurance Fund From:	
Nonmajor Governmental Funds	$ 2,823
Total Due to Unemployment Insurance From Other Funds	$ 2,823
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 14,181
Federal Fund	2,695
Unemployment Insurance	11,750
Nonmajor Governmental Funds	94,591
Nonmajor Enterprise Funds	6,791
Total Due to Nonmajor Governmental Funds From Other Funds	$ 130,008
Due to the Nonmajor Enterprise Funds From:	
General Fund	$ 1,556
Nonmajor Governmental Funds	340
Internal Service Funds	457
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,353

The Central Motor Pool Fund had an outstanding advance of $5,647,000 from the General Fund as of June 30, 2003. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2003
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 31,254
Unemployment Insurance Fund	1,397
Nonmajor Governmental Funds	383,256
Nonmajor Enterprise Funds	40,676
Internal Service Funds	17,953
Total Transfers to General Fund From Other Funds	$ 474,536
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	$ 13,673
Total Transfers to Federal Fund From Other Funds	$ 13,673
Transfers to the Debt Service Fund From:	
General Fund	$ 295,600
Federal Fund	135
Nonmajor Governmental Funds	41,297
Total Transfers to Debt Service Fund From Other Funds	$ 337,032
Transfers to the State Colleges and Universities Fund From:	
General Fund	$ 592,802
Nonmajor Governmental Funds - Capital Contributions	86,364
Total Transfers to State Colleges and Universities From Other Funds	$ 679,166
Transfers to the Fiduciary Funds From:	
Other Fiduciary Funds	$ 10,869
Total Transfers to Fiduciary Funds From Other Funds	$ 10,869
Transfers to the Unemployment Insurance Fund From:	
Nonmajor Governmental Funds	$ 2,823
Total Transfers to Unemployment Insurance From Other Funds	$ 2,823
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 177,359
Federal Fund	26,614
Unemployment Insurance Fund	38,375
Nonmajor Governmental Funds	1,348,773
Nonmajor Enterprise Funds	42,130
Internal Service Funds	7,020
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 1,640,271
Transfers to the Nonmajor Enterprise Funds From:	
Nonmajor Governmental Funds	$ 2,223
Nonmajor Governmental Funds - Capital Contributions	330
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$ 2,553

The following one-time transfers to the General Fund are included in the previous table. These transfers were processed as part of the solution to balance the state's budget.

- $265,000,000 from the Special Compensation Fund
- $49,000,000 from the Miscellaneous Special Revenue Fund
- $11,000,000 from the Employee Insurance Fund
- $15,000,000 from the State Airports Fund
- $11,000,000 from the Solid Waste Fund

Component Units

Receivables and payables at June 30, 2003, between the primary government and component units, were summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2003
(In Thousands)

	Due From	Due To
Component Units		
Metropolitan Council	$ 15,423	$ 2,615
University of Minnesota	110,011	64,281
Rural Finance Authority	-	67,119
Workers' Compensation Assigned Risk Plan	-	3,179
Total Component Units	$ 125,434	$ 137,194
Primary Government		
Governmental Funds:		
General Fund	$ -	$ 110,082
Federal Fund	-	498
Natural Resources Fund	-	709
Miscellaneous Special Revenue	-	9
Building Fund	-	5,483
Medical Education and Research Fund	-	8,653
Debt Service Fund	131,400	-
Total Primary Government	$ 131,400	$ 125,434
Total	$ 256,834	$ 262,628

Due to primary government exceeds due from component units by $5,794,000 for amounts owed to the primary government by the Metropolitan Council and the Workers' Compensation Assigned Risk Plan because the fiscal year end used by the component units differs from the primary government.

Note 6 - Capital Assets

Primary Government

Capital Asset Activity - Year Ended June 30, 2003 (In Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities:				
Capital Assets not Depreciated:				
Land	$ 1,216,599	$ 163,029	$ (1,564)	$ 1,378,064
State Capitol	18,569	1,694	-	20,263
Construction in Progress	322,822	81,591	(206,228)	198,185
Infrastructure	4,311,441	319,985	(11,291)	4,620,135
Art and Historical Treasures	100	-	-	100
Total Capital Assets not Depreciated	$ 5,869,531	$ 566,299 [1]	$ (219,083)	$ 6,216,747
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,205,374	$ 199,201	$ (10,955)	$ 1,393,620
Infrastructure	31,238	10,432	-	41,670
Equipment, Furniture, Fixtures	346,788	32,996	(22,094)	357,690
Total Capital Assets Depreciated	$ 1,583,400	$ 242,629 [1]	$ (33,049)	$ 1,792,980
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (566,350)	$ (29,123)	$ 10,955	$ (584,518)
Infrastructure	(2,163)	(1,295)	-	(3,458)
Equipment, Furniture, Fixtures	(210,718)	(32,195)	18,705	(224,208)
Total Accumulated Depreciation	$ (779,231)	$ (62,613)	$ 29,660	$ (812,184)
Total Capital Assets Depreciated, Net	$ 804,169	$ 180,016	$ (3,389)	$ 980,796
Governmental Act. Capital Assets, Net	$ 6,673,700	$ 746,315	$ (222,472)	$ 7,197,543
Business-type Activities:				
Capital Assets not Depreciated:				
Land	$ 51,833	$ 7,831	$ -	$ 59,664
Construction in Progress	77,941	100,845	(96,432)	82,354
Total Capital Assets not Depreciated	$ 129,774	$ 108,676	$ (96,432)	$ 142,018
Capital Assets Depreciated:				
Buildings	$ 1,380,221	$ 57,703	$ -	$ 1,437,924
Library Collections	42,731	6,802	(6,655)	42,878
Improvements, Other than Buildings	8,581	8,198	-	16,779
Equipment, Furniture, Fixtures	278,855	26,454	(14,264)	291,045
Total Capital Assets Depreciated	$ 1,710,388	$ 99,157	$ (20,919)	$ 1,788,626
Accumulated Depreciation for:				
Buildings	$ (724,976)	$ (14,263)	$ -	$ (739,239)
Library Collections	(23,405)	(6,125)	6,655	(22,875)
Improvements, Other than Buildings	(1,843)	(239)	-	(2,082)
Equipment, Furniture, Fixtures	(177,793)	(26,283)	15,108	(188,968)
Total Accumulated Depreciation	$ (928,017)	$ (46,910)	$ 21,763	$ (953,164)
Total Capital Assets Depreciated, Net	$ 782,371	$ 52,247	$ 844	$ 835,462
Business-type Act. Capital Assets, Net	$ 912,145	$ 160,923	$ (95,588)	$ 977,480
Fiduciary Funds:				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,886	$ 2	$ (143)	$ 29,745
Equipment, Furniture, Fixtures	5,879	266	(186)	5,959
Total Capital Assets Depreciated	$ 35,765	$ 268	$ (329)	$ 35,704
Accumulated Depreciation for:				
Buildings	$ (794)	$ (743)	$ -	$ (1,537)
Equipment, Furniture, Fixtures	(3,094)	(644)	169	(3,569)
Total Accumulated Depreciation	$ (3,888)	$ (1,387)	$ 169	$ (5,106)
Total Capital Assets Depreciated, Net	$ 31,877	$ (1,119)	$ (160)	$ 30,598
Fiduciary Funds, Capital Assets, Net	$ 32,306	$ (1,119)	$ (160)	$ 31,027

[1] The schedule above includes prior period adjustments totaling $17,421,000. Non-depreciable assets were adjusted $11,994,000 and depreciable assets were adjusted $5,427,000.

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

Depreciation expense was charged to functions/programs of the primary government as follows:

Primary Government
Depreciation Expense
Year Ended June 30, 2003
(In Thousands)

Governmental Activities:		
Public Safety and Corrections	$	13,510
Transportation		10,688
Agricultural and Environmental Resources		4,963
Economic and Workforce Development		731
General Education		844
Higher Education		-
Health and Human Services		8,883
General Government		5,517
Internal Service Funds		17,477
Total Governmental Activities	$	62,613
Business-type Activities:		
State Colleges and Universities	$	42,588
Unemployment Insurance		-
Lottery		1,797
Other		2,525
Total Business-type Activities	$	46,910

Capital outlay expenditures in the governmental funds totaled $572,534,000 for fiscal year 2003. Donations of general capital assets received during fiscal year 2003 are valued at $105,000.

General capital assets purchased with resources provided by outstanding capital lease agreements at June 30, 2003 consisted of equipment with a cost of $62,138,620.

Authorizations and commitments as of June 30, 2003 for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Educational Buildings	Military Affairs	Veterans Affairs	Correctional Facilities	Human Services
Authorization	$ 163,932	$ 2,066	$ 10,048	$ 8,195	$ 22,376	$ 8,277
Expended through June 30, 2003	94,421	2,027	9,995	5,230	3,031	854
Total	$ 69,511	$ 39	$ 53	$ 2,965	$ 19,345	$ 7,423

Land in the Permanent School Fund totaling 2,512,371 acres was donated by the federal government and valued at the estimated fair value at the time of donation.

Component Units

Component unit capital assets consisted of the following as of December 31, 2002 or June 30, 2003, as applicable:

Capital Assets
As of December 31, 2002 or June 30, 2003
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land	$ -	$ 52,755	$ 35,590	$ 2,500	$ 90,845
Buildings and Improvements	-	2,148,239	2,223,708	766	4,372,713
Equipment	1,919	403,735	670,334	4,227	1,080,215
Infrastructure	-	-	298,198	-	298,198
Total	$ 1,919	$ 2,604,729	$ 3,227,830	$ 7,493	$ 5,841,971
Less: Accumulated Depreciation	1,186	848,479	1,390,141	4,014	2,243,820
Net Total	$ 733	$ 1,756,250	$ 1,837,689	$ 3,479	$ 3,598,151

Note 7 - Disaggregation of Payables

The following reflects the components of accounts payable as reported in the government-wide Statement of Net Assets at June 30, 2003:

Components of Accounts Payable
As of June 30, 2003
(In Thousands)

	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Business-type Activities (Enterprise Funds)	Total
School Aid Programs	$ 1,094,195	$ 98,672	$ 11	$ -	$ 1,192,878
Tax Refunds	528,692	-	-	-	528,692
Medical Assistance	269,635	371,934	-	-	641,569
Grants	196,391	230,284	21,043	4,350	452,068
Salaries and Benefits	36,889	5,645	183,808	88,022	314,364
Vendors/Service Providers	40,231	42,509	270,388	84,406	437,534
Other	19,996	3,533	-	-	23,529
Total	$ 2,186,029	$ 752,577	$ 475,250	$ 176,778	$ 3,590,634

[1] Includes Internal Service Funds.

Note 8 - Pension and Investment Trust Funds

The state performs a fiduciary role for several pension trust funds. For some of these funds, the state contributes as an employer, and 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 Note 1 - Summary of Significant Accounting and Reporting Policies for addresses.

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

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

Basis of Accounting and Valuation of Investments

The three plan administrators prepare financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which they are earned and become measurable. Expenses are recorded when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Except as described below, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported trade price. Investments that do not have an established marked are reported at estimated fair value.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

  The State Employees Retirement Fund (SERF) covers those employees of the state, University of Minnesota, and certain other entities not covered by other pension funds. Twenty-nine employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the highest salary paid in five successive years of service. 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. Five hundred fifteen (515) employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. 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 as defined above. Normal retirement age is 65. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

  The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental subdivisions. Approximately 500 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

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

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 of average salary for each year of service. The ESOF is excluded from the Single Employers Plan disclosures since the remaining active employees have retired, terminated or elected coverage under another plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C.

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

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 ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on length of service.

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

Funding Policy Information

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

Multiple Employer Plan Required Contributions
(In Thousands)

Required Contributions:		SERF	TRF
Employee[(1)]	2003	$ 83,850	$ 155,577
	2002	$ 79,487	$ 152,331
	2001	$ 74,364	$ 145,075
Employer[(1)]	2003	$ 80,399	$ 149,481
	2002	$ 76,614	$ 142,222
	2001	$ 73,362	$ 139,799

[(1)]Contributions were 100 percent of required contributions.

The date of actuarial valuation for the multiple employee plans is July 1, 2003.

Single Employer Plan Disclosures for Current Year
(In Thousands)

	CERF	JRF	LRF[2]	SPRF
Annual Required Contributions (ARC)[1]	$ 19,345	$ 9,057	$ 3,061	$ 7,769
Interest on Net Pension Obligation (NPO) [1]	(879)	(1,426)	(368)	(1,597)
Amort Adj to ARC[1]	-	-	-	-
Annual Pension Cost	$ 18,466	$ 7,631	$ 2,693	$ 6,172
Contributions	18,090	9,497	4,593	11,381
Increase (Decrease) in NPO	$ 376	$ (1,866)	$ (1,900)	$ (5,209)
NPO, Beginning (Asset)	(10,337)	(16,773)	(4,334)	(18,794)
NPO, Ending (Asset)	$ (9,961)	$ (18,639)	$ (6,234)	$ (24,003)

[1]Components of annual pension cost.
[2]Prior year amounts. The 2003 Annual Valuation Report was not available at the time of printing.

The Net Pension Obligation (NPO) for each of the four single employer plans is reported at the government-wide level as an expenditure reduction in the Statement of Activities and an asset in the Statement of Net Assets.

Single Employer Plan Disclosures
(In Thousands)

		JRF	LRF[1]	SPRF	CERF
Annual Pension Cost (APC)	2003	$ 7,631	$ -	$ 6,172	$ 18,466
	2002	$ 7,179	$ 2,693	$ 5,703	$ 16,363
	2001	$ 7,447	$ 3,239	$ 6,687	$ 15,849
Percentage of ARC Contributed	2003	105%	-	147%	94%
	2002	129%	150%	151%	100%
	2001	104%	170%	136%	100%
NPO (End of Year)	2003	$ (18,639)	$ -	$ (24,003)	$ (9,961)
	2002	$ (16,773)	$ (6,234)	$ (18,794)	$ (10,337)
	2001	$ (13,238)	$ (4,334)	$ (14,073)	$ (9,568)

[1]The 2003 Annual Valuation Report was not available at the time of printing. The 2000 actuarial valuation amounts are Annual Pension Cost - $3,062, Percentage of ARC Contributed - 121%, and Net Pension Obligation - $(2,007).

Actuarial Assumptions for Single Employers

- The actuarial cost method used by all plans is the Entry Age Normal method. The date of actuarial valuation is July 1, 2003, except as noted.

- The calculation of the actuarial valuation of assets is a market value based formula based on the Unrecognized Asset Return (UAR is actual net return on market value minus net return based on actuarial assumption). The actuarial value of assets is the Market Value of Assets at June 30, 2003 less: 80 percent UAR for fiscal year 2003; 60 percent UAR for fiscal year 2002; 40 percent UAR for fiscal year 2001; and 20 percent UAR for fiscal year 2000.

- Minnesota Statutes or valuation standards do not require an inflation rate assumption to cost the plans.

- Expected investment returns for pre-retirement and post-retirement are 8.5 percent for all plans.

- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF and JRF, projected salary increases are a level 5.0 percent.

- The payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent post-retirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent post-retirement discount rate is used to account for the one-time adjustment applicable at retirement.

- The level percentage of projected payroll is the amortization method used, except for the ESOF plan which uses the level dollar amortization method.

- The amortization period is through July 1, 2020.

- The amortization period is closed.

Defined Contribution Funds

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

Plan Descriptions and Contribution Information

The Unclassified Employee Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state and specified employees of the Metropolitan Council. 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.

The College and University Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees participate in the IRAP. 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 5.0 percent of salary between $6,000 and $15,000. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is approximately 14,500.

The Public Employee Defined Contribution Retirement Fund (PEDCRF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. PEDCRF covers approximately 1,000 units of government. There are approximately 4,700 members in the plan.

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

Defined Contribution Plans
Contributions Made for Fiscal Year 2003
(In Thousands)

	UERF	CURF	PEDCRF	PHCBF
Employee Contributions	$ 4,642	$ 21,710	$ 1,043	$ 26,892
Employer Contributions	$ 6,166	$ 25,349	$ 1,155	N/A

Investment Trust Fund

The Supplemental Retirement Fund (investment trust fund) is administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting Policies for the 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 State Employees Retirement Fund (SERF), Police and Fire Fund (P&FF) and the Unclassified Employees Retirement funds:

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

Note 9 - 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 2003, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers, and State Colleges and Universities faculty entitled to early retirement incentives. If these employees elect retirement at age 55, the state pays the employer's share of health insurance benefits until the employees reach age 65.

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

The cost of these benefits, which is recognized when paid, was $9,025,000 during fiscal year 2003. Approximately 1,600 former employees currently receive this benefit.

Note 10 - Long-Term Commitments

Long-term commitments consist of grant agreements, construction and other contracts. These commitments will be partially funded by current reserves for long-term commitments with the remaining resources provided by future bond proceeds, gas tax and motor vehicle registration revenues, and federal grants. Long-term commitments as of June 30, 2003 were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2003
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 956,743
Capital Projects Funds:	
General Projects Fund	17,167
Transportation Fund	12,219
Building Fund	262,376
Enterprise Funds:	
State Colleges and Universities	72,064
Total Primary Government	$ 1,320,569

On November 1, 2002, the Port Authority of Saint Paul and the state entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the designing, constructing, equipping, and furnishing of two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the state. The buildings are approximately 400,000 square feet and 342,000 square feet in size. On October 29, 2003, the second tranche of bonds was sold to finance these projects. The amount of bonds sold to finance both of the facilities is $193,105,000.

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse petroleum storage tank owners for most of their costs to investigate or clean up contamination from petroleum tank releases. Reimbursements are made 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, 2003, the Petrofund has reimbursed eligible applicants approximately $335 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2007, are between $380-$400 million for investigative and cleanup costs.

Component Units

The University of Minnesota (U of M) has construction projects in progress with an estimated cost of $186,144,000 to complete. These costs will be funded from plant fund assets and state appropriations.

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

The minimum fixed amount of the steam plant required payments at June 30, 2003 were as follows:

University of Minnesota
Required Steam Plant Payments
(In Thousands)

Fiscal Year Ending June 30	Total
2004	$ 6,217
2005	6,217
2006	6,217
2007	6,217
2008	6,217
2009-2013	31,086
2014-2018	24,869
Total Commitments	$ 87,040

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2002, unpaid commitments for transit services were approximately $51.6 million. Future commitments for Metropolitan Transit Light Rail were approximately $173.6 million. Future commitments for regional transit services were approximately $63.2 million. Finally, future commitments for Environmental Services were approximately $162.3 million.

Note 11 - Operating Lease Agreements

Operating Leases

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

Lease expenditures for the year ended June 30, 2003 totaled approximately $64,224,000 and $15,275,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2002 totaled approximately $3,357,000 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
2004	$ 69,731	2004	$ 9,945	2003	$ 2,231
2005	51,390	2005	8,430	2004	1,914
2006	43,788	2006	7,115	2005	1,692
2007	36,606	2007	6,661	2006	1,118
2008	23,862	2008	6,202	2007	557
2009-2013	24,146	2009-2013	20,295	2008-2012	1,122
2014-2018	4,827	2014-2018	3,661	2013-2017	79
2019-2023	2,918	2019-2023	-	2018-2022	-
Total	$ 257,268	Total	$ 62,309	Total	$ 8,713

Note 12 - General Long-Term Obligations - Primary Government

The following table is a summary of general long-term obligations at June 30, 2003 and the changes during fiscal year 2003:

General Long-Term Obligations
Year Ended June 30, 2003
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 2, 923,221	$ 648,042	$ 275,718	$ 3,295,545	$ 255,512
Bond Premium	37,722	56,557	1,892	92,387	4,811
Loans	39,618	12,502	27,922	24,198	11,867
Claims	1,545,033	34,764	125,959	1,453,838	123,949
Compensated Absences	232,342	-	743	231,599	14,850
Workers' Compensation	114,949	8,440	11,281	112,108	11,428
Capital Leases	18,027	2,724	11,905	8,846	2,800
Total	$ 4,910,912	$ 763,029	$ 455,420	$ 5,218,521	$ 425,217
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 108,874	$ 23,638	$ 6,562	$ 125,950	$ 8,298
Bond Premium	-	1,694	-	1,694	-
Loans	4,498	133,055	2,067	135,486	131,426
Revenue Bonds	53,365	-	440	52,925	1,515
Compensated Absences	97,369	5,197	-	102,566	7,747
Workers' Compensation	4,392	4,805	4,456	4,741	1,255
Capital Leases	8,578	6,753	2,848	12,483	2,979
Total	$ 277,076	$ 175,142	$ 16,373	$ 435,845	$ 153,220

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

Primary Government
Resources for Repayment of General Long-Term Obligations
(In Thousands)

	Governmental Activities			
	General Fund	Special Revenue Funds	Business-type Activities	Total
Liabilities For:				
General Obligation Bonds	$ 2,976,959	$ 318,586	$ 125,950	$ 3,421,495
Bond Premium	92,387	-	1,694	94,081
Revenue Bonds	-	-	52,925	52,925
Loans	-	24,198	135,486	159,684
Claims	79,057	1,374,781	-	1,453,838
Compensated Absences	125,109	106,490	102,566	334,165
Workers' Compensation	84,847	27,261	4,741	116,849
Capital Leases	3,452	5,394	12,483	21,329
Total	$ 3,361,811	$ 1,856,710	$ 435,845	$ 5,654,366

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

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 255,512	$ 152,835	$ 8,298	$ 7,305	$ 263,810	$ 160,140
2005	283,585	146,918	8,315	6,024	291,900	152,942
2006	284,323	134,175	8,337	5,590	292,660	139,765
2007	293,954	120,505	8,516	5,141	302,470	125,646
2008	267,523	106,377	8,242	4,687	275,765	111,064
2009-2013	1,064,436	348,503	39,239	16,881	1,103,675	365,384
2014-2018	609,829	133,290	29,866	7,595	639,695	140,885
2019-2023	236,383	23,078	15,137	1,582	251,520	24,660
Total	$ 3,295,545	$ 1,165,681	$ 125,950	$ 54,805	$ 3,421,495	$ 1,220,486

Primary Government
Revenue Bonds
Principal and Interest Payments
(In Thousands)

Fiscal Year(s)	Business-type Activities Principal	Business-type Activities Interest
2004	$ 1,515	$ 3,074
2005	1,575	2,992
2006	1,945	2,895
2007	2,190	2,783
2008	2,060	2,653
2009-2013	11,260	11,397
2014-2018	12,660	8,038
2019-2023	16,370	3,877
2024-2028	3,350	389
Total	$ 52,925	$ 38,098

Primary Government
Loans
Principal and Interest Payments
(In Thousands)

Fiscal Year(s)	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 11,867	$ 682	$ 131,426	$ 2,061	$ 143,293	$ 2,743
2005	7,685	292	1,053	163	8,738	455
2006	3,592	83	599	145	4,191	228
2007	1,054	12	447	128	1,501	140
2008	-	-	329	108	329	108
2009-2013	-	-	1,511	224	1,511	224
2014-2018	-	-	121	-	121	-
Total	$ 24,198	$ 1,069	$ 135,486	$ 2,829	$ 159,684	$ 3,898

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

Primary Government
Capital Leases
Principal and Interest Payments (In Thousands)

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 2,800	$ 427	$ 2,979	$ 745	$ 5,779	$ 1,172
2005	2,956	271	1,958	603	4,914	874
2006	2358	105	1,191	492	3,549	597
2007	732	21	906	410	1,638	431
2008	-	-	876	364	876	364
2009-2013	-	-	1,453	1,003	1,453	1,003
2014-2018	-	-	575	750	575	750
2019-2023	-	-	747	578	747	578
2024-2028	-	-	971	353	971	353
2029-2033	-	-	827	78	827	78
Total	$ 8,846	$ 824	$ 12,483	$ 5,376	$ 21,329	$ 6,200

Debt Service Fund

Minnesota Statutes, Section 16A.641, provides for an annual appropriation for transfer to the Debt Service Fund. The amount of the appropriation is to be such that, when combined with the balance on hand in the Debt Service Fund on December 1 of each year for state bonds, it will be sufficient to pay all general obligation bond principal and interest due and to become due through July 1 in the second ensuing year. If the amount appropriated is insufficient when combined with the balance on hand in the Debt Service Fund, the state constitution requires the state auditor to levy a statewide property tax to cover the deficiency. No such property tax has been levied since 1969 when the law requiring the appropriation was enacted.

During fiscal year 2003, the Department of Finance made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2003 (In Thousands)

General Fund	$ 295,600
Special Revenue Funds:	
Federal Fund	135
Trunk Highway Fund	8,825
Natural Resources Funds	27
Maximum Effort School Loan Fund	19,405
Miscellaneous Special Revenue Fund	1,289
Total Special Revenue Funds	$ 29,681
Capital Projects Funds:	
Building Fund	$ 11,751
Total Capital Projects Funds	$ 11,751
Total Operating Transfers to Debt Service Fund	$ 337,032

General Obligation Bond Issues

On November 1, 2002, $267,000,000 in general obligation state various purpose bonds and $13,000,000 in general obligation state trunk highway bonds were issued at a true interest cost of 4.36 percent. On June 1, 2003, $391,680,000 in general obligation state refunding bonds were issued at a true interest cost of 2.05 percent. During fiscal year 2003, $243,830,000 in general obligation bond principal was repaid.

The state issues general obligation refunding bonds to refund obligations of certain bond issues. The proceeds of the bond issues were placed in special escrow accounts and invested in government securities. These investments have been certified to be sufficient to pay all principal and interest on the bonds when due.

The June 2003 bond sale included $391,680,000 of refunding bonds for a current refunding of $401,865,000 in previously issued bonds of the state. The proceeds for these refunding bonds were held in the state's Debt Service Fund until August 1, 2003 when the refunded bonds were called for redemption and prepayment. Because the $401,865,000 was outstanding on June 30, 2003 and the money available for the refunding was in the state's Debt Service Fund, the total amount was still included in the general obligation bond balance as of June 30, 2003, but was removed as of August 1, the redemption date.

The balance outstanding for all extinguished debt at June 30, 2003 was $72,200,000 which is shown below. The state remains contingently liable to pay the refunded general obligation bonds.

General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 1998	$ 99,700	$ 96,100	$ 72,200	October 1, 2004

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

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding at June 30, 2003. This schedule includes general obligation bonds that were sold for the State Operated Community Services and State Colleges and Universities Funds (enterprise funds).

General Obligation Bonds Authorized, but Unissued and Bonds Outstanding
At June 30, 2003
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 48,531	$ 1,365,103	3.00 – 6.00
State Operated Community Services	-	4,252	3.75 - 7.56
State Transportation	4,879	106,170	3.00 – 6.38
Waste Management	375	5,505	4.00 – 6.00
Water Pollution Control	1,400	108,650	3.00 – 6.00
Maximum Effort School Loan	-	114,345	4.00 – 6.00
Reinvest in Minnesota	629	9,350	4.00 - 6.00
Rural Finance Administration	-	67,600	4.63 – 7.05
Refunding Bonds	-	813,514	1.50 – 5.40
Municipal Energy Building	128	4,650	3.00 – 6.00
Game and Fish Building	-	71	1.50 – 5.00
Trunk Highway	522,725	98,000	1.50 – 5.50
Airport Facilities	-	39,485	5.30 - 7.95
Landfill	-	26,335	4.25 – 6.00
Various Purpose	1,246,210	658,465	
Total	$ 1,824,877	$ 3,421,495	

Loans Payable

Business-type loans are primarily loans for the Department of Administration to purchase equipment.

Revenue Bonds Payable

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

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

Giants Ridge
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 3,310	October 1, 2012

Claims

Municipal solid waste landfills liability of $198,078,000 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 $58,114,000 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 $53,746,000 are for certain employees who qualify for post-retirement benefits upon retirement at age 55 under terms of their employment contract. See Note 9 - Post-Retirement Benefits for the amount paid in fiscal year 2003.

The remaining claim amount of $1,143,900,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated undiscounted cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of $231,599,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental funds liability for workers' compensation of $112,108,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2003 and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2003, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable - Fiduciary Funds

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

Long-Term Debt Repayment Schedule
Fiduciary Funds
(In Thousands)

Revenue Bonds - SERF, TRF, and PERF

Fiscal Year(s)	Principal	Interest
2004	$ 475	$ 1,620
2005	500	1,594
2006	525	1,567
2007	550	1,539
2008	575	1,509
2009-2013	3,350	7,051
2014-2018	4,375	6,021
2019-2023	5,900	4,602
2024-2028	7,950	2,647
2029-2033	3,924	357
Total	$ 28,124	$ 28,507

Note 13 - Long-Term Obligations - Component Units

Revenue and General Obligation Bonds

Component Units

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes for the purpose of providing funds for rehabilitation, construction and mortgage loans, or for refunding bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $3,000,000,000, according to Minnesota Statutes, Section 462A.22.

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

The Higher Education Services Office (HESO) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171.

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

The Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers and transportation, backed by the full faith and credit and taxing powers of MC. MC had $833,432,000 in general obligation bonds outstanding, net of unamortized premium, on December 31, 2002.

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

Component Units
General Obligation Bonds
(In Thousands)

	U of M		MC[1]	
Fiscal Years	Principal	Interest	Principal	Interest
2004	$ 452,005	$ 17,136	$ 78,385	$ 34,100
2005	7,089	5,482	76,498	31,795
2006	7,489	4,634	88,808	28,061
2007	7,539	4,511	66,899	24,130
2008	7,289	4,387	55,530	21,123
2009-2013	38,597	20,134	235,918	70,624
2014-2018	59,697	16,171	146,941	29,740
2019-2023	81,418	10,831	80,211	6,623
2024-2028	16,800	5,962	-	-
2029-2033	16,750	1,881	-	-
	$ 694,673	$ 91,129	$ 829,190	$ 246,196
Unamortized Discounts/Premiums and Issuance Costs	-	-	4,242	-
Total	$ 694,673	$ 91,129	$ 833,432	$ 246,196

[1]MC fiscal year ends December 31.

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

Fiscal Years	U of M Principal	U of M Interest	HFA Principal[1]	HFA Interest	MC[2] Principal	MC[2] Interest
2004	$ 805	$ 602	$ 388,893	$ 87,212	$ 735	$ 643
2005	855	554	77,360	79,695	770	609
2006	905	502	41,935	77,281	810	573
2007	955	448	38,110	75,313	845	535
2008	1,015	389	43,250	73,270	890	494
2009-2013	4,910	1,001	244,345	331,615	5,190	1,740
2014-2018	621	38	285,625	256,780	3,835	323
2019-2023	-	-	287,555	173,067	-	-
2024-2028	-	-	294,620	88,514	-	-
2029-2033	-	-	150,570	20,039	-	-
2034-2038	-	-	9,810	2,198	-	-
	$ 10,066	$ 3,534	$ 1,862,073	$ 1,264,984	$ 13,075	$ 4,917
Unamortized Discounts/Premiums and Insurance Costs	-	-	(15,394)	-	(152)	-
Total	$ 10,066	$ 3,534	$ 1,846,679	$ 1,264,984	$ 12,923	$ 4,917

[1] See Note 23 - Subsequent Events for bond redemption information.

[2] MC fiscal year ends December 31.

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

	HESO		PFA		AEDB	
Fiscal Years	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ 3,531	$ 39,365	$ 40,551	$ 2,895	$ 1,900
2005	-	3,531	40,495	38,696	2,350	1,754
2006	-	3,531	46,915	36,717	2,480	1,615
2007	714	3,531	46,935	34,405	2,475	1,469
2008	3,429	3,523	47,870	32,094	2,430	1,321
2009-2013	21,460	17,018	257,280	123,936	9,755	4,524
2014-2018	23,310	15,821	258,315	58,047	6,500	1,985
2019-2023	40,411	14,350	76,705	6,307	2,605	292
2024-2028	79,017	10,899	-	-	-	-
2029-2033	77,166	6,187	-	-	-	-
2034-2038	54,493	1,778	-	-	-	-
	$ 300,000	$ 83,700	$ 813,880	$ 370,753	$ 31,490	$ 14,860
Unamortized Discounts/Premiums and Insurance Costs	-	-	308	-	-	-
Total	$ 300,000	$ 83,700	$ 814,188	$ 370,753	$ 31,490	$ 14,860

Variable Rate Debt

Higher Education Services Office

Interest rates on the tax-exempt 1992, 1993 and 1994B series of bonds vary weekly based on the determination by the remarketing agent of the lowest rate that would permit the sale of bonds at par plus accrued interest on the date of determination. The variable rate cannot exceed 15 percent per annum. The interest rate for the Series 1992, 1993, and 1994B bonds as of June 30, 2003 was 1.05 percent.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds reset every 28, 28, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable LIBOR rate plus 1.00 percent or 17.00 percent. The interest rates as of June 30, 2003 and 2002 for the Series 1999A bonds were 1.13 percent and 1.95 percent, respectively. The interest rates as of June 30, 2003 and 2002 for the Series 2002A and 2002B bonds were 1.28 percent and 2.02 percent and 1.08 percent and 1.43 percent, respectively. The interest rates as of June 30, 2003 for the Series 2003A and 2003B bonds were 1.30 percent and 1.10 percent, respectively.

University of Minnesota

In connection with the issuance of the 2003A, 2001A, 2001B, 2001C and 1999A variable-rate bonds, the U of M entered into floating-to-fixed interest-rate swap agreements for notional amounts tied to the outstanding balance of the bonds. The U of M makes monthly payments at fixed rates between 3.08 percent and 4.40 percent and receives the weighted average rate that was paid to the bondholders during the previous month. The final maturity dates of the swaps are tied to the final maturity dates of the underlying bonds. With the exception of the Series 2001B taxable bonds, the U of M treats these swaps as qualified hedges with respect to such bonds.

In connection with the issuance of the Series 1996A bonds, the U of M has entered into a fixed-to-floating interest-rate swap agreement on a notional amount of $190,000,000. The U of M makes floating-rate interest payments monthly based upon the weekly Bond Market Association Municipal Swap Index. The interest obligation for future years is calculated on the basis of the interest rate in effect at June 30, 2003 of 0.98 percent. The actual rates to be paid to bondholders over the life of the bonds will be at rates determined on the basis of prevailing market conditions. The U of M receives fixed-rate interest payments ranging from 4.45 to 5.43 percent semiannually. The final maturity date of the swap is in 2021, although there are specified notional reductions annually that began in 2001. The U of M treats this swap as a qualified hedge with respect to such bonds.

At June 30, 2003, the U of M had $694,674,000 in outstanding variable rate bonds.

Bond Defeasances

Public Facilities Authority had $51,995,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2003.

In prior years, the U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amounts defeased for general obligation bonds was $112,635,000 with $29,600,000 outstanding at June 30, 2003. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

During the fiscal year ended December 31, 2003, Metropolitan Council issued $63,955,000 in general obligation bonds which refunded the remaining 2003-2016 maturities of the Series 1993A, 1993D, 1994D, 1995A, 1995C, and 1996E general obligation bonds. The transactions resulted in an economic gain of $3,464,202 and a reduction of $2,767,867 in future debt service payments.

Note 14 - Landfill Closure and Postclosure

Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. There are currently 107 closed sites in the program. Up to five additional sites could enter the program in the near future. The state becomes responsible for the long-term care of these closed municipal solid waste facilities only after certain eligibility requirements are met. The state is responsible, in perpetuity, for performing cleanup and final closure work as well as all maintenance and monitoring functions at these qualifying sites. Funding for the state's perpetual obligation at these landfills comes from the Solid Waste Fund (special revenue fund) which includes revenues from the Solid Waste Management Tax authorized by Minnesota Statutes, Chapter 297H, insurance recovery proceeds, and financial assurance from previous owners and operators. Additional funding 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, 2003, cumulative expenditures of about $175 million have been disbursed by the Solid Waste Fund and the bond fund. Estimates show that the total of all payments for the program may reach $532 million. These estimates include costs for planned response actions, costs representing future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and reimbursements. Actual costs could become higher because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

Note 15 - Segment Information

Segment Information Financial Data
Year Ended June 30, 2003
(In Thousands)

	Giants Ridge	MnSCU Revenue Fund	MnSCU Mesabi Range/Vermilion Residence Halls	MnSCU Mesabi Range/Vermilion Modular Housing
Condensed Statement of Net Assets				
Assets:				
Current Assets	$ 1,260	$ 38,989	$ 40	$ 28
Restricted Assets	3,609	36,401	446	147
Capital Assets	23,380	80,632	1,504	862
Other Assets	1,922	-	-	-
Total Assets	$ 30,171	$ 156,022	$ 1,990	$ 1,037
Liabilities:				
Current Liabilities	$ 1,987	$ 10,462	$ 123	$ 112
Noncurrent Liabilities	15,400	40,629	445	575
Total Liabilities	$ 17,387	$ 51,091	$ 568	$ 687
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 12,812	$ 73,825	$ 969	$ 237
Restricted	-	2,993	446	147
Unrestricted	(28)	28,113	7	(34)
Total Net Assets	$ 12,784	$ 104,931	$ 1,422	$ 350
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	$ 3,104	$ 59,250	$ 378	$ 187
Depreciation Expense	(808)	(5,695)	(71)	(29)
Other Operating Expenses	(3,928)	(47,947)	(249)	(152)
Operating Income (Loss)	$ (1,632)	$ 5,608	$ 58	$ 6
Nonoperating Revenues (Expenses):				
Interest Income	$ 24	$ 1,356	$ 4	$ 1
Interest Expense	(254)	(2,204)	(52)	(39)
Other	(24)	8,666	-	-
Capital Contributions	330	-	-	-
Transfers-In	2,223	-	-	-
Change in Net Assets	$ 667	$ 13,426	$ 10	$ (32)
Beginning Net Assets	12,117	91,505	1,412	382
Ending Net Assets	$ 12,784	$ 104,931	$ 1,422	$ 350
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	$ (434)	$ 12,188	$ 158	$ 86
Noncapital Financing Activities	2,662	-	-	-
Capital and Related Financing Activities	(4,779)	(7,369)	(141)	(85)
Investing Activities	272	5,010	4	1
Net Increase (Decrease)	$ (2,279)	$ 9,829	$ 21	$ 2
Beginning Cash and Cash Equivalents	$ 6,908	$ 49,266	$ 444	$ 145
Ending Cash and Cash Equivalents	$ 4,629	$ 59,095	$ 465	$ 147

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

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

Each segment has a revenue stream pledged to secure revenue bonds and provisions in the bond documents which require the separate reporting of each segment's financial operations and position.

Note 16 - Contingent Liabilities

Primary Government

Pension Trust Funds

In addition to the pension trust funds included in the reporting entity (see Note 8 - Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The 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, 2003	$ 126,500
Minneapolis Teachers Retirement Fund	June 30, 2003	$ 715,069
St. Paul Teachers Retirement Fund	June 30, 2003	$ 290,601
Local Police and Fire Fund	December 31, 2002	$ 193,524

The unfunded liability of the Local Police and Fire Fund for 2002 consists of four local plans.

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

Component Units

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

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, 2002 was approximately $4.5 million.

Note 17 - Northwest Airlines Maintenance Facilities

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

As of June 30, 2003, $39,485,000 of the revenue bonds remained outstanding. Of this amount, $22,725,000 is payable primarily from lease payments of NWA, and $16,760,000 is payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the city of Duluth. In the event these revenues are insufficient to make the debt service payments on the revenue bonds, the state may apply certain state-aid payments otherwise payable to the city of Duluth.

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

Note 18 - Equity

Fund Balances - Primary Government

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

Primary Government Fund Balances
As of June 30, 2003
(In Thousands)

	Governmental Fund Types					Fiduciary Fund Types
	General	Special Revenue	Debt Service	Permanent	Capital Projects	Trust and Agency
Fund Balances:						
Reserved for Encumbrances	$ 67,296	$ 246,406	$ -	$ -	$ -	$ -
Reserved for Inventory	-	13,770	-	-	-	-
Reserved for Long-Term Receivables	-	142,260	120,639	-	89,230	-
Reserved for Refunding Bonds	-	-	391,680	-	-	-
Reserved for Long-Term Commitments	-	183,870	-	-	35,763	-
Reserved for Local Governments	-	448,725	-	5,375	-	-
Reserved for Trust Principal	-	1,254,746	-	536,114	-	-
Reserved for Debt Requirements	-	-	468,335	-	-	-
Reserved for Other	7,470	7,243	-	-	-	-
Total Reserved Fund Balances	$ 74,766	$ 2,297,020	$ 980,654	$ 541,489	$ 124,993	$ -
Unreserved Fund Balances:						
Designated for Appropriation Carryover	$ -	$ 168,854	$ -	$ -	$ -	$ -
Designated for Fund Purposes	-	273,808	-	-	-	35,127,033
Total Designated Fund Balance	$ -	$ 442,662	$ -	$ -	$ -	$ 35,127,033
Undesignated	(1,006,866)	396,014	-	-	44	-
Total Unreserved Fund Balance	$(1,006,866)	$ 838,676	$ -	$ -	$ 44	$ 35,127,033
Total Fund Balance	$ (932,100)	$ 3,135,696	$ 980,654	$ 541,489	$ 125,037	$ 35,127,033

Reserved Fund Balance

Reserved Fund Balance indicates the portion of the fund balance that is not available for appropriation or is legally segregated for a specific future use.

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

Reserved for Other of $7,243,000 in the special revenue fund type (Federal Fund) consists primarily of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

Unreserved Fund Balance consists of 1) designated fund balances indicating tentative managerial plans for future use of resources, and 2) undesignated fund balances indicating those unreserved financial resources available for appropriation. 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:

Fund Balance Designated for Fund Purposes
As of June 30, 2003
(In Thousands)

	Special Revenue Funds
Public Safety and Corrections	$ 23,103
Transportation	27,049
Environmental Resources	55,580
Economic and Workforce Development	58,763
General Education	9,921
Higher Education	394
Health and Human Services	48,944
General Government	48,774
Intergovernmental Aids	1,280
Total	$ 273,808

Note 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 and omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other insurance and self-insurance mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund, which offers liability, property, and related coverage. The agencies pay 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 range of deductibles from $1,000 through $250,000 per loss. The fund covers the balance of the claim up to $2,500,000. The reinsurance program provides coverage up to $300,000,000, which is shared between three reinsurers. Once annual aggregate losses paid by the Risk Management Fund reach $7,500,000, the reinsurer will provide coverage in excess of a $10,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature. The liability coverage is up to the statutory limit (tort claims cap) of $300,000 bodily injury and property damage per person, and $1,000,000 bodily injury and property damage per occurrence.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state is not able to self-insure. These coverages include aviation, medical malpractice, and foster care liability. The premiums for these policies are billed back to the agencies at cost.

Minnesota Statutes, Section 15.38, Subdivision 8, permits the purchase of insurance on state-owned buildings and contents.

All losses of state property are 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 to $300,000 bodily injury and property damage per person, and $1,000,000 bodily injury and property damage per occurrence. State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget of various funds. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,440,000. 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 2003, a change in claim liability occurred as a result of several events that contributed to an estimated $3 million reduction in outstanding liabilities. These events included full or partial settlement of claims, the deaths of former employees thus reducing future liabilities, and the recalculation of new claim-based revised financial data.

State Employee Group Insurance Program

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

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

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

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program. The risk pool was created by the Minnesota State Legislature to provide public employees and other eligible persons with life insurance and hospital, medical, and dental benefit coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Laws of Minnesota, 1987 codified as Minnesota Statutes, Section 43A.316. 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, 2003 was 3,632 members and their dependents. The members of the pool include 20 school districts, 85 cities/townships, 3 counties and 29 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 pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred, but not reported. The estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits the recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured.

The following tables present changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2003 and 2002:

Self-Insured Claim Liabilities
As of June 30, 2003 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/02	$ 6,383	$ 17,513	$ 4,185	$ 19,711
Fiscal Year Ended 6/30/03	$ 19,711	$ (3,248)	$ 4,749	$ 11,714
Tort Claims [1]				
Fiscal Year Ended 6/30/02	$ -	$ 880	$ 880	$ -
Fiscal Year Ended 6/30/03	$ -	$ 807	$ 807	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/02	$ 127,189	$ 4,923	$ 12,771	$ 119,341
Fiscal Year Ended 6/30/03	$ 119,341	$ 10,151	$ 12,643	$ 116,849
State Employee Insurance Plans				
Fiscal Year Ended 6/30/02	$ 44,555	$ 384,005	$ 387,879	$ 40,681
Fiscal Year Ended 6/30/03	$ 40,681	$ 365,268	$ 367,503	$ 38,446

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

Public Employee Insurance
Medical
(In Thousands)

	Year Ended June 30 2003	Year Ended June 30 2002
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 2,745	$ 2,575
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	19,715	21,055
Increases (Decreases) in Provision for Insured Events of Prior Years	(400)	135
Total Incurred Claims and Claim Adjustment Expenses	$ 19,315	$ 21,190
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 17,418	$ 18,337
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	2,322	2,683
Total Payments	$ 19,740	$ 21,020
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 2,320	$ 2,745

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 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 3.24 percent. The self-insurance retention limit for workers' compensation is $1,320,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

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

The U of M is also self-insured for workers' compensation through an internally maintained fund. The internal fund for workers' compensation is maintained only to fund current year expected payouts. Excess insurance is maintained through the Workers' Compensation Reinsurance Association. Each year, an actuarial estimate of the U of M 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, 2002 and 2001 or June 30, 2003 and 2002, as applicable:

Claims Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council				
Fiscal Year Ended 12/31/01	$ 17,057	$ 10,163	$ 8,372	$ 18,848
Fiscal Year Ended 12/31/02	$ 18,848	$ 7,055	$ 7,255	$ 18,648
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/02	$ 8,153	$ 815	$ 2,476	$ 6,492
Fiscal Year Ended 6/30/03	$ 6,492	$ 2,197	$ 1,032	$ 7,657
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/02	$ 10,800	$ (495)	$ 1,305	$ 9,000
Fiscal Year Ended 6/30/03	$ 9,000	$ 6,489	$ 3,489	$ 12,000

Note 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 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two bases of accounting for the General Fund is provided in the following table.

Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2003
(In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ (932,100)
Less: Reserved Fund Balance	74,766
Undesignated Fund Balance	$ (1,006,866)
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (467,112)
Tax Refunds Payable	454,347
Human Services Receivable	(28,046)
Deferred Revenue	(6,126)
Other Receivables	(2,370)
Investments at Market	(1,157)
Expenditure Accruals/Adjustments:	
Medical Assistance	269,635
Human Services Grants Payable	51,584
Education Aids	1,041,323
Police and Fire Aid	74,392
Other Payables	3,097
Other Financial Sources (Uses):	
Permanent School Fund Transfers-In	(6,091)
Fund Structure Differences:	
Terminally Funded Pension Plans	8,098
Designated for Appropriation Carryover and Budgetary Reserve	(189,103)
Budgetary Basis:	
Undesignated Fund Balance	$ 195,605

Note 21 - Prior Period Adjustments

Prior Period Adjustments

Primary Government

Two nonmajor special revenue funds understated expenditures for the year ended June 30, 2002. Prior period adjustments of $12,347,000 and $46,993,000 were made to the Municipal State Aid Street Fund and County State Aid Highway Fund, respectively.

A prior period adjustment of $17,421,000 at the government-wide level was reported for capital assets which were not included in the June 30, 2002, balance.

Component Units

The Metropolitan Council implemented a policy in 2000 concerning the ownership of vehicles provided to outside transit providers. The new policy requires that payments previously classified as transit related expenditures be reported as capital outlays. Prior year expenditures that should have been identified as capital outlays resulted in a $4,341,000 increase in net assets.

The Public Facilities Authority represented a prior period adjustment of $27,907,000 to bring grant reporting into compliance with GASB Statement No. 33. This adjustment represents grants recognized in prior years that had not met all applicable eligibility requirements.

Change In Fund Structure

Adolescent Services, operated by the Department of Human Services, which was previously included in the General Fund (modified accrual basis) is now reported in the Behavioral Services Fund (accrual basis). The net effect of this change for the Behavioral Services Fund is an increase of $3,641,000 in assets at both fund and government-wide levels. At the fund level, the General Fund is reporting a change in fund structure adjustment of $1,117,000, which represents the transfer of assets based on the modified accrual basis of accounting. At the government-wide level, the General Fund is reporting a change in fund structure of $3,641,000, which represents the transfer of assets, including cash and receivables, based on the full accrual basis of accounting.

Note 22 - 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 appropriation for the fiscal year ended June 30, 2003 was $671,000. The maximum limits of liability for tort claims are $300,000 for any one claim and $1,000,000 for any number of claims arising out of a single occurrence.

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

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

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

Minnesota. The total of the two claims is approximately $12 million. The parties have now settled all issues, except for the capital equipment claim, which was heard by the Tax Court on briefs and stipulated facts on October 15, 2003. The amount of this remaining claim is approximately $10 million.

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

d. *Automatic Merchandising Council, et al. v. Commissioner of Revenue, et al.,* Ramsey County District Court. Plaintiffs, a membership organization comprised of suppliers and operators of vending machines and an operator of vending machines, seek a declaratory judgment that, beginning with certain amendments to Minnesota's sales tax law effective January 1, 2002, imposition of the tax on sales of food through vending machines is unconstitutional under the Federal Equal Protection Clause and the Uniformity Clause of the Minnesota Constitution. A determination in the Plaintiffs' favor would result in a potential tax refund liability well in excess of $10 million when applied as precedent to Plaintiffs' subsequent tax periods, as well as to the potential refund claims of other vending companies. Plaintiffs' Motion for Summary Judgment, heard on August 26, 2002, was denied and Defendants were granted Summary Judgment at the end of November 2002. Plaintiffs filed an appeal with the Court of Appeals, which affirmed the District Court in a decision filed on August 12, 2003. Plaintiffs filed a Petition for Review of the Court of Appeals decision with the Supreme Court, which was granted on October 29, 2003.

e. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Ramsey County District Court. Plaintiffs challenge the Statute which imposes a fee of 35 cents per pack on the sale of cigarettes manufactured by a manufacturer that is not making annual payments to the State of Minnesota under the settlement in State v. Philip Morris Inc., et al. or that has not entered into a similar agreement also requiring annual payments. Plaintiffs challenge enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. Plaintiffs' motion for a temporary restraining order was denied. The fee is estimated to generate $12.9 million over the Current Biennium. The merits were argued on October 6, 2003. On November 19, 2003, the District Court upheld § 297F.24 against Plaintiffs' challenges.

f. *ARRM et al. v. Goodno; Masterman, et al v. Goodno, et al.* These are two consolidated cases in U.S District Court, in which the first group of plaintiffs is a trade association for residential facilities and an individual plaintiff, and the second group of plaintiffs is an advocacy group and four disabled individuals receiving services under Minnesota's Mental Retardation/Related Condition (MR/RC) Waiver. All plaintiffs challenge the state's rebasing will reduce services that clients receive, reduce funding to facilities, and violate federal law. If Plaintiffs are successful in their challenge, Minnesota's MR/RC waiver expenditures may increase by up to $56 million through Fiscal Year 2005. On October 31, 2003, the state argued a motion to dismiss and plaintiffs argued a motion for preliminary injunction in *Masterman*. The federal government has filed a motion to dismiss in *ARRM*, which has not yet been heard.

g. *Northern States Power Co., d/b/a Xcel Energy, Inc. v. Minnesota Metropolitan Council, Minnesota Department of Transportation, et al.* Xcel Energy brought an inverse condemnation action alleging construction of the light rail transit system in Fifth Street in downtown Minneapolis "takes" its property right of access. The respondents' motions to dismiss the case were granted by the district and Xcel appealed. The Minnesota Court of Appeals reversed, holding that Xcel

Energy had arguably met the test to establish the taking of the property right of access. Defendants Petition for Review to the Minnesota Supreme Court was granted. In the event Xcel Energy ultimately prevails on its claim, the claim is likely to exceed $10 million.

h. *Rukavina, et al. v. Pawlenty, et al.*, Ramsey County District Court. In January 2003, two Minnesota State legislators, two Minnesota residents and an association of counties and school districts sued the Governor and the Commissioner of Finance claiming that the Governor and Commissioner's unallotment of $49 million from the Minnesota 21st Century Minerals Account was in violation of State law and the Minnesota Constitution. The State's motion for summary judgment was granted. Plaintiffs have appealed to the Minnesota Court of Appeals.

i. *Sprint Spectrum LP, Sprint Communications Company, LP, and United Telephone Company of Minnesota v. Comm'r of Revenue*, Minn. Tax Court Nos. 7299, 7308, 7309; and *XO Communications, Inc. v. Comm'r of Revenue*, Minn. Tax Court Nos. 7430 & 7442, Minnesota Tax Court. Plaintiffs, regional telecommunication public utilities, claim that they are entitled to capital equipment refunds of sales taxes paid. The claims are based on the theory that the Plaintiffs use the telecommunications equipment they purchase or install in Minnesota for the tax-exempt purpose of "manufacturing, fabricating or refining" of "tangible property." A determination in the Plaintiffs' favor would result in a combined potential tax refund liability in excess of $10 million. The Tax Court held that the Commissioner properly denied the claims in the *Sprint* cases on May 23, 2003, and Sprint appealed to the Minnesota Supreme Court. The *Sprint* case was heard on the oral argument calendar on December 2, 2003. The Tax Court held that the Commissioner properly denied the claims in the *XO Communications* case on August 27, 2003. XO appealed to the Minnesota Supreme Court, which stayed further proceedings, pending the *Sprint* decision, on October 20, 2003.

Note 23 - Subsequent Events

Primary Government

As required by the constitution and statutes, transfers from primary government funds and payments from component units presented below were made on November 26, 2003 to the separately invested Debt Service Fund to cover the principal and interest maturing through July 1, 2005 (in thousands):

Primary Government	
General Fund	$ 265,689
Other Special Revenue Funds	4,424
Trunk Highway Fund	16,289
Maximum Effort School Loan Fund	13,876
Minnesota Colleges and Universities	12,785
Total Primary Government	$ 313,063
Component Units	
Rural Finance Administration	$ 17,500
University of Minnesota	6,788
Total Component Units	$ 24,288
Total Amount to Debt Service	$ 337,351

On July 1, 2003, $451,574,000 from the Medical Education and Research Fund and $575,026,000 from the Tobacco Use Prevention Fund were transferred to the General Fund.

On July 22, 2003, $296,645,000 of general obligation state various purpose bonds, $142,500,000 of general obligation state trunk highway bonds, and $20,855,000 of general obligation state refunding bonds were sold at a true interest rate of 4.00 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.

On July 24, 2003, $3,000,000 of general obligation taxable state various purpose bonds were sold at a true interest rate of 3.42 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.

Component Units

On June 4, 2003, the Minnesota Housing Finance Agency (HFA) approved series resolutions authorizing the issuance of $65,000,000 bonds for the purpose of providing funds for certain HFA home ownership programs. The Residential Housing Bonds, 2003 Series A and 2003 Series B, were delivered on July 23, 2003.

On June 26, 2003, the HFA approved a series resolution authorizing the issuance of $1,945,000 bonds to finance the acquisition and rehabilitation of a multi-family development in Vadnais Heights, Minnesota. The Rental Housing Bonds, 2003 Series B, were delivered on August 14, 2003.

On July 10, 2003, the HFA approved series resolutions authorizing the issuance of $204,510,000 convertible option bonds. The Residential Housing Finance Bonds, 2003 Series D, 2003 Series E, 2003 Series F, 2003 Series G, and 2003 Series H, were delivered on July 23, 2003.

On July 10, 2003, the HFA approved the remarketing of $23,000,000 convertible option bonds for the purpose of providing funds for certain of the agency's home ownership programs. The Single Family Mortgage Bonds, 2001 Series E were delivered on July 24, 2003.

The agency called for early redemption subsequent to June 30, 2003 for the following bonds:

Program Funds	Retirement Date	Original Par Value
Single Family	July 1, 2003	$ 47,250,000
Residential Housing Finance	July 1, 2003	2,540,000
Rental Housing	July 8, 2003	1,885,000
Rental Housing	August 1, 2003	19,605,000
Total		$ 71,280,000

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, the state has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,078 lane miles of pavement and approximately 2,659 bridges and tunnels that the state maintains.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (MnDOT) uses three pavement condition indices to determine the condition of the trunk highway system, the Present Serviceability Rating (PSR), the Surface Rating (SR) and the Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below.

Description	PQI Range	PSR Range	SR Range
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI will be used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

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

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
1999	3.45	3.33
2000	3.47	3.35
2001	3.47	3.35
2002	3.39	3.30

Bridges and Tunnels

Measurement Scale

MnDOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,659 bridges under MnDOT's jurisdiction.

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

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

Rating	Description
9	Excellent (no specific definition).
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have some minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

Good - If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.

Fair - If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.

Poor - If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

Principal Arterial	1998	1999	2000	2001	2002
Fair to Good	95.4%	96.3%	96.1%	95.9%	95.6%

All Other Systems	1998	1999	2000	2001	2002
Fair to Good	88.4%	90.1%	89.6%	90.8%	92.2%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the years ended June 30, 2003 and June 30, 2002 (in thousands):

	2003		2002	
	Budget	Actual	Budget	Actual
Costs to be Capitalized	$ 719,300	$ 333,605	$ 296,500	$ 258,803
Maintenance of System	316,400	304,029	417,400	357,823
Total Construction Program	$ 1,035,700	$ 637,634	$ 713,900	$ 616,626

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

Actuarial Measures of Pension Funding Progress

The state of Minnesota is the employer for five defined benefit single employer plans that are administered by Minnesota State Retirement System (MSRS). MSRS prepares and publishes its own stand-alone comprehensive annual financial report (see Note 1 - Summary of Significant Accounting Policies for the address).

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

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

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

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		SPRF	CERF	JRF	LRF[1]
Actuarial Valuation Date	2003	7/1/2003	7/1/2003	7/1/2003	-
	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
	2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
	2000	-	-	-	7/1/2000
Actuarial Value of Plan Assets	2003	$ 591,521	$ 470,716	$ 134,142	-
	2002	$ 591,383	$ 457,416	$ 131,379	$ 45,501
	2001	$ 572,815	$ 431,134	$ 123,589	$ 42,608
	2000	-	-	-	$ 37,265
Actuarial Accrued Liability	2003	$ 538,980	$ 484,974	$ 176,291	-
	2002	$ 510,344	$ 446,426	$ 171,921	$ 78,070
	2001	$ 489,483	$ 398,633	$ 165,244	$ 75,072
	2000	-	-	-	$ 69,364
Total Unfunded Actuarial Liability (Asset)	2003	$ (52,541)	$ 14,258	$ 42,149	-
	2002	$ (81,039)	$ (10,990)	$ 40,542	$ 32,569
	2001	$ (83,332)	$ (32,501)	$ 41,655	$ 32,464
	2000	-	-	-	$ 32,099
Funded Ratio[2]	2003	110%	97%	76%	-
	2002	116%	102%	76%	58%
	2001	117%	108%	75%	57%
	2000	-	-	-	54%
Annual Covered Payroll	2003	$ 54,175	$ 131,328	$ 33,771	-
	2002	$ 49,278	$ 124,373	$ 31,078	$ 5,089
	2001	$ 48,935	$ 120,947	$ 28,246	$ 5,858
	2000	-	-	-	$ 5,808
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2003	(97%)	11%	125%	-
	2002	(164%)	(9%)	130%	640%
	2001	(170%)	(27%)	147%	554%
	2000	-	-	-	553%

[1]The 2003 Annual Valuation Report was not available at the time of printing.
[2]Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

During fiscal year 1998, the Public Employees Insurance Program's medical claims became a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past five years.

	Fiscal and Policy Year Ended (In Thousands)					
	1998	1999	2000	2001	2002	2003
1. Required Contribution and Investment Revenue:						
Earned	$ 2,564	$ 7,713	$ 10,995	$ 18,005	$ 22,149	$ 23,458
Ceded	195	624	1,031	1,972	2,243	2,321
Net Earned	$ 2,369	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137
2. Unallocated Expenses	$ 538	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528
3. Estimated Claims and Expenses End of Policy Year:						
Incurred	$ 2,002	$ 5,800	$ 9,972	$ 16,550	$ 21,055	$ 19,715
Ceded	91	171	772	760	2,513	1,570
Net Incurred	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145
4. Net Paid (Cumulative) as of:						
End of Policy Year	$ 1,376	$ 4,678	$ 7,944	$ 13,228	$ 15,824	$ 15,848
One Year Later	1,849	5,817	9,240	15,908	18,091	
Two Years Later	1,850	5,818	9,243	15,963		
Three Years Later	1,850	5,818	9,243			
Four Years Later	1,850	5,818				
Five Years Later	1,850					
5. Re-estimated Ceded Claims and Expenses	$ 91	$ 171	$ 772	$ 760	$ 2,513	$ 1,570
6. Re-estimated Net Incurred Claims and Expenses:						
End of Policy Year	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 8,145
One Year Later	1,854	5,828	9,253	15,935	18,114	
Two Years Later	1,850	5,818	9,243	15,963		
Three Years Later	1,850	5,818	9,243			
Four Years Later	1,850	5,818				
Five Years Later	1,850					
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ (61)	$ 189	$ 43	$ 173	$ (428)	$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.

3. This section shows the fund’s gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

6. This section shows how each policy year’s net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)

7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

APPENDIX B

State General Obligation Long-Term Debt (Unaudited)

General Obligation Bonds Outstanding November 1, 2004

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of November 1, 2004.

GENERAL OBLIGATION BONDS OUTSTANDING NOVEMBER 1, 2004
(INCLUDING THIS ISSUE)
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$918,585	
	Transportation	117,778	
	Pollution Control	84,590	
	Waste Management	4,595	
	Refunding Bonds	413,046	
	Reinvest in Minnesota	4,735	
	Land Fill	23,340	
	Infrastructure Development Bonds	440,346	
	Various Purpose	759,791	
	Total Category 1		$2,766,806
2	School Loan	$ 59,845	
	School Loan Refunding	34,540	
	Municipal Energy Building	2,495	
	Rural Finance Authority	71,600	
	Game and Fish Building	29	
	Total Category 2		$ 168,509
3	Trunk Highway	$299,245	
	Trunk Highway Refunding	1,310	
	Total Category 3		$ 300,555
4	State Sports & Health Club Tax Bonds Refunding Bonds	3,045	
	Total Category 4		$ 3,045
	Total Outstanding November 1, 2004 — Previous Issues(1)		$3,238,915
	Plus November 1, 2004 Tax Exempt Bond Issue		220,000
	Plus November 1, 2004 Refunding Bonds		171,880
	Less Bonds Refunded by November 1, 2004 Issue		(170,000)
	Total Outstanding November 1, 2004, Including New Issues		$3,460,795

(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 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 General Fund to which the receipts from special revenue sources, such as school district capital and debt service loan repayments, State college charges, fees and rentals, have been pledged. The third category, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 62 percent of the net proceeds of the State gasoline and motor vehicle registration taxes pursuant to the State Constitution. The fourth category, State Sports and Health Club Tax Bonds, are payable primarily from money appropriated to the Debt Service Fund from the sales tax imposed on membership dues, initiation fees and facilities fees of private sports and health clubs.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED

November 1, 2004
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Authorizations Dated November 1, 2004	Remaining Authorization
Municipal Energy Building	1983, Ch. 323	$ 29,979.9	$ 29,935.0	$ 0.0	$ 44.9
Building	1987, Ch. 400	369,687.2	369,560.5	0.0	126.7
Water Pollution Control	1987, Ch. 400	66,747.0	66,740.0	0.0	7.0
Building	1989, Ch. 300	112,865.4	112,235.0	0.0	630.4
Building	1990, Ch. 610	270,129.1	270,126.0	0.0	3.1
Wetlands/Reinvest in MN	1991, Ch. 354	27,989.0	27,360.0	0.0	629.0
Building	1992, Ch. 558	202,134.0	196,910.0	0.0	5,224.0
Waste Management	1992, Ch. 558	2,000.0	1,625.0	0.0	375.0
Transportation	1992, Ch. 558	17,500.0	17,368.0	0.0	132.0
Building	1993, Ch. 373	39,605.6	38,355.0	0.0	1,250.6
Transportation	1993, Ch. 373	9,900.0	9,480.0	0.0	420.0
Building	1994, Ch. 643	526,505.9	523,840.0	0.0	2,656.9
Municipal Energy Building	1994, Ch. 643	4,000.0	3,975.0	0.0	25.0
Transportation	1994, Ch. 643	34,948.7	34,820.0	0.0	128.7
Water Pollution Control	X1995, Ch. 2	718.6	710.0	0.0	8.6
Building	1996, Ch. 463	479,422.2	478,505.0	0.0	917.2
Municipal Energy Building	1996, Ch. 463	3,908.3	3,850.0	0.0	58.3
Building	1997, Ch. 246	82,599.9	82,427.0	0.0	172.9
Water Pollution Control	1997, Ch. 246	4,000.0	3,765.0	0.0	235.0
Building	X1997, Ch. 2	38,308.1	37,265.0	260.0	783.1
Building	1998, Ch. 404	101,053.2	100,695.0	0.0	358.2
Building	1999, Ch. 240	464,710.0	433,365.0	3,800.0	27,545.0
Transportation	1999, Ch. 240	38,440.0	27,675.0	100.0	10,665.0
Transportation	2000, Ch. 479	7,000.0	6,195.0	350.0	455.0
Trunk Highway	2000, Ch. 479	100,100.0	99,500.0	0.0	600.0
Various Purpose	2000, Ch. 492	535,060.0	482,380.0	21,000.0	31,680.0
Various Purpose	X2001, Ch. 12	118,205.0	109,250.0	3,500.0	5,455.0
Various Purpose.	2002, Ch. 280	7,800.0	0.0	0.0	7,800.0
Various Purpose.	2002, Ch. 374	75,120.0	64,460.0	3,400.0	7,260.0
Various Purpose(3)	2002, Ch. 393	977,635.0	443,255.0	89,390.0	444,990.0
Trunk Highway	X2002, Ch. 1	10,115.0	10,100.0	0.0	15.0
Various Purpose.	X2002, Ch. 1	16,315.0	10,600.0	3,000.0	2,715.0
Trunk Highway	X2003, Ch. 19, Art.3	400,400.0	109,000.0	40,000.0	251,400.0
Trunk Highway	X2003, Ch. 19, Art.4	110,110.0	102,000.0	0.0	8,110.0
Various Purpose.	X2003, Ch. 20	236,915.0	107,0000.0	55,200.0	74,715.0
Totals		$5,521,927.0	$4,142,785.5	$220,000.0	$887,591.5

X indicates Special Session Laws.

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

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner of Finance to prepare and present to appropriate legislative committees on or before January 1 of each odd-numbered year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) The Governor vetoed $353 million of appropriations for capital projects to be funded from this bond authorization.

Pursuant to state law, in the Order authorizing the issuance of the Bonds the Commissioner of Finance has reserved the right, for a period of eighteen months after the Bonds have been issued, to amend the Order to determine that a portion of the Bonds were issued, or shall be deemed to have been issued, pursuant to a law other than the one specified in the Order and for a different purpose, and reallocate and transfer their proceeds to the appropriate account in the bond proceeds fund for expenditure pursuant to the law designated in the amendment.

Debt Management Policy

The Governor has established a State Debt Management Policy. Included in this policy is a guideline providing for the issuance of general obligation bonds in amounts such that appropriations to the Debt Service Fund from the General Fund should not exceed 3.0% of the 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 General Fund and the ratios of debt to personal income are as follows:

Biennium Ending	Percentage of General Fund Revenues for Debt Service	Debt/Personal Income	Future Commitments/ Personal Income
June 30, 1995	2.61%	1.8%	4.23%
June 30, 1997	2.47%	1.8%	3.64%
June 30, 1999	2.64%	1.8%	3.60%
June 30, 2001	2.43%	1.6%	3.03%
June 30, 2003	2.32%	1.7%	3.03%
June 30, 2005 (est)	2.23%	1.8%	3.00%

Of the State's general obligation bonds outstanding on June 30, 2004, 40.1 percent were scheduled to mature within five years, and 70.9 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	General Fund	All Other Funds	Transfer Total
1995	212,890	24,372	237,262
1996	214,504	26,728	241,232
1997	235,519	22,459	257,978
1998	237,609	19,346	256,955
1999	286,495	20,445	306,940
2000	255,037	16,244	271,281
2001	304,994	18,315	323,309
2002	285,553	19,438	304,991
2003	295,441	43,958	339,399
2004	265,706	73,965	339,671

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 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
GENERAL FUND								
STATE BUILDING CAPITAL IMPROVEMENT								
	'87.400	**205**	**15**	**15**	**15**	**15**	**15**	**15**
		72	10	9	9	8	7	6
	'89.300	**10,020**	**915**	**915**	**810**	**810**	**810**	**815**
		3,399	535	484	432	390	348	305
	'90.610	**4,962**	**415**	**415**	**415**	**410**	**410**	**410**
		1,647	255	233	210	189	168	146
	'92.558	**24,845**	**1,870**	**1,870**	**1,870**	**2,110**	**2,100**	**2,100**
		8,301	1,286	1,177	1,072	970	862	753
	'93.373	**3,785**	**345**	**345**	**335**	**335**	**335**	**335**
		1,191	201	181	162	145	127	109
	'94.643	**238,473**	**18,565**	**18,560**	**18,870**	**18,655**	**18,555**	**18,550**
		83,222	12,213	11,205	10,172	9,223	8,278	7,320
	X'95.002	**3,220**	**245**	**245**	**280**	**280**	**270**	**270**
		1,070	168	154	139	125	111	97
	'96.463	**234,260**	**17,340**	**17,035**	**16,850**	**16,845**	**16,405**	**16,405**
		87,001	11,634	10,775	9,902	9,055	8,211	7,383
	'97.246	**52,630**	**4,260**	**4,555**	**4,255**	**4,255**	**3,755**	**3,755**
		17,848	2,533	2,328	2,108	1,902	1,696	1,514
	X'97.002	**26,600**	**1,880**	**1,880**	**1,880**	**1,880**	**1,880**	**1,880**
		10,358	1,340	1,245	1,150	1,055	960	864
	'98.404	**30,265**	**1,990**	**1,990**	**1,990**	**1,990**	**1,985**	**1,985**
		12,850	1,574	1,473	1,372	1,269	1,165	1,061
	'99.240	**336,075**	**25,770**	**22,835**	**24,655**	**20,015**	**19,950**	**19,950**
		142,761	16,676	15,467	14,267	13,139	12,122	11,087
STATE MUNICIPAL ENERGY BUILDING BONDS								
	'83.323	**865**	**220**	**220**	**125**	**125**	**55**	**55**
		112	38	27	18	12	8	5
	'90.610	**25**	**0**	**0**	**0**	**5**	**5**	**5**
		7	1	1	1	1	1	1
	'94.643	**1,020**	**395**	**395**	**95**	**95**	**20**	**20**
		82	45	22	9	4	2	1
	'96.463	**1,530**	**385**	**385**	**345**	**345**	**60**	**10**
		153	64	46	28	12	2	1
REFUNDING BONDS								
	'16A.66	**473,774**	**70,238**	**64,257**	**62,757**	**57,102**	**57,748**	**56,418**
		86,633	19,042	17,127	14,858	11,991	9,078	6,224
REINVESTMENT IN MINNESOTA (RIM)								
	'87.400	**220**	**15**	**15**	**20**	**20**	**20**	**20**
		72	12	11	10	9	8	7
	'89.300	**105**	**5**	**5**	**10**	**10**	**10**	**10**
		36	6	5	5	4	4	3

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
15	**15**	**15**	**20**	**20**	**20**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
6	5	4	3	2	1	0	0	0	0	0	0	0	0
815	**815**	**815**	**815**	**815**	**650**	**125**	**75**	**20**	**0**	**0**	**0**	**0**	**0**
261	216	171	125	80	40	8	3	1	0	0	0	0	0
410	**410**	**410**	**412**	**410**	**120**	**120**	**115**	**30**	**30**	**10**	**10**	**0**	**0**
124	102	79	56	34	21	14	8	4	2	1	0	0	0
2,100	**2,100**	**2,100**	**2,100**	**2,100**	**1,790**	**505**	**55**	**55**	**20**	**0**	**0**	**0**	**0**
642	530	416	300	183	79	20	6	3	1	0	0	0	0
335	**335**	**335**	**335**	**335**	**50**	**10**	**10**	**5**	**5**	**0**	**0**	**0**	**0**
90	71	52	33	15	4	1	1	0	0	0	0	0	0
18,555	**18,550**	**18,545**	**18,545**	**18,538**	**15,880**	**7,505**	**5,505**	**2,570**	**1,295**	**645**	**445**	**120**	**20**
6,347	5,365	4,370	3,364	2,359	1,444	759	431	202	102	46	19	4	1
270	**270**	**270**	**270**	**270**	**270**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
83	68	54	39	23	8	0	0	0	0	0	0	0	0
16,405	**16,405**	**15,955**	**16,055**	**16,050**	**16,050**	**14,255**	**10,730**	**6,580**	**2,760**	**1,025**	**780**	**190**	**140**
6,547	5,706	4,861	4,037	3,212	2,390	1,567	936	447	205	81	36	12	4
3,755	**3,755**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**3,355**	**155**	**0**	**0**	**0**	**0**	**0**
1,332	1,148	963	798	632	465	297	129	4	0	0	0	0	0
1,880	**1,880**	**1,880**	**1,630**	**1,630**	**1,630**	**1,630**	**1,630**	**480**	**480**	**375**	**125**	**35**	**35**
769	673	578	483	399	316	233	151	69	44	19	7	3	1
1,985	**1,985**	**1,985**	**1,985**	**1,985**	**1,985**	**1,985**	**1,985**	**1,335**	**990**	**45**	**45**	**20**	**20**
957	853	749	645	541	437	333	229	125	61	5	3	2	1
17,965	**17,965**	**17,965**	**17,965**	**17,965**	**17,965**	**17,965**	**17,965**	**17,965**	**17,965**	**12,580**	**8,235**	**2,135**	**300**
10,081	9,145	8,213	7,277	6,335	5,393	4,459	3,536	2,610	1,682	859	335	71	8
25	**25**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	1	0	0	0	0	0	0	0	0	0	0	0	0
5	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**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
34,530	**33,995**	**16,830**	**14,600**	**5,300**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3,950	2,369	1,277	584	133	0	0	0	0	0	0	0	0	0
20	**20**	**20**	**20**	**20**	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6	4	3	2	1	0	0	0	0	0	0	0	0	0
10	**10**	**10**	**10**	**10**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	2	2	1	1	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
GENERAL FUND (CONT)								
REINVESTMENT IN MINNESOTA (RIM) (CONT)								
	'90.610	**75**	**10**	**10**	**10**	**5**	**5**	**5**
		23	4	3	3	3	2	2
	'91.354	**4,655**	**405**	**405**	**390**	**385**	**385**	**385**
		1,539	244	221	198	179	159	139
RURAL FINANCE AUTHORITY (RFA)								
	'86.398	**23,000**	**0**	**14,000**	**9,000**	**0**	**0**	**0**
		2,691	1,380	942	369	0	0	0
	'96.463	**35,100**	**2,000**	**0**	**5,000**	**18,000**	**4,500**	**3,100**
		7,716	1,927	1,863	1,863	1,343	414	236
	'00.492	**5,000**	**0**	**0**	**0**	**0**	**500**	**0**
		2,121	261	261	261	261	249	236
	'02.393	**7,000**	**0**	**0**	**0**	**0**	**7,000**	**0**
		1,373	305	305	305	305	153	0
LANDFILL								
	'94.639	**24,495**	**1,845**	**1,835**	**1,805**	**1,805**	**1,805**	**1,805**
		9,026	1,257	1,156	1,056	962	870	778
POLLUTION CONTROL								
	'87.400	**1,620**	**130**	**130**	**130**	**130**	**130**	**130**
		544	84	76	69	62	55	49
	'89.300	**195**	**15**	**15**	**15**	**15**	**15**	**15**
		65	10	9	8	7	7	6
	'90.610	**1,075**	**80**	**80**	**85**	**85**	**85**	**85**
		360	54	50	45	41	36	32
	'92.558	**2,135**	**195**	**195**	**195**	**195**	**180**	**180**
		658	111	100	89	79	69	59
	'93.373	**3,910**	**330**	**330**	**325**	**325**	**325**	**325**
		1,327	209	190	170	154	137	120
	'94.643	**22,530**	**1,800**	**1,800**	**1,820**	**1,820**	**1,810**	**1,810**
		7,611	1,156	1,057	956	866	774	682
	X'95.002	**420**	**30**	**30**	**30**	**30**	**30**	**30**
		143	19	18	17	15	14	12
	'96.463	**17,205**	**1,225**	**1,225**	**1,225**	**1,225**	**1,225**	**1,225**
		6,050	821	761	701	641	583	523
	'97.246	**2,890**	**195**	**195**	**190**	**190**	**190**	**190**
		1,204	148	138	129	119	109	99
	'98.404	**3,040**	**185**	**185**	**185**	**185**	**185**	**185**
		1,319	154	145	135	126	116	106
	'99.240	**33,180**	**2,030**	**2,020**	**2,020**	**2,020**	**1,970**	**1,970**
		14,912	1,713	1,609	1,503	1,398	1,294	1,189
VARIOUS PURPOSE								
	'00.492	**284,205**	**23,821**	**24,115**	**30,440**	**15,245**	**16,045**	**18,050**
		108,621	13,870	12,718	11,342	10,186	9,391	8,515

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
5	**5**	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2	1	1	1	1	0	0	0	0	0	0	0	0	0
385	**385**	**385**	**385**	**380**	**275**	**45**	**45**	**15**	**0**	**0**	**0**	**0**	**0**
118	97	76	54	33	15	4	2	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,500	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
69	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**4,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
236	236	118	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
1,795	**1,795**	**1,795**	**1,795**	**1,795**	**1,715**	**1,345**	**810**	**375**	**375**	**0**	**0**	**0**	**0**
684	590	495	400	305	213	132	76	37	16	0	0	0	0
130	**130**	**130**	**130**	**130**	**130**	**60**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
42	35	28	21	14	7	2	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5	4	3	3	2	1	0	0	0	0	0	0	0	0
85	**85**	**85**	**85**	**85**	**85**	**50**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
28	23	19	14	10	5	2	0	0	0	0	0	0	0
180	**180**	**180**	**180**	**175**	**50**	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
49	39	29	19	10	4	1	0	0	0	0	0	0	0
325	**325**	**325**	**325**	**325**	**325**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
103	85	67	49	30	12	0	0	0	0	0	0	0	0
1,810	**1,810**	**1,810**	**1,810**	**1,810**	**1,690**	**465**	**465**	**0**	**0**	**0**	**0**	**0**	**0**
588	492	395	297	197	103	36	13	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**0**	**0**	**0**	**0**	**0**	**0**
11	10	8	7	5	4	2	1	0	0	0	0	0	0
1,225	**1,225**	**1,225**	**1,225**	**1,225**	**1,225**	**1,225**	**925**	**270**	**85**	**0**	**0**	**0**	**0**
464	403	342	280	219	158	96	42	12	3	0	0	0	0
190	**190**	**190**	**185**	**185**	**185**	**185**	**185**	**135**	**85**	**10**	**10**	**5**	**0**
89	80	70	60	50	41	31	21	12	6	1	1	0	0
185	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**125**	**0**	**0**	**0**
96	87	77	68	58	48	39	29	20	11	3	0	0	0
1,970	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**950**	**500**	**0**	**0**
1,085	980	876	771	666	561	457	353	250	146	49	13	0	0
16,050	**22,555**	**18,935**	**11,230**	**11,230**	**11,234**	**11,235**	**11,235**	**11,235**	**11,245**	**10,180**	**6,600**	**2,175**	**1,350**
7,637	6,645	5,586	4,811	4,224	3,637	3,057	2,486	1,912	1,337	766	344	123	34

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
GENERAL FUND (CONT)								
VARIOUS PURPOSE (CONT)								
	X'01.012	75,815	4,350	4,350	4,350	4,350	4,020	4,020
		35,103	3,697	3,499	3,285	3,067	2,857	2,653
	'02.374	64,950	3,610	3,610	6,790	3,620	3,500	3,500
		28,671	3,195	3,033	2,773	2,513	2,333	2,154
	'02.393	171,836	11,099	9,145	10,535	10,545	10,270	8,270
		80,202	8,270	7,855	7,398	6,871	6,348	5,879
	X'02.001	2,375	120	120	120	120	120	120
		1,184	115	110	105	99	93	87
STATE TRANSPORTATION								
	'84.597	3,400	700	700	700	700	300	300
		499	176	136	95	55	27	11
	'87.400	240	20	20	20	20	20	20
		83	13	12	11	10	9	8
	'89.300	210	25	25	20	20	15	15
		64	11	10	8	7	6	6
	'90.610	1,830	150	150	145	140	135	135
		633	92	84	76	69	62	55
	'92.558	5,793	435	430	440	425	425	425
		2,104	290	268	246	224	203	181
	'93.373	4,590	365	365	360	360	335	335
		1,725	241	221	201	182	165	147
	'94.643	27,965	1,935	1,945	1,995	1,995	1,990	1,990
		10,741	1,416	1,316	1,214	1,114	1,014	912
	X'95.002	2,210	170	170	165	165	165	165
		755	107	99	90	82	74	66
	'96.463	4,825	360	355	350	345	345	345
		1,741	235	218	201	184	167	150
	'97.246	2,175	160	150	150	150	145	140
		862	108	101	94	86	79	72
	X'97.002	1,050	70	70	70	70	70	70
		391	49	46	44	40	37	33
	'98.404	3,250	225	225	225	225	225	225
		1,264	164	152	141	130	118	107
	'99.240	23,410	1,420	1,420	1,420	1,420	1,420	1,420
		10,603	1,224	1,150	1,075	1,001	926	850
	'00.479	5,115	290	290	290	290	285	285
		2,289	248	234	220	205	191	176
	X'01.012	2,700	135	135	135	135	135	135
		1,347	130	124	118	111	105	98
	'02.374	3,705	195	195	195	195	195	195
		1,843	187	178	168	158	148	138

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
4,020	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**4,020**	**1,570**	**565**
2,450	2,246	2,043	1,839	1,636	1,432	1,229	1,025	822	618	415	211	69	14
3,500	**3,500**	**3,500**	**3,135**	**3,140**	**3,140**	**3,140**	**3,150**	**3,150**	**3,155**	**3,155**	**3,155**	**1,500**	**0**
1,975	1,797	1,618	1,448	1,288	1,127	966	805	644	483	321	160	39	0
8,970	**8,970**	**8,970**	**7,925**	**8,175**	**8,180**	**8,182**	**8,185**	**8,190**	**8,200**	**8,200**	**8,200**	**6,905**	**4,720**
5,443	4,989	4,535	4,107	3,699	3,285	2,870	2,455	2,041	1,625	1,210	794	411	118
120	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**120**	**95**
81	74	68	62	56	50	44	38	32	26	20	14	8	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
20	**20**	**20**	**20**	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6	5	4	3	2	1	0	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5	4	3	2	1	1	0	0	0	0	0	0	0	0
135	**135**	**135**	**135**	**135**	**130**	**65**	**65**	**20**	**10**	**10**	**0**	**0**	**0**
48	41	34	27	20	13	7	4	2	1	0	0	0	0
425	**425**	**425**	**425**	**425**	**355**	**243**	**240**	**140**	**95**	**5**	**5**	**5**	**0**
159	137	115	92	69	49	33	21	11	5	1	0	0	0
335	**335**	**335**	**335**	**335**	**325**	**120**	**120**	**80**	**65**	**25**	**25**	**25**	**10**
129	111	93	74	56	38	24	17	11	7	4	2	1	0
1,990	**1,990**	**1,990**	**1,990**	**1,990**	**1,935**	**1,350**	**1,320**	**770**	**570**	**115**	**90**	**15**	**0**
810	707	603	497	391	288	200	131	76	40	8	3	0	0
165	**165**	**165**	**165**	**165**	**165**	**110**	**110**	**0**	**0**	**0**	**0**	**0**	**0**
58	50	42	33	25	16	8	3	0	0	0	0	0	0
345	**345**	**345**	**335**	**335**	**335**	**295**	**295**	**80**	**5**	**5**	**5**	**0**	**0**
133	115	98	81	64	47	30	15	3	1	0	0	0	0
140	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**90**	**70**	**0**	**0**	**0**	**0**
64	57	50	43	35	28	21	14	7	3	0	0	0	0
70	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**0**	**0**	**0**	**0**	**0**
30	26	23	19	16	12	9	5	2	0	0	0	0	0
225	**225**	**225**	**230**	**230**	**230**	**230**	**230**	**25**	**25**	**10**	**10**	**5**	**0**
96	84	73	62	50	38	27	15	4	2	1	1	0	0
1,420	**1,420**	**1,410**	**1,410**	**1,410**	**1,410**	**1,410**	**1,410**	**1,410**	**1,410**	**495**	**175**	**50**	**50**
774	698	622	547	471	395	319	245	170	94	26	9	4	1
285	**285**	**285**	**280**	**280**	**280**	**280**	**280**	**280**	**280**	**280**	**280**	**5**	**5**
162	148	134	120	106	92	78	64	50	36	22	8	0	0
135	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**	**135**
91	84	78	71	64	57	51	44	37	30	24	17	10	3
195	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**0**
128	118	107	97	87	77	67	56	46	36	26	15	5	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

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PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
GENERAL FUND (CONT)								
STATE TRANSPORTATION (CONT)								
	'02.393	**22,750**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**
		11,345	1,103	1,056	1,003	946	888	830
	X'02.001	**4,800**	**250**	**250**	**250**	**250**	**250**	**250**
		2,389	240	229	216	204	191	178
	X'03.020	**1,200**	**60**	**60**	**60**	**60**	**60**	**60**
		599	58	55	53	50	47	44
WASTE MANAGEMENT								
	'90.610	**1,470**	**150**	**150**	**150**	**100**	**100**	**100**
		462	73	65	56	50	45	40
	'92.558	**1,315**	**105**	**105**	**105**	**90**	**65**	**65**
		542	64	59	53	48	44	41
	'96.463	**2,140**	**140**	**140**	**140**	**140**	**140**	**140**
		855	106	99	92	86	79	71
INFRASTRUCTURE DEVELOPMENT								
STATE BUILDING CAPITAL IMPROVEMENT								
	'90.610	**3,768**	**330**	**330**	**330**	**330**	**330**	**330**
		1,194	199	179	161	144	127	109
	'92.558	**20,920**	**1,830**	**1,830**	**1,830**	**1,835**	**1,835**	**1,835**
		6,561	1,096	989	888	794	698	600
	'94.643	**64,912**	**5,255**	**5,255**	**4,915**	**4,915**	**4,910**	**4,910**
		22,650	3,280	3,010	2,732	2,486	2,238	1,987
	'96.463	**79,295**	**5,525**	**5,530**	**5,365**	**5,350**	**5,340**	**5,340**
		30,473	3,894	3,636	3,370	3,111	2,844	2,575
	'98.404	**49,680**	**3,005**	**2,965**	**2,965**	**2,900**	**2,900**	**2,900**
		22,073	2,506	2,354	2,202	2,052	1,903	1,751
VARIOUS PURPOSE								
	'00.492	**108,360**	**6,059**	**6,040**	**6,040**	**6,025**	**6,025**	**6,025**
		50,031	5,382	5,091	4,784	4,478	4,171	3,861
	'02.393	**114,771**	**5,936**	**5,935**	**5,930**	**5,930**	**5,930**	**5,930**
		57,031	5,670	5,414	5,129	4,832	4,531	4,226
	X'03.020	**23,800**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**
		11,876	1,142	1,095	1,041	982	922	863
SPORTS & HEALTH TAX REFUNDING BONDS								
	'16A.66	**4,180**	**1,135**	**1,100**	**1,215**	**470**	**140**	**120**
		394	168	122	67	25	10	3
GROUP TOTAL GENERAL FUND		**2,825,414**	**237,118**	**238,407**	**248,552**	**222,987**	**215,253**	**204,953**
		1,024,699	136,308	125,892	114,555	102,743	91,283	80,630
GAME & FISH								
	'16A.66	**42**	**13**	**13**	**8**	**3**	**3**	**3**
		4	2	1	1	0	0	0
GROUP TOTAL GAME & FISH		**42**	**13**	**13**	**8**	**3**	**3**	**3**
		4	2	1	1	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1,150	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**900**
772	713	655	597	539	481	423	365	307	248	190	132	74	23
250	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**50**
165	152	139	126	113	100	87	74	61	48	35	22	9	1
60	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**
41	38	35	32	29	26	23	20	17	14	11	8	5	2
100	**100**	**100**	**100**	**100**	**100**	**100**	**10**	**10**	**0**	**0**	**0**	**0**	**0**
34	29	24	19	14	9	4	1	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**0**	**0**
37	34	31	28	24	21	18	15	11	8	5	2	0	0
140	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**100**	**75**	**5**	**0**	**0**	**0**
64	57	50	43	36	28	21	14	7	2	0	0	0	0
330	**330**	**330**	**328**	**325**	**145**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
91	73	54	36	17	5	0	0	0	0	0	0	0	0
1,835	**1,835**	**1,835**	**1,835**	**1,835**	**750**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
500	399	296	192	89	20	0	0	0	0	0	0	0	0
4,905	**4,905**	**4,905**	**4,905**	**4,907**	**4,235**	**2,740**	**2,240**	**890**	**120**	**0**	**0**	**0**	**0**
1,732	1,475	1,215	955	696	456	241	116	29	3	0	0	0	0
5,335	**5,335**	**5,335**	**5,335**	**5,335**	**5,335**	**4,725**	**4,725**	**3,425**	**1,660**	**275**	**25**	**0**	**0**
2,303	2,029	1,755	1,481	1,205	929	653	413	198	66	8	1	0	0
2,900	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,745**	**2,100**	**1,000**	**100**	**0**
1,598	1,446	1,296	1,144	990	837	686	537	388	242	108	30	3	0
6,025	**6,025**	**6,025**	**6,025**	**6,025**	**6,021**	**6,020**	**6,015**	**6,015**	**6,015**	**5,745**	**4,475**	**1,470**	**245**
3,549	3,239	2,930	2,620	2,308	1,996	1,686	1,380	1,073	766	461	202	51	6
5,930	**5,930**	**5,930**	**5,930**	**5,930**	**5,925**	**5,925**	**5,920**	**5,920**	**5,920**	**5,920**	**5,920**	**5,800**	**2,280**
3,921	3,615	3,310	3,005	2,700	2,394	2,089	1,784	1,480	1,175	870	565	263	57
1,190	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**
803	744	684	625	565	506	446	387	327	268	208	149	89	30
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
178,685	**182,145**	**164,980**	**148,960**	**139,890**	**128,360**	**109,690**	**102,045**	**84,125**	**75,090**	**59,475**	**47,300**	**25,230**	**12,170**
70,756	61,603	52,799	44,725	37,232	30,259	23,910	18,517	13,561	9,463	5,803	3,101	1,256	304
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
TRUNK HIGHWAY								
REFUNDING BONDS (CONT)								
	'16A.66	1,860	550	530	595	185	0	0
		158	77	52	24	5	0	0
TRUNK HIGHWAY								
	'00.479	90,260	5,065	5,065	5,065	5,065	5,050	5,050
		41,115	4,466	4,221	3,962	3,705	3,449	3,189
	X'02.001	10,000	500	500	500	500	500	500
		4,990	480	460	438	413	388	363
	X'03.018	102,000	5,100	5,100	5,100	5,100	5,100	5,100
		50,898	4,896	4,692	4,463	4,208	3,953	3,698
	X'03.019	29,000	1,450	1,450	1,450	1,450	1,450	1,450
		14,471	1,392	1,334	1,269	1,196	1,124	1,051
GROUP TOTAL TRUNK HIGHWAY		233,120	12,665	12,645	12,710	12,300	12,100	12,100
		111,632	11,310	10,759	10,155	9,526	8,913	8,300
MAX EFFORT SCHOOL LOAN								
REFUNDING BONDS								
	'16A.66	39,130	4,590	5,215	5,180	4,870	4,750	4,710
		7,288	1,555	1,453	1,275	1,035	794	558
SCHOOL LOANS								
	'91.265	600	55	55	55	55	55	55
		182	32	29	25	23	20	17
	'93.373	680	60	60	60	60	60	60
		211	36	33	29	26	23	20
	'94.643	1,800	150	150	150	150	150	150
		585	93	84	76	69	61	53
	X'95.002	14,795	1,185	1,185	1,185	1,180	1,185	1,185
		4,903	759	690	621	559	499	439
	'00.492	14,595	805	805	805	805	805	805
		6,667	710	674	634	593	553	512
	X'01.012	18,605	935	930	930	930	930	930
		9,282	893	856	814	767	721	674
	'02.393	9,895	495	495	495	495	495	495
		4,935	475	455	433	408	383	359
GROUP TOTAL MAX EFFORT SCHOOL LOAN		100,100	8,275	8,895	8,860	8,545	8,430	8,390
		34,053	4,553	4,273	3,907	3,480	3,054	2,631
STATE GUARANTEED BONDS								
GUARANTEED BOND CLASS								
	'91.350	38,680	855	975	1,035	1,105	1,180	1,260
		21,596	2,407	2,348	2,282	2,211	2,133	2,050
GROUP TOTAL STATE GUARANTEED BONDS		38,680	855	975	1,035	1,105	1,180	1,260
		21,596	2,407	2,348	2,282	2,211	2,133	2,050

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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
5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	3,550	725	75
2,928	2,669	2,411	2,151	1,889	1,628	1,369	1,114	858	602	348	131	23	2
500	500	500	500	500	500	500	500	500	500	500	500	500	500
338	313	288	263	238	213	188	163	138	113	88	63	38	13
5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100
3,443	3,188	2,933	2,678	2,423	2,168	1,913	1,658	1,403	1,148	893	638	383	128
1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
979	906	834	761	689	616	544	471	399	326	254	181	109	36
12,100	12,100	12,100	12,100	12,100	12,100	12,100	12,100	12,100	12,100	12,100	10,600	7,775	7,125
7,687	7,075	6,465	5,852	5,238	4,624	4,013	3,405	2,797	2,188	1,582	1,012	551	178
3,745	3,545	1,510	1,015	0	0	0	0	0	0	0	0	0	0
346	179	73	20	0	0	0	0	0	0	0	0	0	0
55	55	55	55	50	0	0	0	0	0	0	0	0	0
14	10	7	4	1	0	0	0	0	0	0	0	0	0
60	65	65	65	65	0	0	0	0	0	0	0	0	0
16	13	9	5	2	0	0	0	0	0	0	0	0	0
150	150	150	150	150	150	0	0	0	0	0	0	0	0
45	37	29	21	12	4	0	0	0	0	0	0	0	0
1,180	1,180	1,175	1,175	1,175	1,175	630	0	0	0	0	0	0	0
377	315	252	188	125	63	16	0	0	0	0	0	0	0
805	805	805	805	805	805	805	805	805	800	800	800	120	0
472	431	391	350	310	269	229	188	147	107	67	26	3	0
930	930	930	930	930	930	930	930	930	930	930	930	930	930
628	581	535	488	442	395	349	302	256	209	163	116	70	23
495	495	495	495	495	495	495	495	495	495	495	495	490	495
334	309	284	260	235	210	185	161	136	111	86	62	37	12
7,420	7,225	5,185	4,690	3,670	3,555	2,860	2,230	2,230	2,225	2,225	2,225	1,540	1,425
2,232	1,877	1,580	1,337	1,126	942	778	651	539	427	316	204	110	36
1,350	1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0
1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0
1,350	1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0
1,966	1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2004	2005	2006	2007	2008	2009	2010
TOTAL PRINCIPAL - LESS GUARANTEE		**3,158,675**	**258,070**	**259,960**	**270,130**	**243,835**	**235,785**	**225,445**
TOTAL INTEREST - LESS GUARANTEE		1,170,387	152,173	140,924	128,618	115,749	103,250	91,561
TOTAL DEBT SERVICE - LESS GUARANTEE (1)		4,329,062	410,243	400,884	398,748	359,584	339,035	317,006
TOTAL PRINCIPAL - ALL FUNDS		**3,197,355**	**258,925**	**260,935**	**271,165**	**244,940**	**236,965**	**226,705**
TOTAL INTEREST - ALL FUNDS		1,191,983	154,580	143,272	130,899	117,959	105,383	93,611
TOTAL DEBT SERVICE - ALL FUNDS (1)		4,389,338	413,505	404,207	402,064	362,899	342,348	320,316

The Total Debt Service - All Funds does not include:
$66,225,000 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 2005-2024

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
198,205	**201,470**	**182,265**	**165,750**	**155,660**	**144,015**	**124,650**	**116,375**	**98,455**	**89,415**	**73,800**	**60,125**	**34,545**	**20,720**
80,676	70,554	60,844	51,914	43,597	35,824	28,701	22,573	16,897	12,079	7,701	4,318	1,917	518
278,881	272,024	243,109	217,664	199,257	179,839	153,351	138,948	115,352	101,494	81,501	64,443	36,462	21,238
199,555	**202,900**	**183,780**	**167,355**	**182,030**	**144,015**	**124,650**	**116,375**	**98,455**	**89,415**	**73,800**	**60,125**	**34,545**	**20,720**
82,642	72,437	62,639	53,612	44,421	35,824	28,701	22,573	16,897	12,079	7,701	4,318	1,917	518
282,197	275,337	246,419	220,967	226,451	179,839	153,351	138,948	115,352	101,494	81,501	64,443	36,462	21,238

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 2004 valuation, was estimated by the Commissioner of Revenue to be $412,485,188,000. 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
1995	177,164,000	3,282,000	180,446,000	6.24
1996	189,112,000	3,440,000	192,552,000	6.71
1997	202,875,000	3,490,000	206,365,000	7.17
1998	219,034,000	3,641,000	222,675,000	7.90
1999	237,387,125	3,931,269	241,318,394	8.37
2000	260,679,384	4,003,571	264,682,955	9.68
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,766,926	363,930,420	11.91
2004 est	407,878,671	4,606,518	412,485,188	13.34

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 30, 2004, principal in the amount of $17,968,263 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 30, 2004, principal in the amount of $10,289,722 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.

REAL ESTATE FINANCING

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued $8,220,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. As of November 1, 2004, $7,735,000 of the bonds will remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The State's obligation to make rental payments is not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent of moneys appropriated from time to time for this purpose.

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds sold to finance both of the facilities was $193,105,000, all of which remain will be outstanding, on November 1, 2004. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as when the Lease and Option to Purchase Agreement with the City of Bemidji 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.(1)

($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
SS, 1997, Chapter 2				
	Public Safety	Statewide	Public Disaster Assistance	20,000
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	5,000
	Natural Resources	Statewide	Flood Proofing Grants	5,000
	Natural Resources	Statewide	Flood Protection	5,000
1999, Chapter 240				
	Natural Resources	Statewide	Flood Hazard Grants (State Share)	1,698
	Natural Resources	Statewide	Flood Hazard Grants (Local Share)	17,270
	Administration	Statewide	CAPRA	3,000
	Administration	Park Rapids	Infrastructure Improvement Grant	1,000
	Transportation	Statewide	Light Rail Transit	60,000
	Corrections	Faribault	Storm & Sanitary Sewer Lines	1,785
	University of Minnesota	Minneapolis	Folwell Hall Renovations	690
	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
	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	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
	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

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Children, Families & Learning	Statewide	Library Access Grants	1,000
	Children, Families & Learning	Caledonia	Maximum Effort Loan	14,134
	Children, Families & Learning	LaPorte	Maximum Effort Loan	7,200
	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	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	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	Park Rapids	Technology/Engineering Center	3,600
	MN State Colleges and Universities	Brooklyn Park	College Realignment	12,500

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	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
	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	St. Paul	Como Park Education Resource Center	16,000
	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

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	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	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
	Public Safety, Department of	Little Falls	Public Safety Training Facility	3,000
	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
	University of Minnesota	St. Paul	Plant Growth Facilities Replcmnt&Renov	5,963
	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
	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
X2001, 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	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				
	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

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	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
	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
	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

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	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
	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 Expense	880
X2002, Chapter 1				
	Public Safety	Statewide	State and Local match of federal disaster assistance fund	8,300
	Housing Finance	Statewide	Publicly Owned Rental Housing Loans	1,000
	DTED	Statewide	Grant Flood Damage of Publicly Owned Property	2,000
	DOT	Statewide	Local Bridge Replacement	5,000
	DOT	Statewide	Trunk Highway System Projects	10,000
	Finance	Statewide	Bond Sale Expense	115
X2003, Chapter 19				
	Transportation	Statewide	Trunk Highway System Projects	400,400
X2003, Chapter 20				
	UofM	Minneapolis	Jones Hall	8,000
	UofM	Minneapolis	Translation Research Facility	24,700
	UofM	Minneapolis	Teaching & Technology Ctr	3,000
	UofM	St. Paul	Veterinary Diagnostic Laboratory	1,500
	UofM	Morris	Social Science Building	8,600
	UofM	Systemwide	Research & Outreach Centers	2,508
	UofM	Rochester	Genomics Building	400
	MnSCU	Bemidji	Colocation BSU & NWTC	1,000
	MnSCU	Dakota	Information Tech & Telecommunication Ctr	500
	MnSCU	Fergus Falls	Maintenance Shop Expansion	760
	MnSCU	Hennepin TC	Brooklyn Park & Eden Prairie Renovation	2,000
	MnSCU	Inver Hills	One Stop Student Services Shop — Design	500
	MnSCU	Lake Superior	One Stop Student Service Shop — Design	700
	MnSCU	Mankato	Otto Arena — Phase 3	8,400
	MnSCU	Worthington	One Stop Student Services Shop	6,300
	MnSCU	Virginia	Science Lab/Resource Center/Classrooms	5,496
	MnSCU	Moorhead	NWTC-Allied Health and Applied Tech lab — Design	400
	MnSCU	Willmar	Ridgewater — Chemistry/Physics/Biology Labs	2,880
	MnSCU	SCTC	N. Mankato/Faribault-Teaching Lab/Asset Preservation	300
	MnSCU	Winona	TC — Student Service Area and Workforce Ctr	580
	MnSCU	SWSU	Library and New Entrance	9,200
	MnSCU	St. Cloud	SU-Centennial Hall Renovation	10,000
	MnSCU	St. Cloud	Technical College Connect and Renovate G wing — Design	700
	CFL	Statewide	Library Access Grants	1,000
	CFL	St. Paul	Paul & Sheila Wellston Community Ctr — Grant	5,000

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

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	CFL	Moorhead	Trollwood Performing Arts School — Grant	5,500
	DNR	Systemwide	State Park & Recreation Area Acquisition	1,000
	DNR	St. Paul	Como Park — Phase 2 — Met Cncl Grant	2,700
	DNR	Systemwide	State Trail Acquisition & Development — Goodhou Pioneer Tr	475
	DNR	SW MN	Red Rock Rural Water System — Grant	125
	DNR	Crookston	Dam Improvements — Red Lake River Grant	1,050
	DNR	Warren	Flood Hazard Mitigation Grants	1,405
	DNR	Systemwide	Stream Protection and Restoration	500
	DNR	Statewide	Scientific & Natural Area — Acquisition & Improvement	2,000
	DNR	Statewide	Native Prairie Bank Easements	1,000
	DNR	Wabasha	National Eagle Center — Grant	500
	DNR	Statewide	Flood Hazard Mitigation Grants	3,000
	BWSR	Statewide	RIM Conservation Easements	1,000
	BWSR	Statewide	Wetland Replacement — Land Acquisition	2,700
	BWSR	Statewide	Lazarus Creek — MN River Basin Floodwater Retention Grant	1,400
	BWSR	Stillwater	Brown's Creek — Grant	1,300
	ASC	Plymouth	Sports Conf Ctr — National Sport Event Center	5,000
	Arts	Minneapolis	Children's Theatre Company — Grant	5,000
	Arts	Minneapolis	Guthrie Theater — Grant	25,000
	Met Cncl	Systemwide	Northwest Busway Corridor — Design	1,000
	Health	Duluth	Community Dental Clinic	775
	DTED	Little Falls	Environmental Cleanup Grant	1,000
	DTED	Systemwide	Wastewater Infrastructure Program	15,000
	DTED	Statewide	Greater MN Business Development Grant Program	7,500
	DTED	St. Paul	Roy Wilkins Auditorium — Grant	2,300
	DTED	St. Paul	Phalen Boulevard Land Acquisition — Grant	4,000
	DTED	Statewide	Public Infrastructure — Drinking Water Grants	1,125
	DTED	Roseau	Capital Project Grant	500
	DHS	Statewide	County & Local Preservation Grants	300
	DHS	Jackson	Fort Belmont — Grant	200
	DOF	Statewide	Bond Sale Expense	236

(1) 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

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds Dated April 1, 1995, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2006 will be called for redemption and prepayment on August 1, 2005 at par plus accrued interest.

($ in Thousands)

Maturing August 1	Principal Amount	Interest Rate
2006	$ 6,260,000	5.25%
2007	6,260,000	5.30%
2008	6,260,000	5.40%
2009	6,260,000	5.50%
2010	6,260,000	5.60%
2011	6,260,000	5.70%
2012	6,260,000	5.70%
2013	6,265,000	5.75%
2014	6,265,000	5.25%
	$56,350,000	

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated August 1, 1995, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2006 will be called for redemption and prepayment on August 1, 2005 at par plus accrued interest.

Maturing August 1	Principal Amount	Interest Rate
2006	$ 11,365,000	5.00%
2007	11,365,000	5.00%
2008	11,365,000	5.125%
2009	11,365,000	5.25%
2010	11,365,000	5.25%
2011	11,365,000	5.40%
2012	11,365,000	5.50%
2013	11,365,000	5.70%
2014	11,365,000	5.75%
2015	11,365,000	5.25%
	$113,650,000	

APPENDIX D

Cash Flow Information

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

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

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

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

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

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout the Current Biennium.

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

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, 2004
(Thousands of Dollars)

	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Total
Beginning Cash Balance	$ 3,150,855	$ 2,683,652	$ 1,932,842	$ 1,910,634	$ 1,853,210	$ 1,662,300	$ 1,948,902	$ 2,176,230	$ 1,776,392	$ 1,627,813	$ 1,530,169	$ 1,775,956	
Receipts:													
Individual Income Taxes	447,957	385,842	567,273	464,771	340,087	578,619	747,601	127,970	250,750	654,046	521,121	588,789	5,674,825
Sales and Use Taxes	161,072	380,963	342,379	373,470	341,740	310,422	416,268	305,524	282,558	327,123	335,988	531,783	4,109,291
Corporate Income Taxes	(11,338)	11,763	122,123	30,089	8,280	107,697	23,209	5,518	161,067	27,866	18,937	111,153	616,362
Statewide Property Tax	87	7	(5)	29	1,094	266,301	3,518	(305)	0	83	0	167,921	438,731
Motor Vehicle Taxes	57,343	38,982	38,351	34,184	22,036	32,373	28,097	21,205	39,349	42,653	32,628	38,496	425,697
Tobacco Product Taxes	20,371	13,694	17,478	14,888	18,249	12,671	14,849	13,273	12,390	14,839	14,573	26,080	193,354
Insurance Taxes	1,016	3,922	48,830	1,777	1,873	52,107	568	10,425	90,157	1,415	978	69,189	282,257
Other Excise Taxes	29,992	36,227	33,224	33,106	31,844	24,801	25,179	22,148	18,902	22,068	24,619	49,434	351,545
Investment Earnings	3,156	3,526	2,313	2,012	1,995	1,824	1,834	2,225	2,160	1,771	1,585	1,669	26,072
Inter-governmental Grants	14,431	12,945	16,472	97,447	9,072	18,163	15,551	9,053	20,983	21,561	21,162	10,522	267,361
Other Sources	269,574	242,649	303,801	266,781	190,785	495,370	386,280	211,004	196,970	246,929	243,078	245,629	3,298,848
Subtotal Receipts	$ 993,660	$ 1,130,520	$ 1,492,239	$ 1,318,554	$ 967,056	$ 1,900,347	$ 1,662,952	$ 728,040	$ 1,075,288	$ 1,360,354	$ 1,214,669	$ 1,840,665	$ 15,684,342
Total Resources	$ 4,144,515	$ 3,814,172	$ 3,425,081	$ 3,229,188	$ 2,820,265	$ 3,562,647	$ 3,611,854	$ 2,904,270	$ 2,851,680	$ 2,988,168	$ 2,744,837	$ 3,616,621	
Expenditures:													
State Payroll	191,617	179,471	179,321	262,239	182,110	181,401	176,986	182,477	184,305	269,551	187,343	171,244	$ 2,348,065
Agency Operations	131,606	113,138	94,410	112,523	90,241	109,245	95,753	80,016	103,001	100,895	100,495	107,887	1,239,211
Payment to Individuals	424,215	296,588	389,024	286,371	258,944	185,593	467,255	277,215	201,449	287,803	212,843	213,086	3,500,387
Aid to Counties	144,124	147,898	46,500	106,302	24,718	212,850	20,878	30,455	38,849	24,627	25,719	20,501	843,421
Aid to Cities and Towns	248,946	8,045	71,509	47,726	3,752	287,872	11,491	3,110	3,063	3,911	2,073	2,467	693,966
Aid to School Districts	187,249	967,854	648,982	480,742	224,017	466,207	593,357	474,877	618,918	621,517	356,042	85,647	5,725,409
Aid to Higher Education Insti	65,086	135,281	30,931	20,998	52,178	124,394	24,983	48,869	47,782	103,725	49,163	48,629	752,020
Aid to Other Governments	33,541	17,916	18,486	37,687	16,317	16,994	25,416	12,767	11,178	26,729	13,875	14,934	245,839
Aid to Non-Gov't Organizatic	28,057	12,110	29,791	18,841	19,741	19,107	16,279	18,695	14,229	17,852	18,661	13,571	226,933
Other	6,416	3,018	5,493	2,549	15,947	10,076	3,225	3,707	1,092	1,389	2,667	6,428	62,007
Debt Service	5	11	0	0	270,000	6	0	(4,311)	0	0	0	0	265,711
Total Expenditures	$ 1,460,863	$ 1,881,330	$ 1,514,447	$ 1,375,978	$ 1,157,965	$ 1,613,745	$ 1,435,623	$ 1,127,878	$ 1,223,866	$ 1,457,999	$ 968,881	$ 684,393	$ 15,902,968
Ending Cash Balance	$ 2,683,652	$ 1,932,842	$ 1,910,634	$ 1,853,210	$ 1,662,300	$ 1,948,902	$ 2,176,230	$ 1,776,392	$ 1,627,813	$ 1,530,169	$ 1,775,956	$ 2,932,229	
Minimum Statutory Cash Balance for the Month	$ 2,363,700	$ 1,624,400	$ 1,607,800	$ 1,625,400	$ 1,266,800	$ 1,424,300	$ 1,557,600	$ 1,564,200	$ 1,300,400	$ 1,078,900	$ 1,263,100	$ 1,408,800	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Forecast for Fiscal Year Ending June 30, 2005
(Thousands of Dollars)

	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Estimated FY Total
Beginning Cash Balance	$ 2,932,229	$ 2,300,253	$ 1,551,630	$ 1,485,136	$ 1,243,955	$ 1,133,287	$ 1,450,685	$ 1,778,822	$ 1,496,217	$ 1,291,931	$ 1,245,151	$ 1,370,626	
Receipts:													
Individual Income Taxes	387,743	404,905	667,708	403,430	431,012	609,352	739,430	243,379	225,333	658,682	477,668	681,358	$ 5,930,000
Sales and Use Taxes	164,362	411,957	370,077	414,073	366,397	334,267	440,654	322,241	289,974	352,453	336,609	474,929	4,277,994
Corporate Income Taxes	23,300	15,100	128,500	17,900	8,900	109,100	18,100	5,500	152,800	7,600	5,300	122,800	614,900
Statewide Property Tax	160,959	47	93	912	5,107	275,300	4,428	427	39	142	168	170,867	618,489
Motor Vehicle Taxes	26,044	41,112	39,014	41,159	35,513	31,669	30,711	30,264	35,869	39,186	41,218	41,721	433,482
Tobacco Product Taxes	19,463	13,439	16,785	14,290	17,342	12,118	14,062	10,385	14,459	13,378	13,313	23,080	182,115
Insurance Taxes	700	4,100	52,300	600	2,000	54,700	600	21,300	64,800	1,600	1,900	118,017	322,617
Other Excise Taxes	8,349	28,583	26,349	26,966	27,920	22,713	24,919	21,134	19,344	21,997	22,173	41,167	291,613
Investment Earnings	2,687	1,759	1,463	1,560	1,786	1,480	1,550	1,700	1,648	1,610	1,648	2,527	21,417
Inter-governmental Grants	12,459	10,091	14,401	9,038	8,580	14,336	12,790	3,986	9,847	10,011	7,794	8,245	121,575
Other Sources	255,126	216,161	287,533	250,032	190,863	483,595	378,010	224,493	199,261	246,461	247,690	246,273	3,225,498
Subtotal Receipts	$ 1,061,193	$ 1,147,255	$ 1,604,222	$ 1,179,959	$ 1,095,420	$ 1,948,630	$ 1,665,253	$ 884,808	$ 1,013,374	$ 1,353,120	$ 1,155,479	$ 1,930,985	$ 16,039,699
Total Resources	$ 3,993,422	$ 3,447,509	$ 3,155,852	$ 2,665,095	$ 2,339,375	$ 3,081,917	$ 3,115,938	$ 2,663,630	$ 2,509,590	$ 2,645,051	$ 2,400,631	$ 3,301,610	
Expenditures:													
State Payroll	192,224	180,061	179,555	263,385	182,720	182,049	177,621	183,109	185,010	270,476	187,936	171,800	$ 2,355,945
Agency Operations	135,375	117,914	94,020	116,190	92,557	113,324	98,385	83,231	106,267	105,449	103,267	110,977	1,276,957
Payment to Individuals	458,101	344,830	426,243	316,575	301,167	299,360	411,600	312,577	239,988	324,311	261,185	260,737	3,956,674
Aid to Counties	129,889	133,246	42,092	95,823	22,513	191,505	18,957	27,668	35,301	22,572	23,346	18,599	761,512
Aid to Cities and Towns	235,858	7,798	67,757	45,354	3,626	272,635	10,925	3,010	2,944	3,778	1,996	2,379	658,059
Aid to School Districts	438,631	1,009,211	759,186	512,773	157,188	440,837	540,368	485,034	591,608	599,699	354,406	102,608	5,991,549
Aid to Higher Education Insti	54,643	61,614	58,154	20,441	43,585	92,038	31,186	43,305	37,313	49,173	73,306	37,697	602,456
Aid to Other Governments	25,149	19,380	16,173	32,958	14,681	19,330	33,753	10,646	10,719	12,858	13,537	13,788	222,973
Aid to Non-Gov't Organizatic	21,627	20,497	22,716	15,928	13,925	14,470	12,392	16,024	8,115	11,264	9,950	7,933	174,842
Other	1,671	1,329	4,821	1,712	14,754	5,684	1,929	2,809	394	320	1,074	1,450	37,947
Debt Service	0	0	0	0	359,372	0	0	0	0	0	0	0	359,372
Total Expenditures	$ 1,693,168	$ 1,895,879	$ 1,670,716	$ 1,421,140	$ 1,206,088	$ 1,631,233	$ 1,337,116	$ 1,167,413	$ 1,217,659	$ 1,399,900	$ 1,030,005	$ 727,968	$ 16,398,285
Ending Cash Balance	$ 2,300,253	$ 1,551,630	$ 1,485,136	$ 1,243,955	$ 1,133,287	$ 1,450,685	$ 1,778,822	$ 1,496,217	$ 1,291,931	$ 1,245,151	$ 1,370,626	$ 2,573,642	
Minimum Statutory Cash Balance for the Month	$ 2,104,030	$ 1,275,665	$ 1,299,207	$ 1,109,182	$ 762,976	$ 1,032,120	$ 1,347,322	$ 1,406,898	$ 1,102,883	$ 900,598	$ 1,050,427	$ 1,334,734	

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 November 1, 2004, is set forth below.

Agency Indebtedness

Minnesota Housing Finance Agency (MHFA). The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. The enabling legislation for the MHFA authorizes it to issue bonds and notes in amounts such that the principal amount outstanding at any instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to an amount of $3.0 billion. The proceeds from the MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the production and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds are general obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor for inclusion in the State budget, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds to its debt service reserve requirement. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized to appropriate the amount included in the Governor's proposed budget for debt service reserve fund, but is not legally obligated to appropriate such amount. Under Chapter 462A, if such a deficiency is certified, the MHFA is also required to certify to the Governor any anticipated deficiency in the revenues of the following fiscal year, estimated to be available for the payment of principal installments and interest due in that year, and the Governor is required to report such an anticipated deficiency to the Legislature.

The principal amount of bonds and notes of the MHFA which are outstanding at any time (excluding the principal amount of any bonds and notes advance refunded) is limited to $3,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the MHFA, which will be outstanding as of November 1, 2004:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: November 1, 2004

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 11/01/2004 (in thousands)
Rental Housing	18	1.60% to 6.60%	2005-2045	$ 373,480	$ 214,515
Residential Housing Finance	32	1.20% to 5.85%	2005-2035	1,042,070	964,080
Single Family Mortgage	67	2.00% to 8.05%	2005-2025	1,389,555	574,860
	118			$2,805,105	$1,753,455

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 November 1, 2004 will have $609,855,628. 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 $850,000,000. The loans are made and insured in accordance with MHESO's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of November 1, 2004, MHESO will have $387,000,000 of bonds outstanding payable from the Supplemental Educational Loan Fund II. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MHESO, and, if necessary, from proceeds of additional MHESO obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the state universities within the Minnesota State Colleges and Universities System. As of November 1, 2004, the MnSCU will have $22,045,000 tax exempt bonds and $12,050,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students for student activities, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guarantees have been issued to date, one for $3,814,304 and the other for $16,370,000. The guarantees are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority (MHEFA). The MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law authorized the MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed $800,000,000. As of November 1, 2004, the MHEFA will have $641,832,802 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 November 1, 2004, the MSABC will have $5,855,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota State Zoological Board. (MSZB). The State appropriated moneys to finance the acquisition and construction of a State zoological garden which is owned and operated by the MSZB. The MSZB is not specifically authorized by law to borrow money or issue obligations in evidence thereof. However, in 1977 the Legislature authorized the MSZB to acquire an automated, monorail transportation system for the garden by installment purchase contract, and the MSZB entered into such a contract for this purpose.

On April 1, 1980, the Minnesota State Zoological Board was unable to make the installment payment then due under the installment purchase contract. On December 30, 1985 the State and investors entered into closing documents through which the State acquired all investor rights to the monorail system for the sum of $1.5 million. The documents released the State from any and all investor claims against the State and MSZB regarding the monorail system.

Minnesota Rural Finance Authority. In 1986 the Legislature created the Minnesota Rural Finance Authority (RFA) and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of November 1, 2004, 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 $123.1 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 November 1, 2004, the RFA had issued $32,174,785, of revenue bonds for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of November 1, 2004, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $787,675,000, Drinking Water Revenue Bonds, $118,725,000, and Transportation Revenue Bonds, $29,330,000, for a total outstanding amount of $935,730,000. 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 $1,250,000,000. 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 November 1, 2004, MAEDB will have outstanding $27,745,000 of pooled revenue bonds which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB will have outstanding $563,360,563 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 Authority (IRRRA). THE IRRRA was established by Minnesota Statutes, Chapter 298, to perform certain functions for the Northeastern portion of the State, including the promotion of economic development. The IRRRA is authorized to issue revenue bonds to accomplish the promotion of economic development. As of November 1, 2004 the IRRRA will have $14,870,000 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, $37,825,000 of the revenue bonds will remain outstanding as of November 1, 2004, of which $21,800,000 are payable primarily from lease payments of NAI, and $16,025,000 are payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the City of Duluth. In the event such revenues are insufficient the State will have the right to apply to the payment of such bonds, or to reimburse itself for making such payments from, certain state-aid payments otherwise payable to the City of Duluth. All $37,825,000 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 November 1, 2004, there will be $27,650,000 of Minnesota State Retirement System bonds outstanding.

APPENDIX F

State Government and Fiscal Administration

State Government

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

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

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

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

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

A general organization chart of the Executive Branch of State government is shown on the following page. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.

Fiscal Administration

The Department of Finance was created in 1973 under the control and supervision of the Commissioner of Finance. The Commissioner is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Minnesota voters approved a constitutional amendment in November 1998 that eliminated the Office of the State Treasurer as of January 6, 2003. The Commissioner of Finance assumed the duties of the State Treasurer. Included in the financial duties of the Commissioner are:

Preparation of State biennial budget and capital budget.

Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.

Administration of the State payroll system.

Sale and issuance of State general obligation and certain revenue bonds, general obligation certificates of indebtedness, and equipment lease purchase financings.

Preparation of periodic and special reports on the financial affairs of the State.

Operation and control of allotment system (annual agency operating budgets).

Preparation of revenue, expenditure and cash flow estimates.

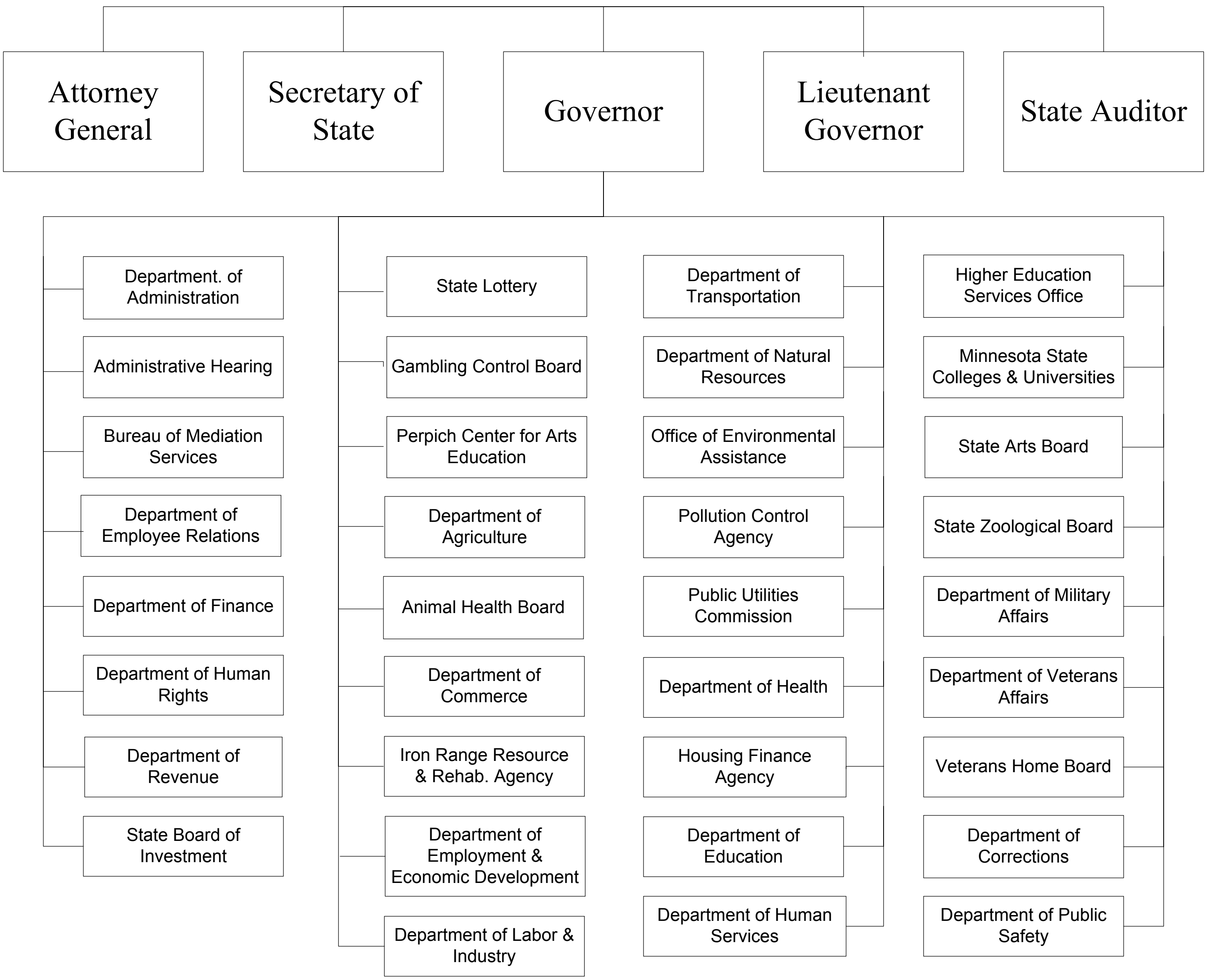
Banking and cash management activities.

To receive and account for all moneys paid into the State treasury properly disbursed or invested.

Accounting System

State law requires the Commissioner of Finance to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

STATE ORGANIZATION CHART



State law requires the Commissioner of Finance to administer the payroll of all employees of the executive branch of government.

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

Financial Reporting

State law requires the Commissioner of Finance to prepare a comprehensive financial report for each Fiscal Year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2003 general purpose financial statements are presented in Appendix A, and general long-term debt unaudited schedules are presented in Appendix B.

Investments

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

Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the constitution, State law, or by federal law.

Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

Revenues and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

The State currently has 15 bargaining units for State employees. The Department of Employee Relations (DOER), Labor Relations and Total Compensation Division, negotiates seven non-faculty labor contracts. Minnesota State Colleges and Universities System staff negotiates three faculty contracts. The DOER develops compensation plans for unrepresented employees. All contracts and compensation plans are subject to review and approval by the Legislature.

Previous Biennium Labor Agreements for American Federation of State, County and Municipal Employees (AFSCME) Council 6 including the arbitration award for the Corrections Officers Unit, Minnesota Association of Professional Employees (MAPE), Middle Management Association (MMA), Minnesota Government Engineering Council (MGEC), State Residential Schools Education Association (SRSEA), Minnesota Law Enforcement Association (MLEA), the arbitration award for the Minnesota Nurses Association (MNA) and the three faculty unit contracts were approved by the Legislature and signed by the Governor effective April 10, 2003.

The State has settled voluntary agreements with AFSCME (5 units-craft, service, health care non-professional, clerical, and technical), MAPE, MMA, SRSEA, Minnesota State College Faculty Association (MSCF), Minnesota State University Administration and Service Faculty (MSUAF) and Minnesota State University Interfaculty Organization (IFO) for the Current Biennium employee contracts. The MLEA and AFSCME Correctional Officers Unit were settled by an arbitrator in May 2004 and were approved by the Subcommittee on Employee Relations. Two agreements remain unsettled, MGEC and MNA. The State is currently in an interest arbitration hearing with the MNA and a final outcome is expected sometime in November 2004. These two units' Previous Biennium agreements expired on June 30, 2003, and will remain in effect until subsequent agreements are reached and/or their contracts are cancelled.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of September, 2004
AFSCME (6 bargaining units)	18,140
MN Association of Professional Employees	10,510
Middle Management Association	2,700
MN Government Engineers Council	880
MN Nurses Association	770
MN Law Enforcement Association	690
State Residential Schools Education Association	170
State College Faculty Association	4,860
State University Interfaculty Organization	3,170
State University Admin and Service Faculty	560
Total Represented Employees	42,450
Total State Employment	45,300
Percent of All Executive Branch Employees Unionized	94%

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 General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in Table G-1. Additionally, Table G-2 presents summary data on the financial condition of the plans for the most recent Fiscal Year on which valuation data is available. Information provided in Table G-2 includes:

a. current assets held in trust for participants;
b. the accrued benefit liability;
c. the accrued liability funding ratio;
d. the number of plan members;
e. identification of the funds for which the State has custodial responsibility; and
f. identification of the funds for which the State may have a contingent liability.

Information concerning the specific benefit provisions of each plan is available upon request from the Commissioner of Finance.

Effective July 1, 1997, annual cost-of-living increases tied to national CPI are guaranteed up to 2.5%. Any benefit increase beyond that level is based on a rolling five-year average market value gain to retiree assets, less an assumed minimum 6% return.

Each plan's financing requirement is determined by a specific formula established in State law. No assurance can be provided that the formulas will not change in the future. A brief description of the existing formulas follows:

1. *Minnesota State Retirement System; State Teachers' Retirement Association; Public Employees' Retirement Association; and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds the contribution is specified in statute as a fixed percentage of the plan member's salary.

2. *Adjustments for Pre-1973 Retirees in Various Funds.* Contributions for these adjustments are included in payroll deductions and employer contributions as part of the total fund liabilities with the exception of the *Minneapolis Employees Retirement Fund (MERF),* for which the State made annual appropriations of $550,000. This appropriation terminated at the end of Fiscal Year 2001.

3. *State's share of amortizing unfunded liabilities of local police or fire relief associations that are being phased out.* Current State law provides that the State's contribution for the next 12 years will remain at the level of the Fiscal Year 1992 appropriation, or less, as plans achieve full-funding, before the year 2010.

4. *Minneapolis Employees' Retirement Fund.* This fund is closed to new members. The annual General Fund obligation is specified in statute as: (a) the total annual level dollar contribution needed to amortize the entry-age normal unfunded liability by 2020 as estimated in the most recent valuation, less (b) 2.5% of covered payroll, and less (c) $3,900,000. The total cannot exceed $9,000,000 per year.

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

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

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

TABLE G-1

	Estimated Direct General Fund Appropriation		
	Previous Biennium	**Current Biennium**	**Next Biennium**
		($ in thousands)	
Constitutional Officers' Retirement	$ 724	$ 835	$ 877
Legislators' Retirement Plan(1)	9,514	1,246	1,308
Judges' Retirement Plan(2)	1,998	0	0
Minneapolis Employees Retirement Fund(3)	7,742	13,725	14,186
Basic Local Police & Fire Association	129,591	151,644	168,356
Local Police or Fire Associations Amortization	9,410	9,290	9,290
Public Employees Retirement Association Aid	29,172	29,172	29,172
Minneapolis Teachers' Retirement Assoc.(4)	29,931	26,610	26,610
St. Paul Teachers' Retirement Association(4)	5,780	5,924	5,924
Duluth Teachers' Retirement Association(5)	486	0	0
TOTAL	$ 94,757	$ 86,802	$ 87,367

(1) The payment of pension obligations for pre-1997 legislators was converted from a pre-funded post-retirement system to an annual pay-as-you-go system. All annual pension obligations for members in that plan are paid in full on an annual basis with no changes implemented in member contribution rates or benefit levels.

(2) 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.

(3) Effective July 1, 1998, the state contribution is provided on a formula basis and is capped at no more than $9 million per fiscal year. Any requirements beyond the capped aid are the exclusive obligation of the employer units.

(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.

(5) As of July 1, 2001, the accrued liability funding ratio of the Duluth Teachers' Retirement Fund Association exceeded that of the state Teachers Retirement Fund Association. As such, the state's obligation to participate in funding of the Duluth teachers plan was terminated at the end of fiscal year 2002.

2004 Pension Legislation

- Modified disability benefit provisions in PERA by tightening eligibility criteria.
- Added certain employees at the Rush City Correctional Facility to the MSRS Correctional Employees Fund.
- Extended the amortization date of the Minneapolis Police Relief Association Fund from 2010 to 2020 and modified benefit levels to retirees in that plan.

TABLE G-2

Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, July 1, 2003[1]
($ in Millions)

	Current Assets	Accrued Benefit Liability	Funding Ratio	Active Members	Other Members
1. Funds For Which the State Has Custodial Responsibility					
Minnesota State Retirement System:					
— General Employees Fund	$ 7,758	$ 7,831	99.06%	48,136	42,759
— Correctional Employees Fund	471	485	97.06%	3,262	2,001
— State Patrol Employees Fund	592	539	109.75%	805	818
— Judges Retirement Fund	134	176	76.09%	288	280
— Legislators Retirement Fund[2]	46	78	58.28%	134	230
— Constitutional Officers Fund[2]	201	4,075	4.93%	0	17
Public Employees Retirement Association:					
— Public Employees Fund	11,176	13,776	81.27%	140,266	179,031
— PERA Police & Fire Fund	4,714	4,391	107.35%	9,948	7,706
— Local Correctional Service Fund	56	63	90.32%	3,155	1,392
Teachers Retirement Association	17,384	16,856	103.13%	71,916	64,759
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund	1,519	1,646	92.31%	705	5,149
Local Police & Fire Associations[1]	769	664	86.31%	157	1,771
St. Paul Teachers' Retirement Fund	899	1,189	75.57%	4,331	5,072
Minneapolis Teachers' Ret. Fund	957	1,672	57.23%	5,381	7,822
Duluth Teachers' Retirement Fund	278	291	95.66%	1,373	2,120

(1) The information provided in this table reflects the condition of all funds as of June 30, 2003, except for four local police & fire relief association funds that report separately on December 31, 2003: Minneapolis Fire, Minneapolis Police, Fairmont Police, and Virginia Fire.

(2) The pre-1997 Legislators and Constitutional Officers defined benefit retirement plans are now financed on a pay-as-you-go basis from annual appropriations — there are no separate assets reserved for these plans. Legislators and Constitutional Officers first elected after July 1, 1997 are members of the state's defined contribution plan. Information presented herein for Legislators and Constitutional Officers is from July 1, 2002 data.

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APPENDIX H

Selected Economic and Demographic Statistics

Population Trends In The State

Minnesota resident population grew from 4,390,000 in 1990 to 4,934,000 in 2000 or, at an average annual compound rate of 1.2 percent as shown in Table 1. In comparison, U.S. population also grew at an annual compound rate of 1.2 percent during this period. Between 2000 and 2003, data in Table 1 indicate Minnesota population grew at annual compound rate of 0.8 percent compared to 1.0 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 0.8 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 2003 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 fourteen 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 2003 was highly concentrated in the fabricated metals, machinery, and computers and electronics categories. Of particular importance is the computers and electronics category in which 24.6 percent of the State's durable goods employment was concentrated in 2003, as compared to 15.2 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 computers and electronics classification. The miscellaneous manufacturing category includes Medtronic and other manufacturers of cardiac pacemakers.

The importance of the State's rich resource base is apparent in the employment mix in non-durable goods industries displayed in Table 4. In 2003, 36.5 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 27.3 percent in the national economy. Food manufacturing relies heavily on renewable resources in the State. Over half of the State's acreage is devoted to agricultural purposes. Printing and Related is also relatively more important in the State than in the U.S.

Mining is currently a less significant factor in the State economy than it once was. Mining employment, primarily in the iron ore or taconite industry, dropped to 3.5 thousand in 2003, down from 6.1 thousand in 1990. However, Minnesota retains vast quantities of taconite as well as copper, nickel, cobalt, and peat which may be utilized in the future.

Employment Growth In The State

In the period 1990 to 2000, overall employment growth in Minnesota exceeded national growth as shown in Table 5. Manufacturing has been a strong sector, with Minnesota employment outperforming its U.S. counterpart in both the 1990-2000 and 2000-2003 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.3 percent while increasing 19.9 percent nationally. Non-farm 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. The recent recession also appears to have been less severe in Minnesota than nationally. For the 2000 to 2003 period, Minnesota non-farm employment declined 0.9 percent compared to 1.4 percent nationally.

Performance Of The State's Economy

Since 1990, 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 2003, Minnesota per capita personal income was 108.9 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 2003. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and fourth during the period 2000 to 2003. Table 8 shows that Minnesota ranked fourth in personal income growth among neighboring states in 2002-2003. Over the period 1990 to 2000, Table 9 shows Minnesota non-farm employment grew 25.8 percent while the entire North Central Region grew 18.6 percent. During the 2000-2003 period, Minnesota non-farm employment declined 0.9 percent, while regional employment declined 3.3 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2002 and 2003, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 4.4 percent in 2002, as compared to the national average of 5.8 percent. In 2003, Minnesota's unemployment rate averaged 5.0 percent, as compared to the national average of 6.0 percent.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Average Annual Compound % Change U.S.	Average Annual Compound % Change Minnesota
1990	249,623	4,390	0.9	0.7
1991	252,981	4,441	1.3	1.2
1992	256,514	4,495	1.4	1.2
1993	259,919	4,556	1.3	1.4
1994	263,126	4,610	1.2	1.2
1995	266,278	4,660	1.2	1.1
1996	269,394	4,713	1.2	1.1
1997	272,647	4,763	1.2	1.1
1998	275,854	4,813	1.2	1.0
1999	279,040	4,873	1.2	1.2
2000	282,178	4,934	1.1	1.3
2001	285,094	4,985	1.0	1.0
2002	287,974	5,025	1.0	0.8
2003	290,810	5,059	1.0	0.7

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2003
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durables	217.0	8.0	8,970	6.8
Manufacturing Non-Durables	127.3	4.7	5,555	4.2
Natural Resources and Mining	6.0	0.2	571	0.4
Construction	125.2	4.6	6,722	5.1
Trade	429.5	15.7	20,517	15.6
Transportation, Warehousing, Public Utilities	92.1	3.4	4,758	3.6
Information	62.6	2.3	3,198	2.4
Financial Activities	176.0	6.5	7,974	6.0
Professional and Business Services	294.5	10.8	15,997	12.1
Education and Health Services	367.2	13.5	16,576	12.5
Leisure and Hospitality	246.4	9.1	12,125	9.2
Other Services	118.9	4.4	5,393	4.1
Government	388.5	14.3	21,574	16.3
Agriculture	67.7	2.5	2,275	1.7
Total	2,718.9	100.0	132,205	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data, March 2004. Minnesota services data includes Indian gaming.

Minnesota employment data benchmarked to March 2003 levels.

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

U.S. employment data benchmarked to March 2003 levels.

Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Employment and Economic Development.

U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January 2004.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2003
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Wood Products	16.8	7.7	536	6.0
Fabricated Metals	40.6	18.7	1,478	16.5
Machinery	34.5	15.9	1,154	12.9
Computers and Electronics	53.5	24.6	1,361	15.2
Electrical Equipment	7.6	3.5	460	5.1
Transportation Equipment	16.3	7.5	1,775	19.7
Furniture and Related	12.5	5.8	574	6.4
Miscellaneous Manufacturing	19.2	8.9	663	7.4
Other Durables	16.0	7.4	969	10.8
Total	217.0	100.0	8,970	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota employment data benchmarked to March 2003. U.S. data benchmarked to March 2003. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 4
EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2003
(Thousands of Jobs)

Non-Durable Goods	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	46.4	36.5	1,519	27.3
Paper and Paper Products	13.1	10.3	519	9.3
Printing and Related	30.7	24.1	680	12.2
Plastic and Rubber Products	16.7	13.1	816	14.7
Other Non Durables	20.4	16.0	2,021	36.5
Total	127.3	100.0	5,555	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota data benchmarked to March 2003. U.S. data benchmarked to March 2003. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 5
EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2003
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	1990	2000	2003	1990-2000	2000-2003	1990	2000	2003	1990-2000	2000-2003
Manufacturing Durables	217.2	255.5	217.0	17.6	(15.1)	10,736	10,876	8,970	1.3	(17.5)
Manufacturing Non-Durables	124.2	141.1	127.3	13.6	(9.8)	6,959	6,388	5,555	(8.2)	(13.0)
Natural Resources and Mining	8.4	8.1	6.0	(3.6)	(25.9)	765	599	571	(21.7)	(4.7)
Construction	77.9	118.9	125.2	52.6	5.3	5,263	6,787	6,722	29.0	(1.0)
Trade	362.1	436.2	429.5	20.5	(1.5)	18,451	21,213	20,517	15.0	(3.3)
Transportation Warehousing and Utilities	85.8	103.4	92.1	20.4	(10.9)	4,215	5,012	4,758	18.9	(5.1)
Information	54.4	69.3	62.6	27.4	(9.7)	2,688	3,631	3,198	35.1	(11.9)
Financial Activities	129.3	164.8	176.0	27.5	6.8	6,614	7,687	7,974	16.2	3.7
Professional and Business Services	214.5	319.3	294.5	48.9	(7.8)	10,848	16,666	15,997	53.6	(4.0)
Education and Health Services	241.8	325.0	367.2	34.4	13.0	10,984	15,108	16,576	37.6	9.7
Leisure and Hospitality	181.0	235.0	246.4	29.8	4.9	9,288	11,862	12,125	27.7	2.2
Other Services	92.2	114.7	118.9	24.4	3.7	4,261	5,168	5,393	21.3	4.4
Government	337.7	384.3	388.5	13.8	1.1	18,415	20,790	21,574	12.9	3.8
Agriculture	103.1	73.4	67.7	(28.8)	(7.8)	3,223	2,464	2,275	(23.5)	(7.7)
Total	2,229.6	2,748.9	2,718.9	23.3	(1.1)	112,710	135,093	132,205	19.9	(2.1)

Sources: Minnesota 1990, 2000 and 2003 — Minnesota Department of Employment and Economic Development, unpublished data.

U.S. 1990, 2000 and 2003, Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota employment data benchmarked to March 2003 levels. Minnesota services data includes Indian gaming. U.S. employment benchmarked to March 2003. Both Minnesota and U.S. industry detail determined according to the North American Industrial Classification System (NAICS).

Minnesota agricultural employment: Unpublished estimate from Minnesota Department of Employment and Economic Development. U.S. Agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings January 2004.

U.S. and Minnesota agricultural employment data for 2003 not necessarily comparable with earlier years because of changes in methodology.

TABLE 6
MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1994	22,985	22,172	103.7
1995	24,078	23,076	104.3
1996	25,716	24,175	106.4
1997	26,953	25,334	106.4
1998	28,993	26,883	107.9
1999	30,106	27,939	107.8
2000	32,018	29,847	107.3
2001	32,722	30,527	107.2
2002	33,322	30,906	107.8
2003	34,443	31,632	108.9

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2003

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2003 Personal Income (Millions)	2000-2003 Rate of Increase (%)	Regional Rank 2000-2002	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2003 Population (Thousands)	2003 Per Capita Personal Income ($)	2003 Regional Rank
Illinois	238,499	400,373	5.32	6	426,298	2.11	11	12,439	20,824	1	12,654	33,690	2
Ohio	203,630	320,538	4.64	12	342,438	2.23	10	11,363	18,743	4	11,436	29,944	6
Michigan	176,189	294,227	5.26	7	306,820	1.41	12	9,956	18,922	3	10,080	30,439	5
Indiana	97,213	165,285	5.45	4	178,327	2.56	9	6,092	17,491	9	6,196	28,783	12
Wisconsin	88,635	153,548	5.65	2	169,081	3.26	5	5,374	18,072	6	5,472	30,898	3
Missouri	90,407	152,722	5.38	5	166,868	3.00	8	5,606	17,627	8	5,704	29,252	8
Minnesota	87,318	157,964	6.11	1	174,259	3.33	4	4,934	19,891	2	5,059	34,443	1
Iowa	48,358	77,763	4.86	10	85,506	3.21	6	2,929	17,389	10	2,944	29,043	11
Kansas	44,876	74,570	5.21	9	81,529	3.02	7	2,693	18,085	5	2,724	29,935	7
Nebraska	28,444	47,329	5.22	8	53,497	4.17	3	1,713	17,983	7	1,739	30,758	4
South Dakota	11,273	19,438	5.60	3	22,344	4.75	2	756	16,172	11	764	29,234	9
North Dakota	10,166	16,097	4.70	11	18,511	4.77	1	641	15,943	12	634	29,204	10

Source: Global Insight (USA), Inc., @ Markets Data Bank.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION(1)
2001-2003

Rank	State	Percent Growth
1	South Dakota	8.96
2	North Dakota	8.75
3	Nebraska	6.11
4	MINNESOTA	4.08
5	Kansas	4.01
6	Iowa	3.69
7	Wisconsin	3.44
8	Indiana	3.32
9	Missouri	3.23
10	Ohio	2.81
11	Illinois	2.47
12	Michigan	2.46
	REGION	3.21

Source: Global Insight (USA), Inc., @ Markets Data Bank.

(1) Refer to Table 7 for Personal Income figures.

TABLE 9
NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION
(Thousands of Jobs)

State	1990 Employment	2000 Employment	2003 Employment	% Increase 1990-2000	2000-2003
Illinois	5,288.4	6,044.8	5,817.6	14.3	(3.8)
Ohio	4,882.3	5,624.7	5,391.0	15.2	(4.2)
Michigan	3,969.7	4,673.9	4,411.8	17.7	(5.6)
Indiana	2,521.9	3,000.1	2,896.8	19.0	(3.4)
Wisconsin	2,291.5	2,833.8	2,778.9	23.7	(1.9)
Missouri	2,345.0	2,748.7	2,676.0	17.2	(2.6)
MINNESOTA	2,126.7	2,675.7	2,651.3	25.8	(0.9)
Iowa	1,226.4	1,478.5	1,440.3	20.6	(2.6)
Kansas	1,088.5	1,344.9	1,311.9	23.6	(2.5)
Nebraska	730.1	908.4	903.8	24.4	(0.5)
South Dakota	288.7	377.7	378.2	30.8	0.1
North Dakota	265.8	327.7	332.6	23.2	1.5
Region	27,025.0	32,038.9	30,990.2	18.6	(3.3)

Source: Global Insight (USA), Inc., @ Markets Data Bank. Minnesota employment data from Minnesota Department of Employment and Economic Development, benchmarked to March 2003.

TABLE 10
MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1998-2003 AND THE FIRST EIGHT MONTHS OF 2004 NOT SEASONALLY ADJUSTED

	Annual Average	
Year	**Minnesota**	**U.S.**
1998	2.5%	4.5%
1999	2.8%	4.2%
2000	3.3%	4.0%
2001	3.7%	4.7%
2002	4.4%	5.8%

Month	**Minnesota**	**U.S.**
2003		
January	5.7%	6.5%
February	5.5%	6.4%
March	5.4%	6.2%
April	5.2%	5.8%
May	4.4%	5.8%
June	5.3%	6.5%
July	4.9%	6.3%
August	4.6%	6.0%
September	4.9%	5.8%
October	4.5%	5.6%
November	4.6%	5.6%
December	4.9%	5.4%
Annual Average	5.0%	6.0%

Month	**Minnesota**	**U.S.**
2004		
January	5.5%	6.3%
February	5.4%	6.0%
March	5.3%	6.0%
April	4.5%	5.4%
May	3.8%	5.3%
June	4.7%	5.8%
July	4.2%	5.7%
August	4.3%	5.4%

Source: Minnesota Department of Employment and Economic Development.

TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank			Revenues	Assets		Profits	
03	02	Company	$000	$000	Rank	$000	Rank
23	25	Target	48,163,000	31,392,000	113	1,841,000	62
54	63	United Health Group	28,823,000	17,634,000	179	1,825,000	63
78	91	Best Buy	22,673,000	7,663,000	301	99,000	378
99	81	Supervalu	19,160,400	5,896,200	341	257,000	298
105	110	Minnesota Mining & Mfg.	18,232,000	17,593,000	180	2,403,000	49
133	123	U.S. Bancorp	15,354,400	189,286,000	23	3,732,600	30
186	235	General Mills	10,506,000	18,227,000	177	917,000	123
207	193	Northwest Airlines	9,510,000	14,158,000	213	248,000	303
212	237	Cenex Harvest States	9,398,000	3,808,000	398	123,800	358
227	207	St. Paul Cos.	8,958,000	39,563,000	91	661,000	167
254	180	Xcel Energy	7,938,500	18,264,400	176	622,500	183
263	276	Medtronic	7,665,200	12,320,800	233	1,599,800	70
284	—	Thrivent Financial for Lutherans	6,575,200	49,355,000	73	23,800	424
308	297	Land O' Lakes	5,978,100	3,070,900	429	106,500	370
411	408	Hormel Foods	4,200,300	2,393,100	457	185,800	333
433	410	Nash Finch	3,971,500	886,400	499	35,100	416
451	457	Ecolab	3,761,800	3,228,900	423	277,300	288
467	464	C.H. Robinson Worldwide	3,613,600	908,100	498	114,100	367
498	470	PepsiAmericas	3,236,800	3,582,400	413	157,600	341

Source: *Fortune Magazine,* dated April 5, 2004.

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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 October 19, 2004 (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 2004 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the Fiscal Year ending on the previous June 30, prepared by the Department of Finance in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such Fiscal Year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been submitted to each of the repositories referred to under this paragraph (b) or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this paragraph (b)(1) or subsection (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, notice of the occurrence of any of the following events and which is a Material Fact (as hereinafter defined):

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults;

(C) Unscheduled draws on debt service reserves reflecting financial difficulties;

(D) Unscheduled draws on credit enhancements reflecting financial difficulties;

(E) Substitution of credit or liquidity providers, or their failure to perform;

(F) Adverse tax opinions or events affecting the tax-exempt status of the security;

(G) Modifications to rights to security holders;

(H) Bond calls;

(I) Defeasances;

(J) Release, substitution, or sale of property securing repayment of the securities; and

(K) Rating changes.

As used herein, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a “Material Fact” is also an event that would be deemed “material” for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

(3) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (1) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the State under subsection (d)(2);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (1) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) *Manner of Disclosure.* The Commissioner agrees to make available the information described in paragraph (b) to the following entities by telecopy, overnight delivery, mail or other means, as appropriate:

(1) the information described in subparagraph (1) of paragraph (b), to each then nationally recognized municipal securities information repository under Rule 15c2-12 and to any State information depository then designated or operated by the State of Minnesota as contemplated by Rule 15c2-12 (the "State Depository"), if any;

(2) the information described in subparagraphs (2) and (3) of paragraph (b), to the Municipal Securities Rulemaking Board and to the State Depository, if any; and

(3) the information described in paragraph (b), to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraphs (1) or (2) of this paragraph (c), as the case may be, or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(d) *Term; Amendments; Interpretation.*

(1) The covenants of the State in this Section 3.02 shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (3) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (i) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2 12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that Rule 15c2-12 is in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) *Failure to Comply; Remedies.* If the State fails to comply with any provision of this Section 3.02 any person aggrieved thereby, including the Registered Owner of any outstanding Bond, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) *Further Limitation of Liability of State.* If and to the extent the limitations of liability contained in subsection (e) are not effective, anything contained in this Section 3.02 to the contrary notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State.

The Commissioner of Finance is not in default of any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

APPENDIX J
Definition of Ratings

Moody's Investors Service, Inc.:

Aa1 Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Standard & Poor's Ratings Group:

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

Fitch Ratings:

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

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APPENDIX K
Form of Legal Opinion

The Honorable Peggy S. Ingison
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $391,880,000 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 $391,880,000 General Obligation State Bonds dated November 1, 2004 (the "Bonds") consisting of $180,000,000 General Obligation State Various Purpose Bonds, $40,000,000 General Obligation State Trunk Highway Bonds and $171,880,000 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: November , 2004.