**OFFICIAL STATEMENT DATED SEPTEMBER 21, 2005**

**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 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.

# $557,960,000
# STATE OF MINNESOTA

## General Obligation State Bonds

**Dated: October 1, 2005** **Due: October 1, as shown below**

| Year | Amount | Interest Rate | Price or Yield | CUSIP 604129 | Year | Amount | Interest Rate | Price or Yield | CUSIP 604129 |
|---|---|---|---|---|---|---|---|---|---|
| 2006 | $25,515,000 | 5.00% | 2.80% | AA4 | 2016 | $27,000,000 | 5.00% | 3.69% | AL0 |
| 2007 | $36,430,000 | 5.00 | 2.88 | AB2 | 2017 | $18,725,000 | 5.00 | 3.74 | AM8 |
| 2008 | $38,640,000 | 5.00 | 2.97 | AC0 | 2018 | $18,725,000 | 5.00 | 3.79 | AN6 |
| 2009 | $38,630,000 | 5.00 | 3.05 | AD8 | 2019 | $18,725,000 | 5.00 | 3.84 | AP1 |
| 2010 | $38,600,000 | 5.00 | 3.13 | AE6 | 2020 | $18,725,000 | 5.00 | 3.91 | AQ9 |
| 2011 | $36,560,000 | 5.00 | 3.25 | AF3 | 2021 | $18,725,000 | 5.00 | 3.96 | AR7 |
| 2012 | $39,000,000 | 5.00 | 3.37 | AG1 | 2022 | $18,725,000 | 5.00 | 3.98 | AS5 |
| 2013 | $36,445,000 | 5.00 | 3.44 | AH9 | 2023 | $18,725,000 | 5.00 | 4.02 | AT3 |
| 2014 | $36,370,000 | 5.00 | 3.53 | AJ5 | 2024 | $18,725,000 | 5.00 | 4.06 | AU0 |
| 2015 | $36,245,000 | 5.00 | 3.61 | AK2 | 2025 | $18,725,000 | 5.00 | 4.10 | AV8 |

(Plus accrued interest from October 1, 2005)

The Bonds comprise $285,400,000 General Obligation State Various Purpose Bonds, $111,600,000 General Obligation State Trunk Highway Bonds, and $160,960,000 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 October 1, 2015 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 October 3, 2005.

This cover page contains certain information for quick reference only. It is *not* a summary of this issue or this Official Statement. 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

# $557,960,000

## General Obligation State Bonds

## Dated October 1, 2005

### INTRODUCTION

**General**

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 17 through 59, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $285,400,000 General Obligation State Various Purpose Bonds, $111,600,000 General Obligation State Trunk Highway Bonds and $160,960,000 General Obligation State Refunding Bonds of the State of Minnesota (the "State") to be dated October 1, 2005 (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" and in Appendix C hereto.

Bonds in the principal amount of $285,400,000 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 $111,600,000 are being issued for the purpose of financing the cost of certain construction, improvement and maintenance of the State trunk highway system.

Bonds in the principal amount of $160,960,000 are being issued for the purpose of refunding $80,850,000 in principal amount of outstanding general obligation bonds of the State dated May 1, 1996 and $82,750,000 in principal amount of outstanding general obligation bonds of the State dated November 1, 1996 (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 dates 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 April 1 and October 1 to maturity or prior redemption, commencing April 1, 2006. 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 $285,400,000 General Obligation State Various Purpose Bonds, $111,600,000 General Obligation State Trunk Highway Bonds, and $160,960,000 General Obligation State Refunding Bonds. The maturity schedules are shown below.

**$285,400,000 General Obligation State Various Purpose Bonds**

| Year | Principal Amount | Year | Principal Amount |
|---|---|---|---|
| 2006 | $16,145,000 | 2016 | $13,145,000 |
| 2007 | 16,145,000 | 2017 | 13,145,000 |
| 2008 | 16,145,000 | 2018 | 13,145,000 |
| 2009 | 16,145,000 | 2019 | 13,145,000 |
| 2010 | 16,145,000 | 2020 | 13,145,000 |
| 2011 | 14,145,000 | 2021 | 13,145,000 |
| 2012 | 16,645,000 | 2022 | 13,145,000 |
| 2013 | 14,145,000 | 2023 | 13,145,000 |
| 2014 | 14,145,000 | 2024 | 13,145,000 |
| 2015 | 14,145,000 | 2025 | 13,145,000 |

**$111,600,000 General Obligation State Trunk Highway Bonds**

| Year | Principal Amount | Year | Principal Amount |
|---|---|---|---|
| 2006 | $5,580,000 | 2016 | $5,580,000 |
| 2007 | 5,580,000 | 2017 | 5,580,000 |
| 2008 | 5,580,000 | 2018 | 5,580,000 |
| 2009 | 5,580,000 | 2019 | 5,580,000 |
| 2010 | 5,580,000 | 2020 | 5,580,000 |
| 2011 | 5,580,000 | 2021 | 5,580,000 |
| 2012 | 5,580,000 | 2022 | 5,580,000 |
| 2013 | 5,580,000 | 2023 | 5,580,000 |
| 2014 | 5,580,000 | 2024 | 5,580,000 |
| 2015 | 5,580,000 | 2025 | 5,580,000 |

**$160,960,000 General Obligation State Refunding Bonds**

| Year | Principal Amount |
|---|---|
| 2006 | $ 3,790,000 |
| 2007 | 14,705,000 |
| 2008 | 16,915,000 |
| 2009 | 16,905,000 |
| 2010 | 16,875,000 |
| 2011 | 16,835,000 |
| 2012 | 16,775,000 |
| 2013 | 16,720,000 |
| 2014 | 16,645,000 |
| 2015 | 16,520,000 |
| 2016 | 8,275,000 |

### Legal Opinions — Tax Exemption

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

In the opinion of Dorsey & Whitney LLP, bond counsel, according to present federal and Minnesota laws, regulations, rulings and decisions, the interest to be paid on the Bonds is not includable in gross income 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 plan 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 typically adopted by the State’s legislature (the “Legislature”) during the final legislative session prior to the beginning of the current 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, 2007 (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 49.

**CURRENT BIENNIUM**
**GENERAL FUND**
**END OF 2005 LEGISLATIVE SESSIONS**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,683 |
| Dedicated Revenues, Transfers In and Other | 903 |
| Total Resources | $31,589 |
| **Expenditures** | 30,574 |
| **Projected Unreserved Balance at June 30, 2007** | $ 1,015 |
| **Cash Flow Account** | 653 |
| **Budget Reserve Account** | 350 |
| **Projected Unrestricted Balance at June 30, 2007** | $ 12 |

**CURRENT BIENNIUM**
**TRUNK HIGHWAY FUND**
**END OF 2005 LEGISLATIVE SESSIONS**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 20 |
| Highway User Taxes | 1,558 |
| Federal Aid(1) | 782 |
| Dedicated Revenues, Transfers In and Other | 42 |
| Total Resources | $2,402 |
| **Expenditures** | 2,366 |
| **Projected Unreserved Balance at June 30, 2007** | $ 36 |

### Bonds Outstanding

The total amount of State general obligation bonds outstanding on October 1, 2005, including this issue will be approximately $3.6 billion. The total amount of general obligation bonds authorized but unissued as of October 1, 2005, will be approximately $1,043.3 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. The Statutory General Fund is defined in Appendix D.

### Additional Information

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

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(1) See table and footnote on page 53.

## 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 $285,400,000 General Obligation State Various Purpose Bonds and $111,600,000 General Obligation State Trunk Highway Bonds being issued comprise bonds authorized by several different laws.

*General Obligation State Various Purpose Bonds.*

Laws 1999, Chapter 240, as amended, authorizes the issuance of $439,530,100 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 $500,000 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 $186,000 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 $455,000 are included in this issue.

Laws 2000, Chapter 492, as amended, authorizes the issuance of $528,426,300 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 $3,600,000 are included in this issue.

Laws 2002, Chapter 374, authorizes the issuance of $75,120,000,000 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 $1,600,000 are included in this issue.

Laws 2002, Chapter 393, authorizes the issuance of $624,712,000 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 $33,900,000 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 $28,400,000 are included in this issue.

Laws 2005, Chapter 20, authorizes the issuance of $944,980,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, and Minnesota Statutes, Sections 16A.631 to16A.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 $214,259,000 are included in this issue.

Special Session Laws 2005, Chapter 3, authorizes the issuance of $18,000,000 of bonds of the State pursuant to the Minnesota Constitution, Article XI, Section 5, paragraph (h), for the purpose of developing the State's agricultural resources by financing the Rural Finance Authority's programs, of which $2,500,000 are included in this issue.

*General Obligation State Trunk Highway Bonds.*

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

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 $110,000,000 are included in this issue.

Special Session Laws 2003, Chapter 19, Article 4, authorizes the issuance of $110,110,000 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 $1,500,000 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 $160,960,000 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

(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).

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.

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 October 1, 2015 will not be subject to redemption prior to their stated maturity dates, but Bonds maturing on or after October 1, 2016 will be subject to redemption and prepayment by the State at its option on October 1, 2015 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 its 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 59 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, 2004, 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.

1. *Tort Claims.* The Tort Claims appropriations for the fiscal years ending June 30, 2005 is $761,000 and for the fiscal years ending June 30, 2006 is also $761,000.

2. *Austin, et al. v. Goodno.* The Minnesota Court of Appeals affirmed the decision of the District Court in favor of Plaintiffs on December 28, 2004. The Minnesota Supreme Court denied the Commissioner's petition for review on March 15, 2005. The parties reached an agreement regarding attorneys' fees in May 2005, which finalized the litigation.

3. *ARRM, et. al. v. Goodno; Masterman, et al. v. Goodno, et al.* The State reached a settlement in the AARM litigation in late 2004, which did not result in payment of additional funds, costs, or attorneys' fees.

4. *Council of Independent Tobacco Manufacturers of America, et al. v. The State of Minnesota, et al.* The Minnesota Supreme Court accepted review of this matter. An opinion is expected during the fall of 2005.

5. *Dahl, et al. v. Goodno (Ramsey County District Court).* Medicaid recipients filed a class action challenging a provision of 2003 Minnesota legislation authorizing Medicaid co-payments. The challenged provision allows providers to deny services for nonpayment of past due Medicaid co-pay debt. Plaintiffs also assert that the state failed to provide adequate notice when the statute was implemented and following each provider denial. Plaintiffs seek declaratory and injunctive relief, reimbursement of all co-pays paid by class members since October 1, 2003 (which may exceed $10 million), costs and attorneys' fees. The court heard arguments on Plaintiffs' motion for class certification on June 30, 2005, and arguments on the parties' cross-motions for summary judgment on July 14, 2005. Rulings on the motions are expected during the fall of 2005. Appeals are anticipated.

6. *Gerber v. Gerber.* Minnesota Supreme Court. The Court of appeals held that income withholding for child support collections is "a judicial remedy," rather than an "administrative remedy"

determining the income withholding order was unenforceable by Anoka County because the underlying judgment had expired under the ten year statute of limitation provided by Minnesota Statutes section 541.04. The Supreme Court granted the Commissioner of Human Services' request to participate in an amicus to discuss the statewide policy impact and financial ramifications of the Court of Appeals' decision. If allowed to stand, the Commissioner of Human Services believes that the Court of Appeals' ruling will bar county child support agencies from collecting approximately $52.8 million in child support arrearages in upwards of 8,200 child support cases statewide. The counties' inability to collect support arrearages for families with children raises the possibility that some of these families may seek public assistance, thereby increasing demand on the State's public assistance programs. It is difficult to determine the dollar impact of this decision to the State's public assistance programs, however, and therefore an estimate has not been generated. Appellant Anoka County's brief is due in late August and the Commissioner of Human Services' amicus brief is due September 2, 2005.

7. *Hutchinson Technology, Inc. v. Commissioner of Revenue.* The Minnesota Supreme Court ruled against the Commissioner on all three issues listed in Note 22. At the time that report was prepared, the Commissioner of Revenue estimated a potential fiscal impact of $117 million for the then current 2004/05 biennium. The Commissioner of Revenue's current estimate for the 06/07 biennium is a $165-$200 million retroactive, and $85-$100 million prospective, fiscal impact, and for the 08/09 biennium a $100-$135 million retroactive, and $50-$65 million prospective, fiscal impact. The Commissioner of Revenue provides range estimates because he believes there is uncertainty about which companies are impacted by the decision and how they have been interpreting corporate tax law since the lower court's decision approximately one year ago.

8. *Medical Assistance Supplemental Payments to Government Owned Facilities.* The federal Centers for Medicaid and Medicare Services ("CMS") has disapproved a Minnesota Medicaid state plan amendment that provides for increased payments to local government owned nursing homes. DHS is challenging the disapproval through an administrative appeal and anticipates appeals in the federal courts. In addition, CMS has disallowed and seeks to recover the federal share of the increased supplemental payments through a separate administrative proceeding, which will also likely lead to appeals in the federal courts. If CMS is successful in the present disapproval litigation and its threatened disapproval of other similar state plan amendments, the State could lose federal financial participation of approximately $11 million per year. In the disapproval litigation, the parties have conducted discovery and submitted briefs for dispositive determination by the federal hearing officer. In the disallowance litigation, the federal Department of Appeals Board issued an order on May 12, 2005 granting the State's motion to stay the State's disallowance appeal, pending determination of the disapproval litigation.

9. *MBNA American Bank v. State.* Three related cases challenging the State's jurisdiction to tax corporate income for tax years 1991-95, and 1997. For some years the matter is in tax court, for other years the matter is in district court. At issue is whether, under the Commerce Clause of the United States Constitution, MBNA had sufficient contacts with the state to create "nexus" and therefore to allow the State to impose its corporate franchise tax upon MBNA. The first of these cases is currently scheduled for trial on January 19, 2006. Although the amount in controversy in these cases does not exceed $10 million, a decision in MBNA's favor could result in a potential revenue impact in excess of $10 million when taking into account potential claims by similarly situated taxpayers.

10. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* Ramsey County District Court. Defendant cigarette manufacturers and the State executed a settlement agreement on May 8, 1998, under which defendants agreed to make annual payments in perpetuity to the State, and the State released defendants from all future claims for reimbursement for healthcare costs. Effective August 1, 2005, the Legislature imposed a tobacco use health impact fee to recover State health costs related to tobacco use and to deter youth smoking. All revenue from the fee must be credited to the Health Impact Fund. Defendants have moved to enforce the settlement agreement alleging that imposition of the fee violates the agreement's release of claims provisions. The Department of Revenue estimates that a decision favorable to defendants would have an estimated $340 million impact on the Health Impact Fund for the Current Biennium. Defendants' motion is currently set for September 29, 2005. The Court is expected to rule quickly.

## 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 Merrill Lynch & Company as Underwriters, for a price of $605,190,479.76 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, 2004 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 2004 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2005 will be available by December 31, 2005. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2005 and the two-month period ending August 31, 2005 with comparative data for the same period ending June 30, 2004 and August 31, 2005 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, 2001, and which ended on June 30, 2003, is referred to herein as the "FY 2002-2003 Biennium." The biennium which began on July 1, 2003 and which ended on June 30, 2005, is referred to herein as the "Previous Biennium." The biennium which began on July 1, 2005 and which will end on June 30, 2007, is referred to herein as the "Current Biennium." The biennium which will begin July 1, 2007 and will end on June 30, 2009 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 were enacted by the 2005 Legislature in the special session ending in July 2005. 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 2003 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 2003 and 2004 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 2004 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 2004. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2004. In November 2004, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor for submission to the Legislature in January 2005. In February 2005, 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 2004, 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 36 to 45 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 established the Cash Flow Account at $350 million for the Current Biennium.

**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 $653 million for the Current Biennium. Previously enacted laws designating the allocation of future forecast positive balances remain unchanged. Any unrestricted General Fund balances resulting from future forecasts are to be used to further reduce school payment shifts enacted in 2003. The estimated remaining cost of completely reversing these payment shifts is $830 million.

### Control Procedures

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

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

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

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

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

## REVENUE AND EXPENDITURE FORECASTING

### General

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

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

### Forecasting Risks

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

### Current Forecast Methods and Assumptions

The 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. Capital gains are estimated to have grown 25% in 2003 and 16.4% in 2004 and are forecast to grow 9.4%, 8.8% and 9.0% in 2005, 2006 and 2007 respectively.

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 2005 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 2005 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 3.4 percent over the 2004 to 2009 period. Forecast growth rates for 2004 through 2006 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 2005**
**GROSS DOMESTIC PRODUCT (GDP)**
**BASELINE FORECAST**
**(Chained Rates of Growth)**

| | Calendar Year 2002 Actual % | Calendar Year 2003 Actual % | Calendar Year 2004 Forecast % | Calendar Year 2005 Forecast % | Calendar Year 2006 Forecast % |
|---|---|---|---|---|---|
| REAL GDP Growth Rate . . . . . . . . . . . | 1.9 | 3.0 | 4.4 | 3.5 | 3.1 |
| GDP DEFLATOR (Inflation) . . . . . . . . . | 1.6 | 1.8 | 2.1 | 1.8 | 1.7 |
| NOMINAL GDP Growth Rate . . . . . . . | 3.5 | 4.9 | 6.6 | 5.4 | 4.9 |

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2005 revenue and expenditure forecast is expected to be released in early December 2005. The November 2005 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

## 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, 2002 through 2004, and for the additional time periods shown. For the Fiscal Years ended June 30, 2002 through 2004 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, 2004 and June 30, 2005 and for the two-month periods ending August 31, 2004 and August 31, 2005, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2004, 2005 and 2006, 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) | | | July 1,2003 through June 30 2004 (1) | July 1,2004 through June 30 2005 (1) | July 1,2004 through August 31 2004 (1) | July 1,2005 through August 31 2005 (1) |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | | | | |
| UNRESTRICTED REVENUES: | | | | | | | |
| Income Tax - Individual | $6,259,345 | $6,458,630 | $6,799,651 | $6,625,308 | $7,222,347 | $828,053 | $909,869 |
| Income Tax - Corporation | 631,826 | 700,221 | 764,351 | 765,121 | 1,023,240 | 59,284 | 59,835 |
| Sales Tax | 3,996,652 | 3,983,067 | 4,160,205 | 4,164,968 | 4,457,210 | 597,559 | 622,287 |
| Statewide Property Tax (2) | 305,573 | 585,416 | 599,622 | 429,029 | 577,084 | 245 | 272 |
| Inheritance and Gift Tax | 63,990 | 130,814 | 91,326 | 88,924 | 72,251 | 10,910 | 129,421 |
| Liquor, Wine and Malt Beverage Tax | 53,922 | 64,973 | 66,667 | 64,803 | 69,110 | 8,731 | 8,252 |
| Cigarette and Tobacco Tax | 157,021 | 178,721 | 159,558 | 154,155 | 152,720 | 22,361 | 28,499 |
| Mining Taxes | 165 | 2,019 | 2,040 | 2,040 | 5,660 | 0 | 0 |
| Gross Earnings Taxes | 163,749 | 242,218 | 274,218 | 268,404 | 267,355 | 4,954 | 1,679 |
| Motor Vehicle Excise Tax | 405,072 | 292,852 | 315,836 | 301,882 | 260,046 | 74,576 | 84,408 |
| Income Reciprocity Tax | 44,791 | 49,876 | 47,623 | 46,242 | 49,850 | 0 | 0 |
| Department Earnings | 344,660 | 370,354 | 482,738 | 476,080 | 488,546 | 72,209 | 104,658 |
| Investment Income | 82,777 | 21,384 | 17,022 | 14,038 | 16,580 | 2,054 | 5,346 |
| Tobacco Settlement | 178,565 | 150,002 | 174,266 | 168,467 | 175,488 | 100 | 0 |
| All Other Revenues | 679,944 | 734,338 | 759,894 | 742,916 | 671,852 | 67,786 | 66,206 |
| TOTAL UNRESTRICTED REVENUES | $13,368,052 | $13,964,884 | $14,715,019 | $ 14,312,376 | $ 15,509,339 | $ 1,748,831 | $ 2,020,731 |
| RESTRICTED REVENUES | 54,941 | 76,148 | 74,899 | 74,899 | 86,146 | 10,395 | 11,298 |
| LESS REVENUE REFUNDS: | | | | | | | |
| Income Tax - Individual | 820,159 | 980,831 | 962,861 | 952,861 | 902,243 | 16,590 | 20,913 |
| Income Tax - Corporation | 177,508 | 127,532 | 115,514 | 115,514 | 68,288 | 7,801 | 4,278 |
| Sales Tax | 224,079 | 162,808 | 202,211 | 202,211 | 240,654 | 29,414 | 26,823 |
| All Other | 22,763 | 28,856 | 34,193 | 34,193 | 35,323 | 2,757 | 4,932 |
| TOTAL REFUNDS | $1,244,508 | $1,300,028 | $1,314,778 | $ 1,314,778 | $ 1,247,508 | $ 56,562 | $ 56,945 |
| NET REVENUES | $12,178,485 | $12,741,004 | $13,475,141 | $ 13,072,498 | $ 14,347,977 | $ 1,702,664 | $ 1,975,083 |

(1) For Fiscal Years 2002, 2003 and 2004, 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, 2004 and 2005 and the two-month periods ended August 31, 2004 and 2005, only current receipts have been included.

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

# 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 1,2003 through June 30 2004 (1) | July 1,2004 through June 30 2005 (1) | July 1,2004 through August 31 2004 (1) | July 1,2005 through August 31 2005 (1) |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | | | | |
| EXPENDITURES: | | | | | | | |
| Personal Services | $1,002,723 | $1,118,911 | $1,038,657 | $945,090 | $ 966,953 | $115,975 | $115,174 |
| Purchased Services | 377,895 | 334,492 | 289,637 | 259,244 | 314,513 | 36,536 | 40,680 |
| Materials and Supplies | 49,748 | 59,872 | 47,672 | 41,576 | 53,765 | 5,391 | 5,209 |
| Capital Outlay: | | | | | | | |
| Equipment | 16,991 | 22,145 | 20,307 | 17,224 | 31,397 | 1,481 | 901 |
| Real Property | 38,723 | 57,682 | 4,119 | 2,480 | 2,427 | 219 | 168 |
| Grants and Subsidies: | | | | | | | 0 |
| Individuals | 2,942,472 | 3,513,188 | 3,364,514 | 3,174,223 | 3,520,011 | 680,638 | 787,509 |
| Municipalities and Towns | 775,956 | 862,138 | 716,824 | 660,791 | 642,534 | 228,363 | 228,122 |
| Counties | 744,154 | 894,507 | 784,808 | 730,968 | 624,391 | 207,745 | 235,579 |
| School Districts | 4,949,922 | 6,019,367 | 6,041,680 | 5,708,918 | 6,306,642 | 1,429,256 | 1,432,636 |
| Private Organizations | 194,628 | 185,857 | 165,166 | 151,818 | 153,613 | 27,347 | 26,163 |
| University of Minnesota | 544,626 | 568,702 | 475,994 | 441,570 | 461,289 | 44,389 | 49,398 |
| Other | 176,750 | 162,121 | 143,615 | 131,678 | 129,127 | 30,610 | 31,779 |
| TOTAL EXPENDITURES | $ 11,814,588 | $ 13,798,982 | $ 13,092,992 | $ 12,265,580 | $ 13,206,663 | $ 2,807,950 | $ 2,953,318 |
| NET TRANSFERS OUT | 852,123 | 591,225 | 221,992 | 396,193 | 447,508 | 175,680 | 171,742 |
| TOTAL EXPENDITURES and NET TRANSFERS OUT | $ 12,666,711 | $ 14,390,207 | $ 13,314,984 | $ 12,661,773 | $ 13,654,171 | $ 2,983,630 | $ 3,125,060 |

(1) For Fiscal Years 2002, 2003 and 2004, 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, 2004 and 2005 and the two-month periods ended August 31, 2004 and 2005, only current year expenditures have been included.

## BUDGET — PREVIOUS BIENNIUM

### November 2002 Forecast

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

**PREVIOUS BIENNIUM**
**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) |

**COMPARISON OF PREVIOUS BIENNIUM**
**TO 2002-03 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 Previous Biennium that was based on the November 2002 forecast of General Fund revenues and expenditures. The February Governor's recommendation is detailed below:

**PREVIOUS 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 Previous 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 2002-03 Biennium.

*Expenditures Proposed in the Governor's Budget:*

The February 2003 Governor's recommendation for the Previous 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 2002-03 Biennium.

*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.

**February 2003 Forecast**

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

**PREVIOUS 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 2002-03 Biennium.

The net impact of the February 2003 forecast and unallotment actions taken in the 2002-03 Biennium was to slightly increase the projected shortfall for the Previous 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 Previous Biennium resources, expenditures, and fund balances based on the final Governor's Budget Recommendation is detailed below:

**PREVIOUS 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 |

*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.

**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.

**PREVIOUS 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 2002-03 Biennium added $192 million with $180 million as the balance brought forward from the 2002-03 Biennium to the Previous 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 Previous Biennium above the level recommended by the Governor.

The following table compares estimates of the 2002-03 Biennium and Previous 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:*

Total expenditures authorized by the 2003 Legislature were similar to the April 2003 Governor's Budget Recommendation. The following table compares estimates of 2002-03 Biennium and Previous Biennium spending and shows the rate of biennial expenditure growth for some of the largest portions of the State budget.

| | 2002-03 Biennium | Previous Biennium | Percent Change |
|---|---|---|---|
| | ($ in billions) | | |
| Expenditures: | | | |
| K-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%** |

*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 represented 3.65 percent of enacted spending for the second year of the Previous 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.

**November 2003 Forecast**

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

**PREVIOUS 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.

Projected current law spending was reduced to $28.158 billion, $143 million, or 0.6 percent less than end of session estimates.

The Budget Reserve Account was increased from $522 million at the end of session to $631 million at the November 2003 forecast.

**February 2004 Forecast**

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

**PREVIOUS 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 Previous 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.

**March 2004 Governor's Budget Recommendations**

In early March 2004 the Governor submitted a supplemental budget recommendation to the Legislature for the Previous 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:

**PREVIOUS 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 Previous Biennium.

*Expenditure Changes Proposed in the Governor's Budget:*

The March 2004 Governor's supplemental budget for the Previous Biennium reduced General Fund spending by $37 million from the February 2004 forecast.

*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.

**2004 Legislative Session**

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

**PREVIOUS 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 Previous 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 Previous Biennium. These executive actions did not require approval of the legislature.

**PREVIOUS 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.

**November 2004 Forecast**

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium in November 2004. The November 2004 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM**
**GENERAL FUND**
**NOVEMBER 2004 FORECAST**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2003 | $ 369 |
| Non-dedicated Revenues | 27,093 |
| Dedicated Revenues, Transfers In and Other | 1,580 |
| Total Resources | $29,042 |
| **Expenditures** | 28,039 |
| **Projected Unreserved Balance at June 30, 2005** | $ 1,003 |
| **Cash Flow Account** | 350 |
| **Budget Reserve Account** | 653 |
| **Projected Unrestricted Balance at June 30, 2005** | $ 0 |

The table reflects the automatic distribution of the forecast balances, as explained below.

Forecast revenues were expected to total $29.042 billion, $455 million, or 1.6 percent more than end-of-session estimates. Growth in individual income tax revenues accounted for $362 million of the increase. Corporate income tax collections were forecast to increase by $7 million. Sales tax revenues were $13 million less than forecast, motor vehicle sales tax collections were $31 million less, and statewide property taxes were $4 million less than forecast. All other revenues accounted for an increase of $134 million mainly due to higher insurance gross premium, mortgage and deed taxes.

Projected spending under the current law was reduced to $27.921 billion, $34 million less than end of session estimates before giving effect to statutory provisions allocating forecast balances. K-12 education estimates increased $25 million due to an increase in forecast pupil units. Health and human services estimates increased by $39 million due to higher caseloads and higher average costs in health care programs. Debt service payments were down $36 million due to savings from recent bond sales. Estimated program cancellations of $39 million were forecast for higher education financial aid and tuition reciprocity programs. All other changes provided a $23 million reduction.

In addition to the $455 million revenue increase and the $34 million spending decrease, there was a $6 million reduction in the budget reserve caused by the loss of an expected transfer from the assigned risk plan surplus. These all contributed to a total $495 million surplus projected for the Previous Biennium. Under current law, the balance was allocated as follows:

$350 million to restore the cash flow account

$27 million to restore the budget reserve to $653 million

$118 million to reverse a portion of the school aid shifts.

**February 2005 Forecast**

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Previous Biennium at the end of February 2005. The February 2005 Previous Biennium forecast of resources, expenditures, and fund balances is detailed below:

**PREVIOUS BIENNIUM**
**GENERAL FUND**
**FEBRUARY 2005 FORECAST AND 2005 REGULAR LEGISLATIVE SESSION**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2003 | $ 369 |
| Non-dedicated Revenues | 27,248 |
| Dedicated Revenues, Transfers In and Other | 1,581 |
| Total Resources | $29,198 |
| **Expenditures** | 28,195 |
| **Projected Unreserved Balance at June 30, 2005** | $ 1,003 |
| **Cash Flow Account** | 350 |
| **Budget Reserve Account** | 653 |
| **Projected Unrestricted Balance at June 30, 2005** | $ 0 |

The table reflects laws enacted in the 2005 legislative session as well as the automatic distribution of the forecast balance. A deficiency bill was passed into law in February 2005, that included $31 million in emergency appropriations and $6 million in additional revenues. The budget reserve account was reduced by $25 million to pay for these appropriations.

Forecast revenues were expected to total $29.198 billion for the Previous Biennium, $156 million more than forecast in November 2004. Of the total increase, $66 million occurred in income tax collections, $64 million in higher corporate tax receipts and $27 million in expected higher net sales tax collections. Other tax and non-tax revenues were expected to have no net change.

Projected spending under the current law was reduced to $28.045 billion, $6 million more than forecast in November before giving effect to statutory provisions allocating forecast balances. The increase in revenues and spending, and the decrease in the budget reserve account, provided for $175 million available at the end of the Previous Biennium. As in the November forecast, the balance was allocated per current law as follows:

$25 million to restore the budget reserve account to $653 million, and

$150 million to reverse a portion of the school aid shifts, increasing total spending to $28.195 billion.

**Previous Biennium Estimates — Revenues and Expenditures**

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Previous Biennium based on 2005 legislative regular and special session actions. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

**PREVIOUS BIENNIUM**
**GENERAL FUND**
**ESTIMATES OF REVENUES AND EXPENDITURES**
**JULY 2005 END OF LEGISLATIVE SESSION**
**($ in Thousands)**

| | Fiscal Year 2004 | Fiscal Year 2005 | Previous Biennium |
|---|---|---|---|
| Forecast Resources | | | |
| Prior Year Ending Balance[1] | 368,922 | 1,268,455 | 368,922 |
| Net Non-dedicated Revenues | 13,295,489 | 13,952,361 | 27,247,850 |
| Dedicated Revenues | 19,929 | 38,385 | 58,314 |
| Transfers From Other Funds | 1,143,977 | 314,187 | 1,458,164 |
| Prior Year Adjustments | 39,897 | 25,000 | 64,897 |
| Subtotal Current Resources | 14,499,292 | 14,329,933 | 28,829,225 |
| Total Revenues Plus Prior Year Ending Balance | 14,868,214 | 15,598,388 | 29,198,147 |
| Authorized Expenditures & Transfers | | | |
| K-12 Education | 5,715,704 | 6,329,193 | 12,044,897 |
| Property Tax Aids & Credits | 1,438,722 | 1,368,053 | 2,806,775 |
| Higher Education | 1,235,604 | 1,306,098 | 2,541,702 |
| Health & Human Services | 3,511,023 | 3,750,536 | 7,261,559 |
| Environment, Agriculture & Economic Dev | 365,952 | 373,349 | 739,301 |
| Transportation | 77,623 | 81,098 | 158,721 |
| Public Safety | 682,531 | 767,145 | 1,449,676 |
| State Government | 265,617 | 319,185 | 584,802 |
| Debt Service | 265,706 | 323,346 | 589,052 |
| Other | 5,491 | 0 | 5,491 |
| Cancellation Adjustment | 0 | (61,000) | (61,000) |
| Subtotal Expenditures & Transfers | 13,563,973 | 14,557,003 | 28,120,976 |
| Dedicated Revenue Expenditures | 35,786 | 38,385 | 74,171 |
| Total Expenditures and Transfers | 13,599,759 | 14,595,388 | 28,195,147 |
| Unreserved Balance | 1,268,455 | 1,003,000 | 1,003,000 |
| Cash Flow Account | 0 | 350,000 | 350,000 |
| Budget Reserve | 403,677 | 653,000 | 653,000 |
| Appropriations Carried Forward | 183,613 | 0 | 0 |
| Unrestricted Balance | 681,165 | 0 | 0 |

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

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

**PREVIOUS BIENNIUM**
**GENERAL FUND**
**ESTIMATES OF NONDEDICATED REVENUES**
**JULY 2005 END OF LEGISLATIVE SESSION**
**($ in Thousands)**

| | Fiscal Year 2004 | Fiscal Year 2005 | Previous Biennium |
|---|---|---|---|
| Net Nondedicated Revenues: | | | |
| Income Tax — Individual | 5,709,584 | 6,175,855 | 11,885,439 |
| Income Tax — Corporate | 628,048 | 828,900 | 1,456,948 |
| Sales Tax | 4,100,864 | 4,225,989 | 8,326,853 |
| Motor Vehicle Sales Tax | 274,674 | 262,700 | 537,374 |
| Statewide Property Tax | 599,622 | 617,774 | 1,217,396 |
| Estate Tax | 90,058 | 82,000 | 172,058 |
| Liquor, Wine & Beer | 69,918 | 66,315 | 136,233 |
| Cigarette & Tobacco | 161,099 | 149,030 | 310,129 |
| Mining | 1,479 | 2,501 | 3,980 |
| Mortgage Registry Tax | 231,024 | 148,300 | 379,324 |
| Deed Transfer Tax | 120,606 | 126,100 | 246,706 |
| Gross Earnings Taxes | 258,733 | 277,050 | 535,783 |
| Lawful Gambling Taxes | 59,760 | 59,760 | 119,520 |
| Medical Assistance Surcharges | 196,749 | 204,303 | 401,052 |
| Income Tax Reciprocity | 46,242 | 49,850 | 96,092 |
| Tobacco Settlements | 168,467 | 175,388 | 343,855 |
| Investment Income | 15,125 | 14,600 | 29,725 |
| DHS RTC Collections | 44,143 | 42,220 | 86,363 |
| Lottery Revenue | 46,983 | 48,708 | 95,691 |
| Departmental Earnings | 243,020 | 237,000 | 480,020 |
| All Other Nondedicated Revenue | 272,234 | 199,948 | 472,182 |
| Tax and Non-Tax Refunds | (42,943) | (41,930) | (84,873) |
| Total Net Nondedicated Revenues | 13,295,489 | 13,952,361 | 27,247,850 |

## CURRENT BIENNIUM

### November 2004 Forecast

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

**CURRENT BIENNIUM**
**GENERAL FUND**
**NOVEMBER 2004 FORECAST**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,064 |
| Dedicated Revenues, Transfers In and Other | 414 |
| Total Resources | $30,481 |
| **Expenditures** | 30,177 |
| **Projected Unreserved Balance at June 30, 2007** | $ 303 |
| **Cash Flow Account** | 350 |
| **Budget Reserve Account** | 653 |
| **Projected Unrestricted Balance at June 30, 2007** | $ (700) |

This was the first actual forecast of revenues and expenditures for the Current Biennium. Forecast revenues were expected to total $30.481 billion, $625 million more than May 2004 After Executive Actions estimates and $1.439 billion, or 5.0 percent, greater than the Previous Biennium. Tax revenues were projected to be $2.031 billion greater than in the Previous Biennium, and other resources were projected to be $1.226 billion lower than in the Previous Biennium. The balance brought forward from the Previous Biennium was expected to be $634 million higher than in the Previous Biennium.

Individual income tax revenues were expected to show the most growth in the Current Biennium, up $1.592 billion, or 13.5 percent, from the Previous Biennium. Sales tax revenues were forecast to grow by $433 million, or 5.3 percent, over the Previous Biennium. Corporate income tax collections were projected to decline by $14 million, or just under one percent, while motor vehicle sales tax collections increased by $10 million, or 1.9 percent. Expected receipts from other tax revenues were forecast to decline by $63 million. Transfers decreased by $1.166 billion reflecting the one-time transfer of tobacco funds used as part of the Previous Biennium budget solution.

Projected current law spending for the Current Biennium was expected to total $30.177 billion, $556 million greater than end of session estimates, and $2.139 billion, or 7.6 percent, higher than spending in the Previous Biennium. Health and human services spending estimates increased by $1.439 billion, or 19.9 percent, over the Previous Biennium due to higher caseloads and higher average costs in health care programs. Spending for post-secondary education in the Current Biennium was projected to be $211 million, or 8.3 percent, higher than in the Previous Biennium mainly due to growing enrollment. All other spending areas resulted in an increase of $489 million over the Previous Biennium.

The cash flow account remained at $350 million and the budget reserve account at $653 million for the Current Biennium. The projected deficit for the Current Biennium was $700 million.

## BUDGET — CURRENT BIENNIUM

### January 2005 Budget Recommendation

In January 2005 the Governor submitted a proposed budget to the Legislature for the Current Biennium that was based on the November 2004 forecast of General Fund revenues and expenditures. The January Governor's recommendation is detailed below:

**CURRENT BIENNIUM**
**GENERAL FUND**
**January 2005 GOVERNOR'S RECOMMENDATION**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,074 |
| Dedicated Revenues, Transfers In and Other | 601 |
| Total Resources | $30,678 |
| **Expenditures** | 29,667 |
| **Projected Unreserved Balance at June 30, 2007** | $ 1,011 |
| **Budget Reserve Account** | 653 |
| **Cash Flow Account** | 350 |
| **Projected Unrestricted Balance at June 30, 2007** | $ 8 |

*Revenues Proposed in the Governor's Budget:*

The January 2005 Governor's recommendation reflected a net increase in General Fund revenues of $198 million from the November 2004 forecast for the Current Biennium. Current resources (total resources less the balance from the Previous Biennium) in the January Governor's recommendation would have increased by $996 million (3.5 percent) over the Previous Biennium.

The Governor included no general tax increases in his January 2005 recommendations. However, the proposed budget included $338 million in tax and non-tax revenue increases. Proposed changes in revenue compliance and collection initiatives were expected to yield $168 million. An additional $104 million was expected from continuing alcohol and car rental taxes scheduled to sunset under current law. Increased fees were expected to yield $26 million, while selective federal conformity and business tax cuts were expected to reduce revenues by $10 million in the biennium. The Governor also proposed a state partnership with several Minnesota Indian tribes to expand casino gaming. Included in the Governor's budget was $200 million in expected revenues from a one-time casino license fee. The casino partnership was expected to generate over $100 million annually in following biennia.

Other proposed changes acted to reduce general fund revenues. With these changes, total tax and non-tax revenue changes were expected to result in a net $181 million increase from forecast levels. Offsetting proposed general fund revenue increases were provisions that would reduce general fund revenues and transfers by $312 million under the Governor's proposal to restructure state health care financing, as well as dedicating a portion of general fund solid waste taxes to the state's environmental fund in a planned restructuring of a new Department of Environmental Protection.

*Expenditures Proposed in the Governor's Budget:*

The January Governor's recommendation for the Current Biennium decreased General Fund spending by $510 million from the November 2004 projected forecast of current law. The total recommended spending of $29.667 billion equaled a $1.622 billion (5.8 percent) increase over the November 2004 forecast for the Previous Biennium.

K-12 education accounted for $12.236 billion of total proposed expenditures — over 40 percent of total General Fund spending. This represented a $335 million or 2.8 percent increase over the Previous Biennium. The largest single change in K-12 education spending was a proposed increase in the K-12 education per student formula of two percent per year. Additional spending increases provided $60 million for a teacher performance pay proposal (QComp) as well as a number of targeted education initiatives for accountability reforms.

Proposed health and human services spending accounted for $7.901 billion, or 27 percent of total recommended spending. This represented a $656 million or 9.1 percent increase over the Previous Biennium, but a reduction of $783 million from the November 2004 current law forecast. The budget proposed reducing the growth in human service program costs through a combination of changes in eligibility and utilization that were expected to yield $274 million in reductions. The budget also proposed realigning health care spending and resources by moving the General Assistance Medical Care program into the health care access fund. The proposal would utilize projected health care access fund balances to pay for future costs. The net impact of this health care refinancing was a net savings of $220 million by redirecting general fund program costs to the state's Heath Care Access Fund.

Proposed appropriations for higher education totaled $2.774 billion, 9 percent of the budget. This represented an 8.4 percent increase from the Previous Biennium and a $21 million increase over the November 2004 current law forecast. Funding was provided for strategic initiatives in the higher education systems as well as increases in the state student financial aid programs.

Property tax aids and credit programs paid to local units of government totaled $2.890 billion, 10 percent of the budget. This represented a 2.9 percent increase over the Previous Biennium and a $76 million reduction from current law forecast. The budget made no reductions in local government aid or county aid programs, only marginal adjustments were proposed to property tax credit programs.

All other spending areas accounted for $3.866 billion, or 14 percent of the proposed budget. This funding level represented a 9.5 percent increase from the Previous Biennium. Increases in spending for public safety programs and higher debt service costs accounted for almost all of the net increase, offsetting budget reductions proposed in most other operating budget areas.

*Reserves:*

Current law provided for $1.003 billion in reserves including $653 million in the Budget Reserve Account and $350 million in a separate cash flow account. The Governor recommended maintaining reserves at this level. Total proposed reserves equaled approximately 3.4 percent of biennial expenditures. The Governor also recommended maintaining statutory provisions that mandate that any future forecast balance first is used to reduce school aid payment changes enacted in 2003 as part of budget balancing at that time.

*Next Biennium:*

Based upon the Governor's budget recommendations, the planning estimates for the Next Biennium indicated that there would be structural balance of $754 million, meaning that total revenue would exceed total expenditures.

The Governor's transportation budget included a proposed constitutional amendment that would phase in dedication of current general fund motor vehicle sales tax receipts to state transportation funds. Giving effect to this provision reduces general fund revenues for the Next Biennium by $184 million.

**February 2005 Forecast**

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2005. The February 2005 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

**CURRENT BIENNIUM**
**GENERAL FUND**
**FEBRUARY 2005 FORECAST**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,297 |
| Dedicated Revenues, Transfers In and Other | 414 |
| Total Resources | $30,714 |
| **Expenditures** | 30,177 |
| **Projected Unreserved Balance at June 30, 2007** | $ 537 |
| **Cash Flow Account** | 350 |
| **Budget Reserve Account** | 653 |
| **Projected Unrestricted Balance at June 30, 2007** | ($ 466) |

Forecast revenues were expected to total $30.714 billion for the Current Biennium, $234 million more than forecast in November. Income tax collections were forecast to be $71 million higher, sales tax collections $115 higher, and corporate tax receipts $89 higher than forecast in November. Motor vehicle sales taxes were forecast to be $19 million lower and all other resources $22 million lower than forecast in November.

Projected current law spending for the Current Biennium was mainly unchanged from the November forecast. Total spending was projected to be $30.177 billion, no net change from November. Slightly higher spending in K-12 Education of $44 million was largely offset by other forecast changes. Savings in health and human services spending, tax refund interest payments, and debt service accounted for almost all of the forecast reductions.

The cash flow account remained at $350 million, the budget reserve account at $653 million, and the projected deficit was $466 million.

### March 2005 Governor's Budget Recommendation Revisions

Updated February 2005 revenue and expenditure estimates resulted in only minimal change in the current law forecast. The revenue and expenditure changes projected in the February forecast produced a $225 million balance in the Governor's proposed budget. The Governor submitted supplemental budget recommendations to his proposed budget to the Legislature in March 2005. The Current Biennium resources, expenditures, and fund balances based on the final Governor's Budget Recommendation is detailed below:

**CURRENT BIENNIUM**
**GENERAL FUND**
**March 2005 GOVERNOR'S RECOMMENDATION**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,635 |
| Dedicated Revenues, Transfers In and Other | 264 |
| Total Resources | $30,902 |
| **Expenditures** | 29,814 |
| **Projected Unreserved Balance at June 30, 2007** | $ 1,088 |
| **Budget Reserve Account** | 653 |
| **Cash Flow Account** | 350 |
| **Federal Transition Reserve** | 75 |
| **Projected Unrestricted Balance at June 30, 2007** | $ 10 |

*Additional Expenditure Changes Proposed by the Governor:*

The March 2005 Governor's recommendation made a limited number of changes to proposed spending based on the higher revenue forecast. The March 2005 final Governor's recommendations included additional spending and budget adjustments totaling $225 million. Of these reductions nearly $108 million was included for proposed increases to the K-12 per pupil formula to 2.5 percent annually along with selected education initiatives.

*Budget Reserves:*

The April budget revision added $75 million to create a Federal Transition Reserve. The purpose of this reserve was to provide supplemental funding in anticipation of uncertainties of proposed federal budget reductions. The recommendation provided for this money to be appropriated to mitigate the impact of federal aid reductions or to be cancelled to the general fund budget reserve by the end of the first year of the biennium.

*Next Biennium:*

The planning estimates for the Next Biennium, based upon the Governor's budget recommendations, indicate that there would be structural balance of $804 million, meaning that total revenue would exceed total expenditures.

### 2005 Regular and First Special Legislative Sessions

The 2005 legislative session ended on the constitutional deadline of May 23, 2005. The Legislature was unable to agree on the tax and appropriation bills by that date. The Governor immediately convened a special legislative session that took place from May 24 to July 13, 2005. By June 30, 2005 only three of seven omnibus appropriation bills were enacted into law: higher education, environment and natural resources, and state government.

On July 1, 2005 the State began a partial government shutdown for all programs for which appropriations had not been enacted. However, major portions of State programs were required to operate under district court order that mandated continuation of critical State services. The partial shutdown of services affected approximately 9,000 of 54,000 state employees. The partial government shutdown lasted until July 9, 2005 when action was taken by the Legislature to provide interim funding until remaining tax and appropriation bills were enacted.

Final agreement was reached and remaining appropriation bills were passed by the Legislature on July 13, 2005.

The end of the 2005 legislative sessions estimates of revenues, expenditures and fund balances is detailed below.

**CURRENT BIENNIUM**
**GENERAL FUND**
**END OF 2005 LEGISLATIVE SESSIONS**
**($ in Millions)**

| | |
|---|---|
| **Resources** | |
| Unreserved Balance at June 30, 2005 | $ 1,003 |
| Non-dedicated Revenues | 29,683 |
| Dedicated Revenues, Transfers In and Other | 903 |
| Total Resources | $31,589 |
| **Expenditures** | 30,574 |
| **Projected Unreserved Balance at June 30, 2007** | $ 1,015 |
| **Budget Reserve Account** | 653 |
| **Cash Flow Account** | 350 |
| **Projected Unrestricted Balance at June 30, 2007** | 12 |

*Enacted Budget Summary:*

The enacted budget conformed closely to all the major recommendations by the Governor but resulted in slightly higher general fund revenue and expenditures than proposed by the Governor. Three components represented the primary differences. First, the enacted budget included a new health impact fee of 75 cents per pack on cigarettes and corresponding increases on other tobacco products. The additional revenues will be deposited in a separate State fund from which annual transfers will be made to reimburse the General Fund for cigarette health related program costs. Secondly, the proposed restructuring of State health care financing was not enacted, leaving GAMC spending unchanged in the General Fund. Finally, the proposed Indian casino gaming partnership was not enacted. The net additional revenues resulting from legislative action were directed primarily to additional spending for K-12 education and health and human services programs.

Compared to the February 2005 forecast of General Fund revenues and expenditures that indicated a total projected budget shortfall of $466 million, the following represent the primary changes enacted to balance the budget. First, revenue changes and transfers from other funds added $876 million in additional resources, while increases from forecast spending levels added $395 million. Finally, the Budget Reserve Account and Cash Flow accounts were left unchanged at $1.033 billion.

No general tax increases were enacted. Total spending was $760 million above the Governor's Budget Recommendation. This increase in spending above that recommended by the Governor was funded by $688 million of additional resources in the form of increased revenues, fees and transfers from other state funds.

*Resources:*

The 2005 legislative sessions produced no significant general tax law changes. General Fund revenues are forecast to be $30.586 billion. This is an increase of $875 million over the amount forecast in February 2005. This increase in resources is attributable primarily to a new health impact fee on cigarettes expected to yield $304 million, changes in tax compliance and collection that were originally proposed by the Governor, and $82 million in increased fees and other non-tax revenues that are deposited to the General Fund.

The enacted health impact fee includes 75 cents per pack that will be collected at the wholesale distributor level. Corresponding increases were also enacted for other tobacco products. The State sales tax on cigarettes was replaced by a wholesale tax. In total, changes enacted are expected to yield $401 million over the biennium. The new fees will be deposited into a new separate State fund. Annual transfers will be made from the health impact fund to the General Fund to reimburse the cost of smoking related health program costs. The continuing proceeds will be reflected as transfers in to the General Fund, not as General Fund revenues.

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 | $11.885 | $13.516 | 13.7% |
| Sales Tax | 8.327 | 8.906 | 7.0% |
| Corporate Income Tax | 1.457 | 1.505 | 3.3% |
| Motor Vehicle Sales Tax | .537 | .531 | -1.1% |
| Statewide Property Tax | 1.217 | 1.291 | 6.1% |
| All Other Taxes | 2.346 | 2.443 | 4.1% |
| Non-Tax Revenues | 1.478 | 1.491 | 0.9% |
| Subtotal | 27.247 | 29.683 | 8.9% |
| Transfers, Dedicated, Other Resources | 1.582 | 903 | -42.9% |
| **Total Revenues** | **$28.829** | **$30.586** | **6.1%** |

*Expenditures:*

Authorized General Fund spending for the Current Biennium is estimated at $30.574 billion. Compared to Previous Biennium expenditures, this represents a biennial expenditure growth of $2.379 billion, or 8.4 percent.

Compared to the February 2005 forecast of General Fund spending, authorized spending is $397 million more than forecast. Of this amount a $565 million increase in K-12 education spending is in part offset by $367 million of savings enacted in health and human service program spending. Total expenditures authorized by the 2005 Legislature are $760 million higher than the March 2005 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: | | | |
| K-12 Education | 12.045 | 12.578 | 4.4% |
| Property Tax Aids & Credits | 2.807 | 2.984 | 6.3% |
| Higher Education | 2.542 | 2.761 | 8.6% |
| Health & Human Services | 7.262 | 8.264 | 13.8% |
| Public Safety | 1.450 | 1.685 | 16.2% |
| Debt Service | 0.589 | 0.781 | 32.6% |
| All Other Spending | 1.500 | 1.521 | 1.4% |
| **Total Expenditures** | **28.195** | **30.574** | **8.4%** |

K-12 Education accounted for $12.578 billion, or 44 percent of total General Fund spending. This represented a $533 million or 4.4 percent increase over the Previous Biennium, a $565 million increase over current law forecasts. The enacted budget increases general education funding from prior levels on a per pupil basis, adding 4 percent each year to the per pupil formula at a cost of $471 million.

Health and human services spending of $8.264 billion is authorized — 25 percent of the total budget. This is a $598 million or 13.8 percent increase over the Previous Biennium. It is a $367 million decrease from the February 2005 forecast, reducing the projected growth in health and human services spending from 17 to 15 percent. The budget reduced the growth in costs through changes in eligibility and utilization while increasing long term care provider payments 2.25 percent per year. Projected balances in the State's Heath Care Access Fund are transferred yearly into the General Fund.

The State share for higher education is $2.761 billion — 9 percent of the budget. This represents an 8.6 percent increase from the Previous Biennium and an $8.2 million increase from the February 2005 forecast. The enacted budget conforms closely to that proposed by the Governor.

Property tax aids and credit programs total $2.984 billion, nearly 10 percent of the budget. Funding for local aids represents a 6.3 percent increase from the Previous Biennium spending and a $22 million increase from current law forecast estimates. A $40 million increase is provided for city aids (formerly known as local government aids), while current law funding levels for county aid programs is maintained.

Public safety spending, representing nearly 6 percent of the budget, is increased significantly to $1.685 billion, or 16.2 percent over the Previous Biennium. Judicial branch caseload and prison population increases added $91 million in spending, while $47 million is provided for additional enforcement, supervision, sentencing changes, and treatment for sex and methamphetamine offenders.

Debt service costs are approved at $781 million, 2.6 percent of the budget. The increase of 32.6 percent over the Previous Biennium includes the cost of bonds authorized but not yet sold of $945 million in general obligation bonds authorized in the 2005 legislative session.

All other spending areas accounts for $1.521 billion, or 5 percent of the approved budget. This funding level represents a 1.4 percent increase from the Previous Biennium.

*Reserves, Future Forecast Contingencies:*

The Legislature also followed the Governor's recommendation in maintaining the Budget Reserve Account and Cash Flow Account at proposed levels and in maintaining current law provisions governing future forecast balances. The General Fund Budget Reserve Account is $653 million. This total represents 2.1 percent of enacted spending for the Current Biennium. The Cash Flow Account remains at the $350 million.

Previously enacted laws designating the allocation of future forecast positive balances remain unchanged. Any unrestricted General Fund balances resulting from future forecasts are to be used to further reduce school payment shifts enacted in 2003. The estimated remaining cost of completely reversing these payment shifts is $792 million.

*Next Biennium:*

The planning estimates for the Next Biennium, based on the enacted budget, indicate that there would be a structural balance of $640 million, meaning that projected total revenues, excluding any balances carried forward, would exceed total expenditures.

This structural balance is before giving effect to a proposed constitutional amendment that will be voted in the November 2006 election. This proposed constitutional amendment would phase in dedication of the remaining 46 percent portion of motor vehicle sales taxes currently deposited in the General Fund to state transportation funds. If adopted, this provision will reduce General Fund revenues for the Next Biennium by $184 million.

## 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 2005 legislative regular and special session 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
### JULY 2005 END OF LEGISLATIVE SESSIONS
### ($ in Thousands)

| | Fiscal Year 2006 | Fiscal Year 2007 | Current Biennium |
|---|---|---|---|
| Forecast Resources | | | |
| Prior Year Ending Balance[1] | 1,003,000 | 1,016,011 | 1,003,000 |
| Net Non-dedicated Revenues | 14,576,554 | 15,106,579 | 29,683,133 |
| Dedicated Revenues | 37,113 | 36,952 | 74,065 |
| Transfers From Other Funds | 374,226 | 384,673 | 758,899 |
| Prior Year Adjustments | 45,000 | 25,000 | 70,000 |
| Subtotal Current Resources | 15,032,893 | 15,553,204 | 30,586,097 |
| Total Revenues Plus Prior Year Ending Balance | 16,035,893 | 16,569,215 | 31,589,097 |
| Authorized Expenditures & Transfers | | | |
| K-12 Education | 6,155,668 | 6,422,522 | 12,578,190 |
| Property Tax Aids & Credits | 1,458,149 | 1,525,586 | 2,983,735 |
| Higher Education | 1,365,500 | 1,395,500 | 2,761,000 |
| Health & Human Services | 4,056,236 | 4,208,211 | 8,264,447 |
| Environment, Agriculture & Economic Dev | 348,395 | 331,858 | 680,253 |
| Transportation | 101,966 | 103,221 | 205,187 |
| Public Safety | 835,022 | 850,011 | 1,685,033 |
| State Government | 287,981 | 295,670 | 583,651 |
| Debt Service | 381,352 | 399,794 | 781,146 |
| Cancellation Adjustment | (7,500) | (15,000) | (22,500) |
| Subtotal Expenditures & Transfers | 14,982,769 | 15,517,373 | 30,500,142 |
| Dedicated Revenue Expenditures | 37,113 | 36,952 | 74,065 |
| Total Expenditures and Transfers | 15,019,882 | 15,554,325 | 30,574,207 |
| Unreserved Balance | 1,016,011 | 1,014,890 | 1,014,890 |
| Cash Flow Account | 350,000 | 350,000 | 350,000 |
| Budget Reserve | 653,000 | 653,000 | 653,000 |
| Unrestricted Balance | 13,011 | 11,890 | 11,890 |

(1) Fiscal Year 2005 is forecast to end with an Unrestricted General Fund balance of zero and an Unreserved Accounting General Fund Balance of $1.003 billion.

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

**CURRENT BIENNIUM**
**GENERAL FUND**
**ESTIMATES OF NONDEDICATED REVENUES**
**JULY 2005 END OF LEGISLATIVE SESSIONS**
**($ in Thousands)**

| | Fiscal Year 2006 | Fiscal Year 2007 | Current Biennium |
|---|---|---|---|
| Net Nondedicated Revenues: | | | |
| Income Tax — Individual | 6,565,529 | 6,950,089 | 13,515,618 |
| Income Tax — Corporate | 767,515 | 737,680 | 1,505,195 |
| Sales Tax | 4,394,489 | 4,511,376 | 8,905,865 |
| Motor Vehicle Sales Tax | 259,786 | 271,164 | 530,950 |
| Statewide Property Tax | 634,683 | 656,519 | 1,291,202 |
| Estate Tax | 86,000 | 90,000 | 176,000 |
| Liquor, Wine & Beer | 67,255 | 68,187 | 135,442 |
| Cigarette & Tobacco | 193,583 | 194,286 | 387,869 |
| Mining | 2,375 | 2,275 | 4,650 |
| Mortgage Registry Tax | 120,300 | 116,600 | 236,900 |
| Deed Transfer Tax | 121,200 | 117,900 | 239,100 |
| Gross Earnings Taxes | 290,040 | 301,490 | 591,530 |
| Lawful Gambling Taxes | 59,760 | 59,760 | 119,520 |
| Medical Assistance Surcharges | 201,855 | 202,930 | 404,785 |
| Income Tax Reciprocity | 53,190 | 57,470 | 110,660 |
| Tax Compliance | 33,649 | 57,051 | 90,700 |
| Tobacco Settlements | 171,657 | 168,469 | 340,126 |
| Investment Income | 15,000 | 15,000 | 30,000 |
| DHS RTC Collections | 52,420 | 56,718 | 109,138 |
| Lottery Revenue | 50,002 | 51,155 | 101,157 |
| Departmental Earnings | 271,569 | 250,550 | 522,119 |
| All Other Nondedicated Revenue | 206,585 | 211,966 | 418,551 |
| Tax and Non-Tax Refunds | (41,888) | (42,056) | (83,944) |
| Total Net Nondedicated Revenues | 14,576,554 | 15,106,579 | 29,683,133 |

## 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 2005 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 $303. 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 $19,890 | 5.35 percent |
| on all over $19,890, but not over $65,330 | 7.05 percent |
| on all over $65,330 | 7.85 percent |

**MARRIED FILING JOINTLY**

| Taxable Income | Tax |
|---|---|
| on the first $29,070 | 5.35 percent |
| on all over $29,070, but not over $115,510 | 7.05 percent |
| on all over $115,510 | 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 $24,490 | 5.35 percent |
| on all over $24,490, but not over $98,390 | 7.05 percent |
| on all over $98,390 | 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. Laws enacted in 2005 call for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in will begin in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

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% | Life insurance (rate will be reduced in steps to 1.5% in 2009). |
| 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%.

A tax of 2.5% is imposed on alcoholic beverages sold at retail; this is in addition to the 6.5% sales tax on alcoholic beverages.

*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.

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

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

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

*Deed Tax:* A tax of $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.

*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.

### 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. See litigation report case 10, page 15 of this Official Statement.

## TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of 11,914 miles of highways, 4,792 bridges, and 1,035 maintenance, enforcement, service, and administrative buildings at 387 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 135,000 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 distribution 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.

Preliminary revenues from motor fuels taxes were $630 million to the Highway User Tax Distribution Fund in Fiscal Year 2005, 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, $371 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 $651 million in Fiscal Year 2006 to the Highway User Tax Distribution Fund, with a resulting transfer of $384 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 $482 million (unaudited) in Fiscal Year 2005, after refunds and collection costs, of which $285 million was transferred to the Trunk Highway Fund. An expected 2.8% net growth in registrations would result in estimated collections of $486 million in Fiscal Year 2006 to the Highway User Tax Distribution Fund, with a resulting transfer of $286 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 $164 million (unaudited) in Fiscal Year 2005, and is projected to be $169 million in Fiscal Year 2006. The resulting transfer to the Trunk Highway Fund was $97 million in Fiscal Year 2005 and would be $99 million in Fiscal Year 2006.

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 $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, including 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. The 2003 Legislature also authorized the Commissioner of Transportation to spend up to $400 million of federal revenue designated as advance construction funds.

The 2005 Legislature also authorized a constitutional amendment to be presented to the voters in the 2006 general election. This amendment calls for dedication of motor vehicle sales tax revenue for transportation purposes. If passed, this amendment would generate an additional $184 million per year for the Highway User Tax Distribution Fund in the Next Biennium.

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, 2006 | Fiscal Year Ended June 30, 2007 | Biennium |
|---|---|---|---|
| **Estimated Resources** | | | |
| Balance Forward from Prior Year | $ 20,081 | $ 13,662 | $ 20,081 |
| Revenues | | | |
| Federal Grants(1) | 339,760 | 464,360 | 804,120 |
| Departmental Earnings | 11,769 | 12,359 | 24,128 |
| Investment Income | 2,600 | 2,700 | 5,300 |
| Other Income | 28,687 | 28,687 | 57,374 |
| Total Receipts | $ 382,816 | $ 508,106 | $ 890,922 |
| Transfers from Other Funds | | | |
| General Fund Reimbursement | 4,009 | 4,009 | 8,018 |
| HUTD Reimbursement | 610 | 610 | 1,220 |
| Hwy Users Tax Distribution Fund | 769,574 | 788,537 | 1,558,111 |
| County State Aid Fund | 10,390 | 7,380 | 17,770 |
| Plant Management Fund | 1,298 | 1,298 | 2,596 |
| Special Revenue Fund | 1,183 | 1,673 | 3,056 |
| Total Transfers | 787,064 | 803,707 | 1,590,771 |
| **Total Resources Available** | $1,189,961 | $1,325,475 | $2,501,774 |
| **Estimated Uses** | | | |
| Expenditures | | | |
| Transportation | | | |
| Transportation, Department of | $1,061,380 | $1,155,228 | $2,216,608 |
| Public Safety, Department of | 73,693 | 73,698 | 147,391 |
| Contingent Account | 200 | 200 | 400 |
| Subtotal — Transportation | $1,135,273 | $1,229,126 | $2,364,399 |
| State Government | | | |
| Tort Claims | 600 | 600 | 1,200 |
| Subtotal — State Government | 600 | 600 | 1,200 |
| Total Expenditures | $1,135,873 | $1,229,726 | $2,365,599 |
| Transfers to Other Funds | | | |
| Debt Service Fund | 40,426 | 58,588 | 99,014 |
| Total Transfers | 40,426 | 58,588 | 99,014 |
| Total Uses | $1,176,299 | $1,288,314 | $2,364,613 |
| Unrestricted Balance | $ 13,662 | $ 37,161 | $ 37,161 |

(1) This statement includes a preliminary estimate of the amount of federal aid made available under the recently passed federal SAFETEA-LU transportation funding act.

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

Federal advance construction is a financing method authorized and promoted by the Federal Highway Administration. It allows a state to encumber the necessary funds to begin construction of federal-aid projects before the authorized federal funds are available for those projects. Advance construction uses State trunk highway funds to "advance" federal project construction costs on projects for which federal funds have been authorized but not yet appropriated for the current fiscal year. The Trunk Highway Fund's advances are later repaid during the year in which the funds are appropriated by Congress. The receivable for the advance is recognized in the year the project is encumbered. The appropriated amount of federal aid for a State fiscal year is then reduced by all advance construction conversions in that State fiscal year and increased by all new advance construction in that year.

Beginning in Fiscal Year 2005, transportation projects financed with bond proceeds were segregated into a capital projects fund. This fund accounts for bond proceeds and the construction expenditures paid with bond proceeds only. The State typically encumbers, and consequently reserves fund balance, for the full contract amount of transportation projects when awarded. However, bond revenues supporting these projects are not recorded until the bonds are sold. Because of the timing of bond revenues and related capital expenditures, there may be temporary deficits in unreserved fund balance. Bond funded capital projects are thus accounted for in a new capital projects fund.

**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 a 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 and 2004 Legislatures for the Current Biennium from the proceeds of trunk highway bonds and 2005 Legislature for Trunk Highway Fund cash. 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 | $ 699.4 | $148.9 | $ 848.3 |
| Reconstruction | 80.0 | | 80.0 |
| Bridge Replacement | 30.0 | | 30.0 |
| Bridge Repair | 10.0 | | 10.0 |
| Reconditioning | 80.0 | | 80.0 |
| Resurfacing | 80.0 | | 80.0 |
| Road Repair | 60.0 | | 60.0 |
| Safety | 26.0 | | 26.0 |
| Traffic Management | 62.0 | | 62.0 |
| Municipal Agreements | 44.1 | | 44.1 |
| Right of Way | 80.0 | 60.2 | 140.2 |
| Miscellaneous Agreement | 25.8 | | 25.8 |
| Program Delivery | 0.0 | 42.6 | 42.6 |
| Total | 1,277.3(1) | 251.7 | 1,529.0 |

(1) The appropriated amount, excluding the amount provided by bond funds, was based on an estimated $613.3 million of state highway user tax revenues and $664.0 million of federal funds.

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

**CURRENT BIENNIUM**
**ESTIMATED REVENUE AND EXPENDITURES**
**TRUNK HIGHWAY FUND BOND PROCEEDS**
**($ in Thousands)**

| Estimated Resources | Fiscal Year Ended June 30, 2006 | Fiscal Year Ended June 30, 2007 | Current Biennium |
|---|---|---|---|
| Balance Forward from Prior Year | $ 0 | $ 0 | $ 0 |
| Revenues | | | |
| Bond Sales Proceeds | 149,725 | 102,000 | 251,725 |
| Total Receipts | 149,725 | 102,000 | 251,725 |
| **Total Resources Available** | 149,725 | 102,000 | 251,725 |
| **Estimated Uses** | | | |
| Expenditures | | | |
| Transportation | 149,725 | 102,000 | 251,725 |
| Undesignated Fund Balance | 0 | 0 | 0 |

## HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2002 through June 30, 2004, and for the additional time periods shown. For the Fiscal Years ended June 30, 2002 through June 30, 2004 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, 2004 and June 30, 2005 and for the two-month periods ending August 31, 2004 and August 31, 2005, 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) | | | July 1, 2003 Through June 30, 2004(1) | July 1, 2004 Through June 30, 2005(1) | July 1, 2004 Through August 31, 2004 | July 1, 2005 Through August 31, 2005 |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | | | | |
| **Revenues:** | | | | | | | |
| Taxes:(2) | | | | | | | |
| Motor Fuel | $ 375,048 | $ 393,938 | $ 391,162 | $ 397,090 | $ 390,110 | $ 72,267 | $ 75,454 |
| Motor Vehicle | 289,217 | 297,986 | 304,771 | 306,734 | 301,113 | 44,868 | 38,497 |
| Less: Revenue Refunds | (37,371) | (35,187) | (36,670) | (36,554) | (35,745) | (3,992) | (341) |
| Net Taxes | $ 608,894 | $ 656,737 | $ 659,263 | $ 667,270 | $ 655,478 | $113,143 | $113,610 |
| General Fund Approp(2) | | | | | | | |
| Motor Vehicle Sales Tax | 111,578 | 113,129 | 104,929 | 94,682 | 96,706 | 8,701 | 8,653 |
| Federal Grants | 317,461 | 584,638 | 300,580 | 340,014 | 342,907 | 82,845 | 71,700 |
| Drivers License | 21,105 | 22,551 | 23,831 | 23,654 | 24,255 | 4,072 | 833 |
| Penalties & Fines | 4,059 | 5,694 | 6,156 | 5,832 | 5,741 | 777 | 737 |
| Investment Income | 11,756 | 6,899 | 2,531 | 2,280 | 4,184 | 300 | 690 |
| Other Revenue | 37,083 | 46,060 | 49,319 | 48,963 | 72,723 | 7,740 | 33,912 |
| TH Revenue Refunds | (2,117) | (2,080) | (1,957) | (1.957) | (1.959) | (13) | (15) |
| Total Revenues | $1,109,819 | $1,433,628 | $1,144,652 | $1,180,738 | $1,200,035 | $217,565 | $230,120 |

(1) For Fiscal Years 2002, 2003 and 2004 the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the twelve-month periods ended June 30, 2004 and June 30, 2005 and the two-month periods ended August 31, 2004 and August 31, 2005, only current year receipts have been included.

(2) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration and Motor Vehicle sales tax receipts 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] 2002 | 2003 | 2004 | July 1, 2003 Through June 30, 2004[1] | July 1, 2004 Through June 30, 2005[1] | July 1, 2004 Through August 31, 2004 | July 1, 2005 Through August 31, 2005 |
|---|---|---|---|---|---|---|---|
| **Expenditures:** | | | | | | | |
| Personal Services | $ 368,118 | $ 394,330 | $ 295,593 | $282,351 | $ 295,707 | $33,209 | $31,798 |
| Purchased Services | 96,779 | 98,710 | 87,099 | 67,700 | 95,540 | 5,123 | $ 3,457 |
| Materials and Supplies | 53,369 | 70,286 | 47,251 | 39,917 | 60,481 | 3,369 | $ 3,625 |
| Capital Outlay: | | | | | | | |
| Equipment | 26,179 | 37,833 | 13,124 | 8,269 | 25,656 | 1,541 | $ 1,074 |
| Capital Outlay & Real Property[2] | 563,998 | 1,048,867 | 665,871 | 140,847 | 722,995 | 7,323 | $17,798 |
| Encumbered[2] | | | | 430,088 | 152,122 | | |
| Grants and Subsidies: | | | | | | | |
| Individuals | 21 | 21 | 1 | 0 | 3 | 0 | |
| Counties | 1,199 | 110 | 219 | 109 | 300 | 0 | |
| School Districts | 5 | 0 | 0 | 0 | 0 | 0 | |
| Private Organizations | 11 | 19 | 0 | 0 | 0 | 0 | |
| Other | 933 | 778 | 908 | 759 | 1,095 | 165 | 100 |
| All Other | 0 | 0 | 12,896 | 13,330 | 15,074 | 1,548 | 222 |
| Total Expenditures | $1,110,611 | $1,650,954 | $1,110,066 | $983,370 | $1,368,973 | $52,278 | $58,074 |
| Transfers: | | | | | | | |
| Debt Service | 7,449 | 8,823 | 16,289 | 20,647 | 33,006 | | |
| Other Transfers | (6,235) | (6,193) | (7,081) | (7,081) | (7,078) | (2,123) | (5,399) |
| Net Transfers | $ 1,214 | $ 2,630 | $ 13,566 | $ 13,566 | $ 25,928 | $ (2,123) | $ (5,399) |
| Total Expenditures and Net Transfers Out | $1,111,825 | $1,653,584 | $1,119,274 | $996,936 | $1,394,901 | $50,155 | $52,675 |

(1) For Fiscal Years 2002, 2003 and 2004, 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, 2004 and June 30, 2005 and the two-month periods ended August 31, 2004 and August 31, 2005, 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 2002, 2003 and 2004, 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. The 2005 Legislature made changes in the MinnesotaCare® program that shift many current recipients of General Assistance Medical Care, another health insurance program funded out of the General Fund, to MinnesotaCare® starting in Fiscal Year 2007. This will shift significant costs out of the General Fund and into the Health Care Access Fund. The amounts to be transferred from the Health Care Access Fund to the General Fund are set in law for the Current Biennium. The total amount to be transferred is $112 million. These end of year balance transfers from the Health Care Access Fund to the General Fund are currently set to expire after Fiscal Year 2007.

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, 2005 | $ 51 |
| Transfer in from General Fund | 0 |
| Revenues | 996 |
| Total Resources | 1,047 |
| **Expenditures** | 935 |
| **Projected Unreserved Balance at June 30, 2007** | $ 112 |
| **Transfer to General Fund** | 112 |
| **Projected Unrestricted Balance at June 30, 2007** | $ 0 |

## 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 September 21, 2005, there were approximately $412 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 September 21, 2005 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 2034, is approximately $10.3 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 September 21, 2005 is about $1.6 billion, with the maximum amount of principal and interest payable in any one month being $460 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 September 21, 2005, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately $159 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 September 21, 2005 is $13.4 million with the maximum amount of principal and interest payable in any one month being $5 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments 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, 2004

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# APPENDIX A
## Table of Contents

### BASIC FINANCIAL STATEMENTS

## Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, 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, 2004, which collectively comprise the state's basic financial statements as listed in Appendix A in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on those financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 92 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the 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, 99 percent, and 99 percent, respectively, of the total assets, net assets, and 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

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

component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* for the year ended June 30, 2004. This standard establishes additional guidance for determining whether certain organizations should be reported as component units in determining the state's reporting entity.

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

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 19, 2004

## 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, 2004, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

## Overview of the Financial Statements

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

The financial section of this annual report has four parts:

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

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

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

### Government-wide Financial Statements

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

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

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

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

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

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

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

Governmental Activities

The governmental activities of the state include most basic services such as environmental resources, general government, transportation, education, health and human services, and 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 unit governing body, and either a) the ability of the state to impose its will, or b) the potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government.

The state's 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 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 29 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balances* for the General and Federal funds, which are reported as major funds. Information from the remaining 26 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

The state adopts a biennial budget with annual appropriations for the 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 services provided by one program of the state to another. Because the activities reported by internal service funds predominantly benefit governmental functions rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the other 15 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 presented in this report.

Fiduciary Funds

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

The state maintains 17 individual nonmajor fiduciary funds. 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 included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units *statements of net assets* and 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 included 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, 2004, by $8.1 billion (presented as *net assets*). Of this amount, a deficit of $769 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 increased by $207 million (2.6 percent) during fiscal year 2004. Net assets of governmental activities increased by $173 million (2.6 percent), while net assets of the business-type activities showed an increase of $34 million (3.0 percent).

### Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $3.0 billion, a decrease of $855 million compared to the prior year. This amount includes an unreserved fund balance of $332 million.

- The General Fund includes a deficit of $448 million in the undesignated unreserved fund balance. The remaining governmental funds reported $200 million of undesignated unreserved fund balance, which is available for spending at the government's discretion and $580 million in designated fund balance.

### Long-Term Debt

- The state's total long-term debt obligations decreased by $106 million (1.9 percent) during the current fiscal year. The decrease is primarily due to payment to the escrow agent in the current year of refunding bonds issued in the prior year.

## 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 $8.103 billion at the end of 2004, compared to $7.897 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 $769 million.

**Net Assets**
**June 30, 2004**
**(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Current Assets | $ 7,875,733 | $ 8,265,240 | $ 928,778 | $ 787,781 | $ 8,804,511 | $ 9,053,021 |
| Noncurrent Assets: | | | | | | |
| Capital Assets | 7,826,826 | 7,197,543 | 1,072,726 | 977,480 | 8,899,552 | 8,175,023 |
| Other Assets | 894,598 | 782,448 | 59,424 | 74,084 | 954,022 | 856,532 |
| Total Assets | $ 16,597,157 | $ 16,245,231 | $ 2,060,928 | $ 1,839,345 | $ 18,658,085 | $ 18,084,576 |
| Current Liabilities | $ 5,135,904 | $ 4,698,850 | $ 541,660 | $ 369,059 | $ 5,677,564 | $ 5,067,909 |
| Noncurrent Liabilities | 4,535,676 | 4,793,304 | 341,376 | 326,685 | 4,877,052 | 5,119,989 |
| Total Liabilities | $ 9,671,580 | $ 9,492,154 | $ 883,036 | $ 695,744 | $ 10,554,616 | $ 10,187,898 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | $ 5,525,157 | $ 4,998,667 | $ 872,804 | $ 812,780 | $ 6,397,961 | $ 5,811,447 |
| Restricted | 2,387,732 | 2,280,661 | 86,291 | 151,812 | 2,474,023 | 2,432,473 |
| Unrestricted | (987,312) | (526,251) | 218,797 | 179,009 | (768,515) | (347,242) |
| Total Net Assets | $ 6,925,577 | $ 6,753,077 | $ 1,177,892 | $ 1,143,601 | $ 8,103,469 | $ 7,896,678 |

The largest portion, $6.4 billion of $8.1 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $2.5 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 $769 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 governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased $207 million (2.6 percent) over the course of this fiscal year. This resulted from a $173 million (2.6 percent) increase in net assets of governmental activities, and a $34 million (3.0 percent) increase in net assets of business-type activities.

**Changes in Net Assets**
**Fiscal Year Ended June 30, 2004**
**(In Thousands)**

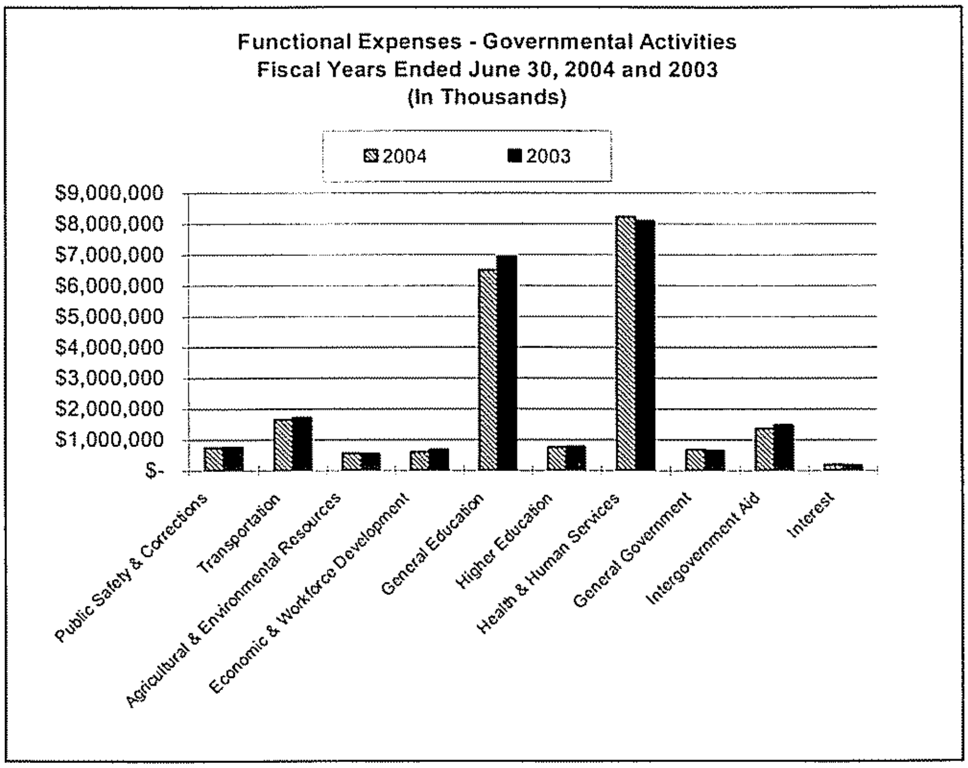
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 1,265,184 | $ 1,211,341 | $ 2,001,721 | $ 1,697,647 | $ 3,266,905 | $ 2,908,988 |
| Operating Grants and Contributions | 5,428,859 | 5,219,388 | 312,200 | 369,481 | 5,741,059 | 5,588,869 |
| Capital Grants | 269,786 | 131,632 | 2,307 | 2,274 | 272,093 | 133,906 |
| General Revenues: | | | | | | |
| Individual Income Taxes | 5,863,383 | 5,497,328 | - | - | 5,863,383 | 5,497,328 |
| Corporate Income Taxes | 643,442 | 636,214 | - | - | 643,442 | 636,214 |
| Sales Taxes | 3,911,496 | 3,924,424 | - | - | 3,911,496 | 3,924,424 |
| Property Taxes | 608,860 | 594,094 | - | - | 608,860 | 594,094 |
| Motor Vehicle Taxes | 587,223 | 606,137 | - | - | 587,223 | 606,137 |
| Fuel Taxes | 643,964 | 656,326 | - | - | 643,964 | 656,326 |
| Other Taxes | 2,190,491 | 1,981,468 | - | - | 2,190,491 | 1,981,468 |
| Tobacco Settlement | 173,173 | 261,525 | - | - | 173,173 | 261,525 |
| Investment/Interest Income | 32,712 | 24,049 | 16,213 | 15,697 | 48,925 | 39,746 |
| Other Revenues | 178,255 | 203,206 | 2,417 | 9,294 | 180,672 | 212,500 |
| Total Revenues | $ 21,796,828 | $ 20,947,132 | $ 2,334,858 | $ 2,094,393 | $ 24,131,686 | $ 23,041,525 |
| Expenses: | | | | | | |
| Public Safety and Corrections | $ 731,438 | $ 750,143 | $ - | $ - | $ 731,438 | $ 750,143 |
| Transportation | 1,662,402 | 1,727,604 | - | - | 1,662,402 | 1,727,604 |
| Agricultural and Environmental Resources | 557,414 | 541,828 | - | - | 557,414 | 541,828 |
| Economic and Workforce Development | 591,513 | 671,469 | - | - | 591,513 | 671,469 |
| General Education | 6,512,834 | 6,929,870 | - | - | 6,512,834 | 6,929,870 |
| Higher Education | 744,112 | 785,524 | - | - | 744,112 | 785,524 |
| Health and Human Services | 8,228,552 | 8,102,781 | - | - | 8,228,552 | 8,102,781 |
| General Government | 671,908 | 652,005 | - | - | 671,908 | 652,005 |
| Intergovernmental Aid | 1,355,683 | 1,480,533 | - | - | 1,355,683 | 1,480,533 |
| Interest | 181,323 | 169,023 | - | - | 181,323 | 169,023 |
| State Colleges and Universities | - | - | 1,385,817 | 1,386,493 | 1,385,817 | 1,386,493 |
| Unemployment Insurance | - | - | 931,659 | 1,054,281 | 931,659 | 1,054,281 |
| Lottery | - | - | 287,550 | 273,884 | 287,550 | 273,884 |
| Other | - | - | 166,923 | 153,397 | 166,923 | 153,397 |
| Total Expenses | $ 21,237,179 | $ 21,810,780 | $ 2,771,949 | $ 2,868,055 | $ 24,009,128 | $ 24,678,835 |
| Excess (Deficiency) Before Transfers and Special Item | $ 559,649 | $ (863,648) | $ (437,091) | $ (773,662) | $ 122,558 | $ (1,637,310) |
| Transfers | (471,382) | (548,291) | 471,382 | 548,291 | - | - |
| Special Item | - | 30,000 | - | - | - | 30,000 |
| Change in Net Assets | $ 88,267 | $ (1,381,939) | $ 34,291 | $ (225,371) | $ 122,558 | $ (1,607,310) |
| Net Assets, Beginning | $ 6,753,077 | $ 8,180,576 | $ 1,143,601 | $ 1,365,331 | $ 7,896,678 | $ 9,545,907 |
| Prior Period Adjustments | 84,233 | (41,919) | - | - | 84,233 | (41,919) |
| Change in Fund Structure | - | (3,641) | - | 3,641 | - | - |
| Net Assets, Ending | $ 6,925,577 | $ 6,753,077 | $ 1,177,892 | $ 1,143,601 | $ 8,103,469 | $ 7,896,678 |

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.

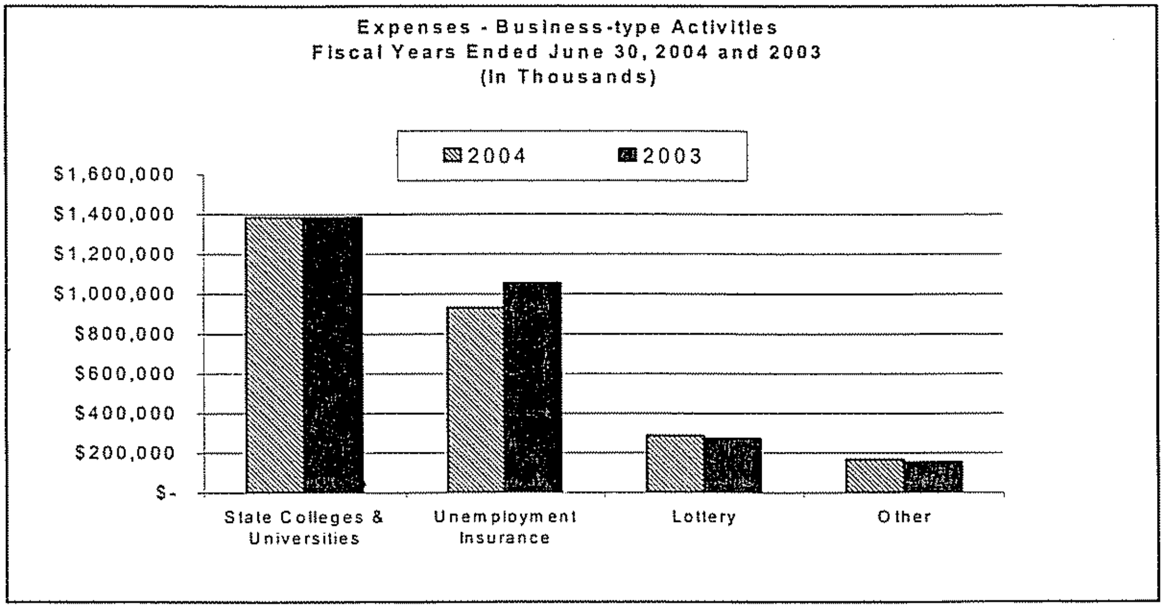
### Governmental Activities

Governmental activities increased the state's net assets by $173 million, which primarily resulted from increase in revenues as a result of the strengthening economy following an economic downturn and a reduction of governmental activities expenses. The decrease in expenses is primarily attributable to the decrease in General Education and Intergovernmental Aid expenses. The decrease in General Education expenses was attributable to change in the percentage of local property tax receipts calculated in determining state aid payments, while the decrease in Intergovernmental Aids was a result of the spending reductions made by the 2003 legislature for payments to municipalities and counties.




### Business-type Activities

The business-type activities had an increase in net assets of $34 million. This increase was due primarily to a $62 million increase in net assets of the State Colleges and Universities Fund, which was offset by a $37 million decrease in net assets of the Unemployment Insurance Fund. The increase in the State Colleges and Universities Fund net assets resulted from an increase in tuition revenue.




## 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 $2.996 billion, a decrease of $855 million 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 $448 million, an increase of $558 million in comparison with the prior year. This improvement resulted for three primary reasons. First, a one-time transfer of $1.029 billion was made to the General Fund to eliminate the Medical Education and Research and Tobacco Use Prevention funds. Second, revenue increased by $734 million which was primarily a result of an increase in sales and income tax receipts due to a rebound of the national economy. Finally, expenditures decreased by $706 million due to actions taken by the 2003 legislature to limit state spending growth as a response to forecasted budget deficits.

General Fund spending for the largest program areas declined from prior year levels primarily as a result of the spending reductions taken by the 2003 legislature. Spending decreased from the prior year for General Education by $316 million (5 percent), Higher Education by $90 million (12 percent), Health and Human Services by $29 million (1 percent), and Intergovernmental Aid by $125 million (8 percent). In addition, General Fund spending decreased due to a change in the percentage of local property tax receipts allocated to the calculation of aids for General Education.

### Proprietary Funds

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

The state's proprietary funds net assets increased by $34 million during the current year. This primarily resulted from a $62 million increase in net assets in the State Colleges and Universities Fund due to an increase in tuition revenue, which was offset by a decrease in net assets in the Unemployment Insurance Fund. During fiscal year 2004, the loan payable from the Federal Unemployment Account to cover unemployment benefits in the Unemployment Insurance Fund increased $141 million to $271 million.

## General Fund Budgetary Highlights

Based on the February 2004 forecast, the state's financial outlook has improved slightly since the November 2003 forecast and projected very small changes in revenues and expenditures. The February forecast projected a deficit of $160 million for the fiscal year 2004/2005 biennium in absence of legislative or executive action. Both state statutes (M.S. 16A.152) and constitution (Article XI, Section 6) require a balanced budget for the biennium; thus, corresponding reductions in spending and other measures will be made to ensure that the fund balance remains positive as necessary.

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

## Capital Asset and Debt Administration

### Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2004, was $10.7 billion, less accumulated depreciation of $1.8 billion, resulting in a net book value of $8.9 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, 2004**
**(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Capital Assets not Depreciated: | | | | | | |
| Land | $ 1,463,091 | $ 1,378,064 | $ 72,062 | $ 59,664 | $ 1,535,153 | $ 1,437,728 |
| Buildings, Structures, Improvements | 20,039 | 20,263 | - | - | 20,039 | 20,263 |
| Construction in Progress | 125,646 | 198,185 | 91,245 | 82,354 | 216,891 | 280,539 |
| Infrastructure | 5,113,949 | 4,620,135 | - | - | 5,113,949 | 4,620,135 |
| Art and Historical Treasures | 100 | 100 | - | - | 100 | 100 |
| Total Capital Assets not Depreciated | $ 6,722,825 | $ 6,216,747 | $ 163,307 | $ 142,018 | $ 6,886,132 | $ 6,358,765 |
| Capital Assets Depreciated: | | | | | | |
| Buildings, Structures, Improvements | $ 1,544,866 | $ 1,393,620 | $ 1,579,402 | $ 1,454,703 | $ 3,124,268 | $ 2,848,323 |
| Infrastructure | 44,285 | 41,670 | - | - | 44,285 | 41,670 |
| Library Collections | - | - | 45,180 | 42,878 | 45,180 | 42,878 |
| Equipment, Furniture, Fixtures | 362,009 | 357,690 | 282,553 | 291,045 | 644,562 | 648,735 |
| Total Capital Assets Depreciated | $ 1,951,160 | $ 1,792,980 | $ 1,907,135 | $ 1,788,626 | $ 3,858,295 | $ 3,581,606 |
| Less: Accumulated Depreciation | 847,159 | 812,184 | 997,716 | 953,164 | 1,844,875 | 1,765,348 |
| Capital Assets Net of Depreciation | $ 1,104,001 | $ 980,796 | $ 909,419 | $ 835,462 | $ 2,013,420 | $ 1,816,258 |
| Total | $ 7,826,826 | $ 7,197,543 | $ 1,072,726 | $ 977,480 | $ 8,899,552 | $ 8,175,023 |

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 2,700 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 2003, indicated that the average PQI for principal arterial pavement was 3.40 and 3.24 for all other pavements. The state has maintained a stable condition of pavement over the past five years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2003, indicated that 96 percent of principal arterial system bridges and 97 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

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, 2004**
**(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General Obligation | $ 3,055,496 | $ 3,295,545 | $ 141,859 | $ 125,950 | $ 3,197,355 | $ 3,421,495 |
| Revenue | - | - | 51,410 | 52,925 | 51,410 | 52,925 |
| Total | $ 3,055,496 | $ 3,295,545 | $ 193,269 | $ 178,875 | $ 3,248,765 | $ 3,474,420 |

During fiscal year 2004, the state issued the following bonds:

- $297 million in general obligation state various purpose bonds
- $142 million in general obligation state trunk highway bonds
- $3 million in general obligation taxable state various purpose bonds.

In addition to the general obligation bonds noted above, the state issued $21 million of refunding bonds in August 2003.

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.

Questions about this report or requests for additional financial information should be addressed to the Minnesota Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

# STATEMENT OF NET ASSETS
## JUNE 30, 2004
## (IN THOUSANDS)

| | PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES | PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES | PRIMARY GOVERNMENT TOTAL | COMPONENT UNITS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 3,809,602 | $ 483,136 | $ 4,292,738 | $ 1,284,896 |
| Investments | 973,152 | 21,769 | 994,921 | 890,517 |
| Accounts Receivable | 1,616,673 | 362,953 | 1,979,626 | 300,599 |
| Due from Component Units | 18,915 | - | 18,915 | - |
| Due from Primary Government | - | - | - | 175,542 |
| Accrued Investment/Interest Income | 15,779 | 18 | 15,797 | 34,670 |
| Federal Aid Receivable | 698,096 | 14,170 | 712,266 | 903 |
| Inventories | 16,163 | 19,183 | 35,346 | 36,484 |
| Loans and Notes Receivable | 63,121 | 9,189 | 72,310 | 139,952 |
| Internal Balances | 13,506 | (13,506) | - | - |
| Securities Lending Collateral | 649,600 | 28,611 | 678,211 | 301,686 |
| Other Assets | 1,126 | 3,255 | 4,381 | 48,442 |
| Total Current Assets | $ 7,875,733 | $ 928,778 | $ 8,804,511 | $ 3,213,691 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents-Restricted | $ - | $ 26,197 | $ 26,197 | $ 251,875 |
| Investments-Restricted | - | 5,979 | 5,979 | 197,652 |
| Accounts Receivable-Restricted | - | - | - | 35,143 |
| Due from Primary Government-Restricted | - | - | - | 6,343 |
| Other Assets-Restricted | - | 115 | 115 | 49,040 |
| Due from Component Units | 103,432 | - | 103,432 | - |
| Investments | - | - | - | 2,447,982 |
| Accounts Receivable | 470,578 | - | 470,578 | 404,370 |
| Loans and Notes Receivable | 265,116 | 27,133 | 292,249 | 3,057,192 |
| Depreciable Capital Assets (Net) | 1,104,001 | 909,419 | 2,013,420 | 3,072,370 |
| Nondepreciable Capital Assets | 1,608,876 | 163,307 | 1,772,183 | 892,130 |
| Infrastructure (Not depreciated) | 5,113,949 | - | 5,113,949 | - |
| Other Assets | 55,472 | - | 55,472 | 16,350 |
| Total Noncurrent Assets | $ 8,721,424 | $ 1,132,150 | $ 9,853,574 | $ 10,430,447 |
| Total Assets | $ 16,597,157 | $ 2,060,928 | $ 18,658,085 | $ 13,644,138 |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ 3,472,214 | $ 174,417 | $ 3,646,631 | $ 305,748 |
| Due to Component Units | 141,998 | - | 141,998 | - |
| Due to Primary Government | - | - | - | 28,623 |
| Unearned Revenue | 425,093 | 31,947 | 457,040 | 146,050 |
| Accrued Bond Interest Payable | 40,186 | 234 | 40,420 | 56,880 |
| General Obligation Bonds Payable | 249,433 | 9,492 | 258,925 | 321,237 |
| Bond Premium Payable | 8,364 | - | 8,364 | - |
| Loans and Notes Payable | 9,852 | 272,096 | 281,948 | 8,358 |
| Revenue Bonds Payable | - | 1,575 | 1,575 | 308,995 |
| Claims Payable | 106,739 | - | 106,739 | 95,404 |
| Compensated Absences Payable | 16,353 | 9,900 | 26,253 | 57,866 |
| Workers' Compensation Liability | 11,976 | 1,326 | 13,302 | - |
| Capital Leases Payable | 4,096 | 2,417 | 6,513 | - |
| Securities Lending Collateral | 649,600 | 28,611 | 678,211 | 301,686 |
| Other Liabilities | - | 9,645 | 9,645 | 9,309 |
| Total Current Liabilities | $ 5,135,904 | $ 541,660 | $ 5,677,564 | $ 1,640,156 |
| Noncurrent Liabilities: | | | | |
| Accounts Payable-Restricted | $ - | $ - | $ - | $ 110,107 |
| Unearned Revenue-Restricted | - | - | - | 93,366 |
| Accrued Bond Interest Payable-Restricted | - | - | - | 7,478 |
| Due to Primary Government | - | - | - | 103,432 |
| Unearned Revenue | - | - | - | 70,591 |
| General Obligation Bonds Payable | 2,806,063 | 132,367 | 2,938,430 | 1,154,161 |
| Bond Premium Payable | 109,255 | 3,242 | 112,497 | - |
| Loans and Notes Payable | 9,801 | 3,607 | 13,408 | 6,362 |
| Revenue Bonds Payable | - | 49,835 | 49,835 | 2,716,512 |
| Claims Payable | 1,283,665 | - | 1,283,665 | 423,269 |
| Compensated Absences Payable | 222,333 | 103,525 | 325,858 | 22,055 |
| Workers' Compensation Liability | 99,570 | 3,867 | 103,437 | - |
| Capital Leases Payable | 4,989 | 12,451 | 17,440 | - |
| Funds Held in Trust | - | - | - | 90,037 |
| Federal Student Loan Financing | - | 32,482 | 32,482 | - |
| Other Liabilities | - | - | - | 20,863 |
| Total Noncurrent Liabilities | $ 4,535,676 | $ 341,376 | $ 4,877,052 | $ 4,818,233 |
| Total Liabilities | $ 9,671,580 | $ 883,036 | $ 10,554,616 | $ 6,458,389 |

CONTINUED

## STATEMENT OF NET ASSETS (CONTINUED)
### JUNE 30, 2004
### (IN THOUSANDS)

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| NET ASSETS | | | | |
| Invested in Capital Assets, | | | | |
| Net of Related Debt | $ 5,525,157 | $ 872,804 | $ 6,397,961 | $ 2,531,260 |
| Restricted for: | | | | |
| Capital Projects | $ 7,209 | $ - | $ 7,209 | $ - |
| Debt Service | 318,774 | - | 318,774 | - |
| Transportation | 831,135 | - | 831,135 | - |
| Environmental Resources | 511,319 | - | 511,319 | - |
| Economic and Workforce Development | 44,291 | - | 44,291 | - |
| School Aid-Nonexpendable | 580,341 | - | 580,341 | - |
| School Aid-Expendable | 94,663 | - | 94,663 | - |
| Unemployment Benefits | - | 14,979 | 14,979 | - |
| State Colleges and Universities | - | 71,312 | 71,312 | - |
| Component Units | - | - | - | 4,065,486 |
| Total Restricted | $ 2,387,732 | $ 86,291 | $ 2,474,023 | $ 4,065,486 |
| Unrestricted | $ (987,312) | $ 218,797 | $ (768,515) | $ 589,003 |
| Total Net Assets | $ 6,925,577 | $ 1,177,892 | $ 8,103,469 | $ 7,185,749 |

The notes are an integral part of the financial statements.

# STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2004
## (IN THOUSANDS)

| | | PROGRAM REVENUES | | |
|---|---|---|---|---|
| FUNCTIONS/PROGRAMS | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBU-TIONS | CAPITAL GRANTS AND CONTRIBU-TIONS |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Public Safety and Corrections | $ 731,438 | $ 138,359 | $ 123,956 | $ 9,009 |
| Transportation | 1,662,402 | 15,473 | 359,620 | 260,421 |
| Agricultural and Environmental Resources | 557,414 | 187,779 | 60,001 | 356 |
| Economic and Workforce Development | 591,513 | 158,788 | 330,359 | - |
| General Education | 6,512,834 | 33,284 | 625,380 | - |
| Higher Education | 744,112 | - | - | - |
| Health and Human Services | 8,228,552 | 516,539 | 3,874,378 | - |
| General Government | 671,908 | 214,962 | 55,165 | - |
| Intergovernment Aid | 1,355,683 | - | - | - |
| Interest | 181,323 | - | - | - |
| Total Governmental Activities | $ 21,237,179 | $ 1,265,184 | $ 5,428,859 | $ 269,786 |
| Business-type Activities: | | | | |
| State Colleges and Universities | $ 1,385,817 | $ 636,138 | $ 179,697 | $ 2,051 |
| Unemployment Insurance | 931,659 | 806,185 | 132,503 | - |
| Lottery | 287,550 | 387,800 | - | - |
| Other | 166,923 | 171,598 | - | 256 |
| Total Business-type Activities | $ 2,771,949 | $ 2,001,721 | $ 312,200 | $ 2,307 |
| Total Primary Government | $ 24,009,128 | $ 3,266,905 | $ 5,741,059 | $ 272,093 |
| Component Units: | | | | |
| University of Minnesota | $ 2,077,781 | $ 958,932 | $ 679,618 | $ 132,296 |
| Metropolitan Council | 642,289 | 287,595 | 160,293 | 183,303 |
| Housing Finance | 344,155 | 134,464 | 154,844 | - |
| Others | 404,056 | 154,003 | 19,123 | - |
| Total Component Units | $ 3,468,281 | $ 1,534,994 | $ 1,013,878 | $ 315,599 |

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

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning, as Reported
Prior Period Adjustments

Net Assets, Beginning, as Restated

Net Assets, Ending

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

| PRIMARY GOVERNMENT | | | |
|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| $ (460,114) | | $ (460,114) | |
| (1,026,888) | | (1,026,888) | |
| (309,278) | | (309,278) | |
| (102,366) | | (102,366) | |
| (5,854,170) | | (5,854,170) | |
| (744,112) | | (744,112) | |
| (3,837,635) | | (3,837,635) | |
| (401,781) | | (401,781) | |
| (1,355,683) | | (1,355,683) | |
| (181,323) | | (181,323) | |
| $ (14,273,350) | | $ (14,273,350) | |
| | $ (567,931) | $ (567,931) | |
| | 7,029 | 7,029 | |
| | 100,250 | 100,250 | |
| | 4,931 | 4,931 | |
| | $ (455,721) | $ (455,721) | |
| $ (14,273,350) | $ (455,721) | $ (14,729,071) | |
| | | | $ (306,935) |
| | | | (11,098) |
| | | | (54,847) |
| | | | (230,930) |
| | | | $ (603,810) |
| $ 5,863,383 | $ - | $ 5,863,383 | $ - |
| 643,442 | - | 643,442 | - |
| 3,911,496 | - | 3,911,496 | - |
| 608,860 | - | 608,860 | - |
| 587,223 | - | 587,223 | - |
| 643,964 | - | 643,964 | - |
| 2,190,491 | - | 2,190,491 | 190,590 |
| 173,173 | - | 173,173 | - |
| 32,712 | 16,213 | 48,925 | 88,063 |
| 178,255 | 2,417 | 180,672 | 83,059 |
| - | - | - | 760,435 |
| (471,382) | 471,382 | - | - |
| $ 14,361,617 | $ 490,012 | $ 14,851,629 | $ 1,122,147 |
| $ 88,267 | $ 34,291 | $ 122,558 | $ 518,337 |
| $ 6,753,077 | $ 1,143,601 | $ 7,896,678 | $ 6,667,412 |
| 84,233 | - | 84,233 | - |
| $ 6,837,310 | $ 1,143,601 | $ 7,980,911 | $ 6,667,412 |
| $ 6,925,577 | $ 1,177,892 | $ 8,103,469 | $ 7,185,749 |

## GOVERNMENTAL FUNDS
## BALANCE SHEET
### JUNE 30, 2004
### (IN THOUSANDS)

| | GENERAL | FEDERAL | NONMAJOR FUNDS | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 1,465,328 | $ 168 | $ 2,199,443 | $ 3,664,939 |
| Investments | 46,830 | - | 905,503 | 952,333 |
| Accounts Receivable | 1,521,821 | 227,143 | 330,378 | 2,079,342 |
| Interfund Receivables | 193,655 | 4,516 | 137,725 | 335,896 |
| Due from Component Units | - | - | 122,347 | 122,347 |
| Accrued Investment/Interest Income | 6,742 | - | 8,713 | 15,455 |
| Federal Aid Receivable | - | 610,566 | 87,530 | 698,096 |
| Inventories | - | 49 | 15,202 | 15,251 |
| Loans and Notes Receivable | 51,997 | 117 | 276,123 | 328,237 |
| Advances to Other Funds | 4,700 | - | - | 4,700 |
| Securities Lending Collateral | 333,364 | - | 292,916 | 626,280 |
| Investment in Land | - | - | 15,441 | 15,441 |
| Total Assets | $ 3,624,437 | $ 842,559 | $ 4,391,321 | $ 8,858,317 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts Payable | $ 2,334,115 | $ 657,643 | $ 428,241 | $ 3,419,999 |
| Interfund Payables | 36,204 | 142,523 | 143,106 | 321,833 |
| Due to Component Units | 101,083 | 2,591 | 38,324 | 141,998 |
| Deferred Revenue | 1,147,630 | 32,709 | 172,213 | 1,352,552 |
| Securities Lending Collateral | 333,364 | - | 292,916 | 626,280 |
| Total Liabilities | $ 3,952,396 | $ 835,466 | $ 1,074,800 | $ 5,862,662 |
| Fund Balances: | | | | |
| Reserved Fund Balances: | | | | |
| Reserved for Encumbrances | $ 65,242 | $ - | $ 259,365 | $ 324,607 |
| Reserved for Local Governments | - | - | 441,027 | 441,027 |
| Reserved for Trust Principal | - | - | 918,428 | 918,428 |
| Other Reserved Fund Balances | 55,264 | 7,093 | 917,293 | 979,650 |
| Total Reserved Fund Balances | $ 120,506 | $ 7,093 | $ 2,536,113 | $ 2,663,712 |
| Unreserved Fund Balances: | | | | |
| Designated for: | | | | |
| Special Revenue Funds | $ - | $ - | $ 580,118 | $ 580,118 |
| Undesignated, reported in: | | | | |
| General Fund | (448,465) | - | - | (448,465) |
| Capital Project Funds | - | - | (62,340) | (62,340) |
| Special Revenue Funds | - | - | 262,630 | 262,630 |
| Total Unreserved Fund Balance | $ (448,465) | $ - | $ 780,408 | $ 331,943 |
| Total Fund Balances | $ (327,959) | $ 7,093 | $ 3,316,521 | $ 2,995,655 |
| Total Liabilities and Fund Balances | $ 3,624,437 | $ 842,559 | $ 4,391,321 | $ 8,858,317 |

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, 2004
(IN THOUSANDS)

| | | |
|---|---|---|
| **Total Fund Balance for Governmental Funds** | | $ 2,995,655 |
| 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 | $ 5,113,949 | |
| Depreciable Capital Assets | 1,858,889 | |
| Nondepreciable Capital Assets | 1,593,435 | |
| Accumulated Depreciation | (779,967) | |
| Total Capital Assets | | 7,786,306 |
| 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 | | 932,376 |
| 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 | | 54,775 |
| 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 | | 115,443 |
| 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 | $ (3,055,496) | |
| Bond Premium Payable | (117,619) | |
| Accrued Interest Payable on Bonds | (40,186) | |
| Claims Payable | (1,390,404) | |
| Workers' Compensation Liability | (111,546) | |
| Capital Leases Payable | (9,085) | |
| Compensated Absences Payable | (234,642) | |
| Total Liabilities | | (4,958,978) |
| **Net Assets of Governmental Activities** | | $ 6,925,577 |

# GOVERNMENTAL FUNDS
# STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
### YEAR ENDED JUNE 30, 2004
### (IN THOUSANDS)

| | GENERAL | FEDERAL | NONMAJOR FUNDS | TOTAL |
|---|---|---|---|---|
| Net Revenues: | | | | |
| Individual Income Taxes | $ 5,836,790 | $ - | $ - | $ 5,836,790 |
| Corporate Income Taxes | 648,837 | - | - | 648,837 |
| Sales Taxes | 3,957,995 | - | 1,241 | 3,959,236 |
| Property Taxes | 599,622 | - | - | 599,622 |
| Motor Vehicle Taxes | 407,275 | - | 689,615 | 1,096,890 |
| Fuel Taxes | - | - | 651,261 | 651,261 |
| Other Taxes | 1,177,688 | - | 461,664 | 1,639,352 |
| Tobacco Settlement | 174,266 | - | - | 174,266 |
| Federal Revenues | 83,720 | 5,084,011 | 382,875 | 5,550,606 |
| Licenses and Fees | 240,052 | - | 242,094 | 482,146 |
| Departmental Services | 35,189 | 18,835 | 170,673 | 224,697 |
| Investment/Interest Income | 17,022 | 211 | 138,107 | 155,340 |
| Securities Lending Income | 2,079 | - | 2,009 | 4,088 |
| Other Revenues | 294,606 | 229,153 | 192,523 | 716,282 |
| Net Revenues | $ 13,475,141 | $ 5,332,210 | $ 2,932,062 | $ 21,739,413 |
| Expenditures: | | | | |
| Current: | | | | |
| Public Safety and Corrections | $ 436,347 | $ 104,700 | $ 170,841 | $ 711,888 |
| Transportation | 207,233 | 214,179 | 1,226,035 | 1,647,447 |
| Agricultural and Environmental Resources | 181,107 | 36,231 | 358,025 | 575,363 |
| Economic and Workforce Development | 126,334 | 323,035 | 199,721 | 649,090 |
| General Education | 5,990,207 | 531,660 | (9,234) | 6,512,633 |
| Higher Education | 674,502 | - | 70,904 | 745,406 |
| Health and Human Services | 3,580,762 | 4,052,416 | 596,375 | 8,229,553 |
| General Government | 512,633 | 12,144 | 92,275 | 617,052 |
| Intergovernment Aid | 1,355,474 | - | 209 | 1,355,683 |
| Securities Lending Rebates and Fees | 1,998 | - | 1,856 | 3,854 |
| Total Current Expenditures | $ 13,066,597 | $ 5,274,365 | $ 2,707,007 | $ 21,047,969 |
| Capital Outlay | 6,758 | 16,942 | 677,672 | 701,372 |
| Debt Service | 19,637 | 3 | 418,320 | 437,960 |
| Total Expenditures | $ 13,092,992 | $ 5,291,310 | $ 3,802,999 | $ 22,187,301 |
| Excess of Revenues Over (Under) Expenditures | $ 382,149 | $ 40,900 | $ (870,937) | $ (447,888) |
| Other Financing Sources (Uses): | | | | |
| General Obligation Bond Issue Proceeds | $ - | $ - | $ 417,937 | $ 417,937 |
| Proceeds from Refunding Bonds | - | - | 20,855 | 20,855 |
| Payment of Refunding Bonds | - | - | (425,715) | (425,715) |
| Bond Issue Premium | - | - | 33,455 | 33,455 |
| Transfers-In | 1,237,824 | 230 | 1,992,358 | 3,230,412 |
| Transfers-Out | (1,016,216) | (41,280) | (2,629,887) | (3,687,383) |
| Capital Leases | 384 | - | 1,390 | 1,774 |
| Net Other Financing Sources (Uses) | $ 221,992 | $ (41,050) | $ (589,607) | $ (408,665) |
| Net Change in Fund Balances | $ 604,141 | $ (150) | $ (1,460,544) | $ (856,553) |
| Fund Balances, Beginning, as Reported | $ (932,100) | $ 7,243 | $ 4,775,633 | $ 3,850,776 |
| Change in Inventory | $ - | $ - | $ 1,432 | $ 1,432 |
| Fund Balances, Ending | $ (327,959) | $ 7,093 | $ 3,316,521 | $ 2,995,655 |

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, 2004
(IN THOUSANDS)

| | |
|---|---|
| **Net change in fund balances for governmental funds** | $ (856,553) |
| 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 | 649,604 |
| Governmental funds report the proceeds from the sale of capital assets as increases in financial resources. However, in the Statement of Activities, only the gain or loss on the sale and the fair market value of donated capital assets are reported | (16,389) |
| 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 | 10,321 |
| The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used | 1,432 |
| Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds | 33,807 |
| 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 | (472,247) |
| 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 | (1,774) |
| Repayment of bonds is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets | 678,841 |
| Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds | 61,225 |
| **Change in net assets of governmental activities** | $ 88,267 |

# MAJOR GOVERNMENTAL FUND
# STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS

## YEAR ENDED JUNE 30, 2004
## (IN THOUSANDS)

| | GENERAL FUND | | |
|---|---|---|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
| Net Revenues: | | | |
| Individual Income Taxes | $ 5,797,788 | $ 5,526,900 | $ 5,709,585 |
| Corporate Income Taxes | 625,200 | 645,600 | 628,048 |
| Sales Taxes | 4,074,989 | 4,082,747 | 4,065,366 |
| Property Taxes | 603,103 | 603,579 | 599,622 |
| Motor Vehicle Taxes | 428,455 | 421,684 | 410,647 |
| Other Taxes | 1,114,066 | 1,252,813 | 1,266,789 |
| Investment/Interest Income | 17,300 | 17,300 | 15,453 |
| Tobacco Settlement | 189,041 | 168,467 | 168,467 |
| Other Revenues | 551,148 | 615,082 | 715,391 |
| Net Revenues | $ 13,401,090 | $ 13,334,172 | $ 13,579,368 |
| Expenditures: | | | |
| Public Safety and Corrections | $ 448,979 | $ 438,691 | $ 437,424 |
| Transportation | 203,724 | 207,890 | 206,969 |
| Agricultural and Environmental Resources | 197,783 | 190,062 | 190,053 |
| Economic and Workforce Development | 48,557 | 99,064 | 98,269 |
| General Education | 5,897,324 | 5,832,615 | 5,832,615 |
| Higher Education | 709,141 | 675,972 | 675,972 |
| Health and Human Services | 3,611,127 | 3,500,285 | 3,495,194 |
| General Government | 544,030 | 532,873 | 526,556 |
| Intergovernment Aid | 1,394,579 | 1,375,048 | 1,375,020 |
| Total Expenditures | $ 13,055,244 | $ 12,852,500 | $ 12,838,072 |
| Excess of Revenues Over (Under) Expenditures | $ 345,846 | $ 481,672 | $ 741,296 |
| Other Financing Sources (Uses): | | | |
| Transfers-In | $ 1,128,230 | $ 1,118,695 | $ 1,147,376 |
| Transfers-Out | (1,025,338) | (1,025,338) | (1,025,338) |
| Net Other Financing Sources (Uses) | $ 102,892 | $ 93,357 | $ 122,038 |
| Net Change in Fund Balances | $ 448,738 | $ 575,029 | $ 863,334 |
| Fund Balances, Beginning, as Reported | $ 384,933 | $ 384,933 | $ 384,933 |
| Prior Period Adjustments | - | - | 40,856 |
| Fund Balances, Beginning, as Restated | $ 384,933 | $ 384,933 | $ 425,789 |
| Budgetary Fund Balances, Ending | $ 833,671 | $ 959,962 | $ 1,289,123 |
| Less: Appropriation Carryover | - | - | 193,922 |
| Less: Budgetary Reserve | 300,000 | 409,677 | 403,677 |
| Undesignated Fund Balances, Ending | $ 533,671 | $ 550,285 | $ 691,524 |

The notes are an integral part of the financial statements.

# PROPRIETARY FUNDS
# STATEMENT OF NET ASSETS
### JUNE 30, 2004
### (IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $ 400,491 | $ 9,553 | $ 73,092 | $ 483,136 | $ 144,663 |
| Investments | 21,769 | - | - | 21,769 | 20,819 |
| Accounts Receivable | 31,485 | 306,512 | 24,956 | 362,953 | 20,683 |
| Interfund Receivables | 14,156 | - | 467 | 14,623 | 27 |
| Accrued Investment/Interest Income | - | - | 18 | 18 | 324 |
| Federal Aid Receivable | 10,958 | 3,212 | - | 14,170 | - |
| Inventories | 9,609 | - | 9,574 | 19,183 | 912 |
| Deferred Costs | 295 | - | 516 | 811 | 1,126 |
| Loans and Notes Receivable | 9,189 | - | - | 9,189 | - |
| Securities Lending Collateral | 28,611 | - | - | 28,611 | 23,320 |
| Other Assets | - | - | 2,444 | 2,444 | - |
| Total Current Assets | $ 526,563 | $ 319,277 | $ 111,067 | $ 956,907 | $ 211,874 |
| Noncurrent Assets: | | | | | |
| Cash and Cash Equivalents-Restricted | $ 23,531 | $ - | $ 2,666 | $ 26,197 | $ - |
| Investments-Restricted | 5,979 | - | - | 5,979 | - |
| Other Assets-Restricted | 115 | - | - | 115 | - |
| Deferred Costs | - | - | - | - | 697 |
| Loans and Notes Receivable | 27,133 | - | - | 27,133 | - |
| Depreciable Capital Assets (Net) | 875,463 | - | 33,956 | 909,419 | 25,079 |
| Nondepreciable Capital Assets | 161,591 | - | 1,716 | 163,307 | - |
| Total Noncurrent Assets | $ 1,093,812 | $ - | $ 38,338 | $ 1,132,150 | $ 25,776 |
| Total Assets | $ 1,620,375 | $ 319,277 | $ 149,405 | $ 2,089,057 | $ 237,650 |
| **LIABILITIES** | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | $ 133,050 | $ 15,196 | $ 26,171 | $ 174,417 | $ 64,989 |
| Interfund Payables | - | 14,089 | 14,040 | 28,129 | 584 |
| Unearned Revenue | 27,030 | 3,972 | 945 | 31,947 | 4,917 |
| Accrued Bond Interest Payable | - | - | 234 | 234 | - |
| General Obligation Bonds Payable | 9,271 | - | 221 | 9,492 | - |
| Loans and Notes Payable | 1,055 | 271,041 | - | 272,096 | 9,852 |
| Revenue Bonds Payable | 1,265 | - | 310 | 1,575 | - |
| Workers' Compensation Liability | 1,326 | - | - | 1,326 | - |
| Capital Leases | 2,015 | - | 402 | 2,417 | - |
| Compensated Absences Payable | 8,499 | - | 1,401 | 9,900 | 290 |
| Securities Lending Collateral | 28,611 | - | - | 28,611 | 23,320 |
| Other Liabilities | 8,518 | - | 1,127 | 9,645 | - |
| Total Current Liabilities | $ 220,640 | $ 304,298 | $ 44,851 | $ 569,789 | $ 103,952 |
| Noncurrent Liabilities: | | | | | |
| General Obligation Bonds Payable | $ 128,746 | $ - | $ 3,621 | $ 132,367 | $ - |
| Loans and Notes Payable | 3,607 | - | - | 3,607 | 9,801 |
| Revenue Bonds Payable | 34,965 | - | 14,870 | 49,835 | - |
| Workers' Compensation Liability | 3,867 | - | - | 3,867 | - |
| Capital Leases | 11,750 | - | 701 | 12,451 | - |
| Compensated Absences Payable | 94,760 | - | 8,765 | 103,525 | 3,754 |
| Advances from Other Funds | - | - | - | - | 4,700 |
| Federal Student Loan Financing | 32,482 | - | - | 32,482 | - |
| Other Liabilities | 3,242 | - | - | 3,242 | - |
| Total Noncurrent Liabilities | $ 313,419 | $ - | $ 27,957 | $ 341,376 | $ 18,255 |
| Total Liabilities | $ 534,059 | $ 304,298 | $ 72,808 | $ 911,165 | $ 122,207 |
| **NET ASSETS** | | | | | |
| Invested in Capital Assets, Net of Related Debt | $ 854,354 | $ - | $ 18,450 | $ 872,804 | $ 5,581 |
| Restricted for: | | | | | |
| Unemployment Benefits | $ - | $ 14,979 | $ - | $ 14,979 | $ - |
| Donations | 7,614 | - | - | 7,614 | - |
| Perkins Loans | 4,078 | - | - | 4,078 | - |
| Bond Covenants | 26,869 | - | - | 26,869 | - |
| Debt Service | 14,156 | - | - | 14,156 | - |
| Capital Projects | 12,439 | - | - | 12,439 | - |
| Faculty Contracts | 4,301 | - | - | 4,301 | - |
| Legislatively Mandated Purposes | 1,855 | - | - | 1,855 | - |
| Total Restricted | $ 71,312 | $ 14,979 | $ - | $ 86,291 | $ - |
| Unrestricted | $ 160,650 | $ - | $ 58,147 | $ 218,797 | $ 109,862 |
| Total Net Assets | $ 1,086,316 | $ 14,979 | $ 76,597 | $ 1,177,892 | $ 115,443 |

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, 2004
## (IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Operating Revenues: | | | | | |
| Tuition and Fees | $ 556,328 | $ - | $ - | $ 556,328 | $ - |
| Net Sales | - | - | 423,196 | 423,196 | 8,943 |
| Rental and Service Fees | - | - | 109,832 | 109,832 | 128,228 |
| Insurance Premiums | - | 760,275 | 22,561 | 782,836 | 473,659 |
| Federal Revenues | 165,993 | 132,503 | - | 298,496 | - |
| State Grants | 58,016 | - | - | 58,016 | - |
| Other Income | 21,794 | 45,910 | 3,809 | 71,513 | 6,214 |
| Total Operating Revenues | $ 802,131 | $ 938,688 | $ 559,398 | $ 2,300,217 | $ 617,044 |
| Less: Cost of Goods Sold | - | - | 290,325 | 290,325 | 5,571 |
| Gross Margin | $ 802,131 | $ 938,688 | $ 269,073 | $ 2,009,892 | $ 611,473 |
| Operating Expenses: | | | | | |
| Purchased Services | $ 147,363 | $ - | $ 20,068 | $ 167,431 | $ 117,081 |
| Salaries and Fringe Benefits | 922,014 | - | 96,030 | 1,018,044 | 41,297 |
| Student Financial Aid | 76,014 | - | - | 76,014 | - |
| Unemployment Benefits | - | 918,839 | - | 918,839 | - |
| Claims | - | - | 17,103 | 17,103 | 392,169 |
| Depreciation | 67,753 | - | 3,118 | 70,871 | 10,111 |
| Amortization | - | - | 71 | 71 | 85 |
| Supplies and Materials | 73,116 | - | 5,165 | 78,281 | 7,084 |
| Repairs and Maintenance | 34,466 | - | - | 34,466 | - |
| Indirect Costs | - | - | 9,413 | 9,413 | 2,540 |
| Other Expenses | 46,436 | - | 8,757 | 55,193 | 13,223 |
| Total Operating Expenses | $ 1,367,162 | $ 918,839 | $ 159,725 | $ 2,445,726 | $ 583,590 |
| Operating Income (Loss) | $ (565,031) | $ 19,849 | $ 109,348 | $ (435,834) | $ 27,883 |
| Nonoperating Revenues (Expenses): | | | | | |
| Investment Income | $ 3,975 | $ 11,144 | $ 1,087 | $ 16,206 | $ 1,699 |
| Private Grants | 13,704 | - | - | 13,704 | - |
| Grants and Subsidies | 2,051 | - | - | 2,051 | - |
| Securities Lending Income | 177 | - | - | 177 | 132 |
| Other Nonoperating Revenues | - | - | 735 | 735 | 57 |
| Interest and Financing Costs | (9,383) | (12,820) | (1,608) | (23,811) | (867) |
| Grants, Aids and Subsidies | (9,272) | - | - | (9,272) | - |
| Securities Lending Rebates and Fees | (170) | - | - | (170) | (127) |
| Other Nonoperating Expenses | - | - | (2,807) | (2,807) | (3,668) |
| Gain (Loss) on Disposal of Capital Assets | 1,704 | - | (30) | 1,674 | (377) |
| Total Nonoperating Revenues (Expenses) | $ 2,786 | $ (1,676) | $ (2,623) | $ (1,513) | $ (3,151) |
| Income (Loss) Before Transfers & Contributions | $ (562,245) | $ 18,173 | $ 106,725 | $ (437,347) | $ 24,732 |
| Capital Contributions | 64,792 | - | 256 | 65,048 | - |
| Transfers-In | 559,631 | - | 5,295 | 564,926 | - |
| Transfers-Out | - | (55,625) | (102,711) | (158,336) | (14,411) |
| Change in Net Assets | $ 62,178 | $ (37,452) | $ 9,565 | $ 34,291 | $ 10,321 |
| Net Assets, Beginning, as Reported | $ 1,024,138 | $ 52,431 | $ 67,032 | $ 1,143,601 | $ 105,122 |
| Net Assets, Ending | $ 1,086,316 | $ 14,979 | $ 76,597 | $ 1,177,892 | $ 115,443 |

The notes are an integral part of the financial statements.

# PROPRIETARY FUNDS
# STATEMENT OF CASH FLOWS
### YEAR ENDED JUNE 30, 2004
### (IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| **Cash Flows from Operating Activities:** | | | | | |
| Receipts from Customers | $ 583,345 | $ 718,743 | $ 550,625 | $ 1,852,713 | $ 611,998 |
| Receipts from Grants | 222,493 | 137,162 | - | 359,655 | - |
| Receipts from Other Revenue | - | - | 1,995 | 1,995 | 6,377 |
| Receipts from Repayment of Program Loans | 6,968 | - | - | 6,968 | - |
| Financial Aid Disbursements | (75,273) | - | - | (75,273) | - |
| Payments to Claimants | - | (938,988) | (16,950) | (955,938) | (385,502) |
| Payments to Suppliers | (307,417) | - | (97,796) | (405,213) | (154,683) |
| Payments to Employees | (902,845) | - | (101,831) | (1,004,676) | (40,582) |
| Payments to Others | - | - | (229,288) | (229,288) | (1,606) |
| Payments of Program Loans | (8,113) | - | - | (8,113) | - |
| Net Cash Flows from Operating Activities | $ (480,842) | $ (83,083) | $ 106,755 | $ (457,170) | $ 36,002 |
| **Cash Flows from Noncapital Financing Activities:** | | | | | |
| Grant Receipts | $ 13,704 | $ - | $ - | $ 13,704 | $ - |
| Transfers-In | 559,631 | - | 5,295 | 564,926 | - |
| Transfers-Out | (452) | (46,511) | (104,608) | (151,571) | (14,411) |
| Advances to Other Funds | - | - | (10) | (10) | - |
| Advances from Other Funds | - | 801,522 | - | 801,522 | 5,300 |
| Repayments of Advances from Other Funds | - | (670,659) | - | (670,659) | (6,284) |
| Interest Paid | - | (3,532) | - | (3,532) | - |
| Other Nonoperating Expense | (9,272) | - | (3,371) | (12,643) | (4,670) |
| Net Cash Flows from Noncapital Financing Activities | $ 563,611 | $ 80,820 | $ (102,694) | $ 541,737 | $ (20,065) |
| **Cash Flows from Capital and Related Financing Activities:** | | | | | |
| Capital Contributions | $ 64,793 | $ - | $ - | $ 64,793 | $ 23 |
| Investment in Capital Assets | (148,150) | - | (3,261) | (151,411) | (8,677) |
| Proceeds from Disposal of Capital Assets | 183 | - | 195 | 378 | 2,339 |
| Proceeds from Capital Debt | 24,207 | - | - | 24,207 | - |
| Proceeds from Insurance Settlement | 3,314 | - | - | 3,314 | - |
| Proceeds from Loans | 1,848 | - | - | 1,848 | 7,223 |
| Capital Lease Payments | (2,891) | - | (273) | (3,164) | (59) |
| Repayment of Loan Principal | (1,574) | - | - | (1,574) | (11,863) |
| Repayment of Bond Principal | (10,476) | - | (522) | (10,998) | - |
| Interest Paid | (9,755) | - | (1,547) | (11,302) | (828) |
| Net Cash Flows from Capital and Related Financing Activities | $ (78,501) | $ - | $ (5,408) | $ (83,909) | $ (11,842) |
| **Cash Flows from Investing Activities:** | | | | | |
| Proceeds from Sales and Maturities of Investments | $ 4,876 | $ - | $ 3,467 | $ 8,343 | $ 4,996 |
| Purchase of Investments | (6,216) | - | - | (6,216) | (5,229) |
| Investment Earnings | 3,985 | 11,768 | 1,107 | 16,860 | 2,943 |
| Net Cash Flows from Investing Activities | $ 2,645 | $ 11,768 | $ 4,574 | $ 18,987 | $ 2,710 |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ 6,913 | $ 9,505 | $ 3,227 | $ 19,645 | $ 6,805 |
| Cash and Cash Equivalents, Beginning, as Reported | $ 417,109 | $ 48 | $ 72,531 | $ 489,688 | $ 137,858 |
| Cash and Cash Equivalents, Ending | $ 424,022 | $ 9,553 | $ 75,758 | $ 509,333 | $ 144,663 |

# PROPRIETARY FUNDS
## STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(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) | $ (565,031) | $ 19,849 | $ 109,348 | $ (435,834) | $ 27,883 |
| Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities: | | | | | |
| Depreciation | $ 67,753 | $ - | $ 3,493 | $ 71,246 | $ 10,111 |
| Amortization | - | - | 71 | 71 | 85 |
| Loan Principal Repayments | 6,968 | - | - | 6,968 | - |
| Loans Issued | (8,113) | - | - | (8,113) | - |
| Bad Debt Expense | 859 | - | - | 859 | - |
| Change in Valuation of Assets | (10,866) | - | 349 | (10,517) | - |
| Change in Assets and Liabilities: | | | | | |
| Accounts Receivable | (3,419) | (93,861) | (3,715) | (100,995) | 6,745 |
| Inventories | (1,468) | - | (200) | (1,668) | 183 |
| Other Assets | - | - | 1,233 | 1,233 | (353) |
| Accounts Payable | 10,889 | (10,996) | (4,698) | (4,805) | (8,663) |
| Compensated Absences Payable | 11,082 | - | 711 | 11,793 | (64) |
| Unearned Revenues | 8,150 | 1,925 | (660) | 9,415 | 78 |
| Other Liabilities | 2,354 | - | 823 | 3,177 | (3) |
| Net Reconciling Items to be Added to (Deducted from) Operating Income | $ 84,189 | $ (102,932) | $ (2,593) | $ (21,336) | $ 8,119 |
| Net Cash Flows from Operating Activities | $ (480,842) | $ (83,083) | $ 106,755 | $ (457,170) | $ 36,002 |
| **Noncash Investing, Capital and Financing Activities:** | | | | | |
| Donated Assets | $ 1,134 | $ - | $ - | $ 1,134 | $ - |
| Change in Fair Value of Investments | 177 | - | - | 177 | - |
| Capital Assets Acquired Through Leases | 5,670 | - | - | 5,670 | - |
| Capital Assets Purchased on Account | 13,523 | - | - | 13,523 | - |
| Disposal of Capital Assets | 2,216 | - | - | 2,216 | 1,975 |
| Accrual of Computer Equipment as an Investment in Capital Assets | - | - | - | - | 457 |
| Trade-in Allowance for Investment in Capital Assets | - | - | - | - | 116 |
| Change in Capital Asset Threshold | - | - | - | - | (2,258) |

The notes are an integral part of the financial statements.

# FIDUCIARY FUNDS
# STATEMENT OF NET ASSETS
### JUNE 30, 2004
### (IN THOUSANDS)

| | PENSION TRUST | INVESTMENT TRUST SUPPLEMENTAL RETIREMENT | AGENCY |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Cash Equivalents | $ 78,630 | $ - | $ 45,614 |
| Investment Pools, at fair value: | | | |
| Cash Equivalent Investments | $ 2,818,920 | $ 29,762 | $ - |
| Investments: | | | |
| Commercial Paper | $ 49,204 | $ 381 | $ - |
| US Treasury Obligations | 1,756,162 | 15,288 | - |
| Mortgage Backed | 4,271,989 | 46,787 | - |
| Corporate Obligations | 2,647,156 | 53,427 | - |
| Foreign and Other Obligations | 127,484 | 1,029 | - |
| Corporate Stocks | 24,705,697 | 298,657 | - |
| Other Equity | 3,123,285 | - | - |
| Total Investments | $ 36,680,977 | $ 415,569 | $ - |
| Accrued Interest and Dividends | $ 106,520 | $ 1,543 | $ - |
| Securities Trades Receivables (Payables) | (1,276,348) | (9,804) | - |
| Total Investment Pool Participation | $ 38,330,069 | $ 437,070 | $ - |
| Receivables: | | | |
| Employer Contributions | $ 10,985 | $ - | $ - |
| Member Contributions | 6,208 | - | - |
| Accounts Receivable | - | - | 8,995 |
| Interfund Receivables | 6,559 | - | - |
| Other Receivables | 44,582 | - | - |
| Accrued Interest and Dividends | 447 | - | - |
| Total Receivables | $ 68,781 | $ - | $ 8,995 |
| Securities Lending Collateral | $ 4,198,860 | $ 38,412 | $ - |
| Depreciable Capital Assets (Net) | 29,882 | - | - |
| Nondepreciable Capital Assets | 429 | - | - |
| Total Assets | $ 42,706,651 | $ 475,482 | $ 54,609 |
| **LIABILITIES** | | | |
| Accounts Payable | $ 12,928 | $ 73 | $ 28,797 |
| Interfund Payables | 6,559 | - | - |
| Unearned Revenue | 10 | - | - |
| Accrued Expense | 41 | - | - |
| Revenue Bonds Payable | 27,650 | - | - |
| Bond Interest | 79 | - | - |
| Compensated Absences Payable | 1,703 | - | - |
| Securities Lending Collateral | 4,198,860 | 38,412 | - |
| Funds Held in Trust | - | - | 25,812 |
| Total Liabilities | $ 4,247,830 | $ 38,485 | $ 54,609 |
| Net Assets Held in Trust for Pension Benefits and Pool Participants | $ 38,458,821 | $ 436,997 | $ - |

The notes are an integral part of the financial statements.

# FIDUCIARY FUNDS
# STATEMENT OF CHANGES
# IN NET ASSETS
### YEAR ENDED JUNE 30, 2004
### (IN THOUSANDS)

| | PENSION TRUST | INVESTMENT TRUST SUPPLEMENTAL RETIREMENT |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer | $ 575,418 | $ - |
| Member | 745,165 | - |
| Contributions From Other Sources | 10,289 | - |
| Participating Plans | - | 40,324 |
| Total Contributions | $ 1,330,872 | $ 40,324 |
| Net Investment Income: | | |
| Investment Income | $ 5,581,745 | $ 53,189 |
| Less: Investment Expense | (49,632) | (237) |
| Net Investment Income | $ 5,532,113 | $ 52,952 |
| Securities Lending Revenues (Expenses): | | |
| Securities Lending Income | $ 44,516 | $ 293 |
| Borrower Rebates | (28,438) | (207) |
| Management Fees | (3,739) | - |
| Net Securities Lending Revenue | $ 12,339 | $ 86 |
| Total Investment Income | $ 5,544,452 | $ 53,038 |
| Transfers From Other Funds | $ 8,001 | $ - |
| Other Additions | 21,396 | - |
| Total Additions | $ 6,904,721 | $ 93,362 |
| Deductions: | | |
| Benefits | $ 2,343,326 | $ - |
| Refunds/Withdrawals | 793,077 | 46,031 |
| Administrative Expenses | 38,863 | - |
| Transfers to Other Funds | 8,001 | - |
| Total Deductions | $ 3,183,267 | $ 46,031 |
| Net Increase (Decrease) | $ 3,721,454 | $ 47,331 |
| Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning | $ 34,737,367 | $ 389,666 |
| Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending | $ 38,458,821 | $ 436,997 |

The notes are an integral part of the financial statements.

## COMPONENT UNIT FUNDS
## STATEMENT OF NET ASSETS
DECEMBER 31, 2003 and JUNE 30, 2004
(IN THOUSANDS)

| | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $ 806,447 | $ 19,709 | $ 153,625 | $ 305,115 | $ 1,284,896 |
| Investments | 225,274 | 181,336 | 69,990 | 413,917 | 890,517 |
| Accounts Receivable | 3,122 | 22,334 | 210,886 | 64,257 | 300,599 |
| Due from Other Governmental Units | - | 6,110 | - | - | 6,110 |
| Due from Primary Government | - | 47,888 | 127,407 | 247 | 175,542 |
| Accrued Investment/Interest Income | 11,334 | 762 | 4,028 | 18,546 | 34,670 |
| Federal Aid Receivable | - | - | - | 903 | 903 |
| Inventories | 2,356 | 15,124 | 18,968 | 36 | 36,484 |
| Deferred Costs | - | - | 18,001 | 4,098 | 22,099 |
| Loans and Notes Receivable | - | 115 | 13,506 | 126,331 | 139,952 |
| Securities Lending Collateral | - | 60,339 | 214,233 | 27,114 | 301,686 |
| Other Assets | - | 930 | 18,165 | 1,138 | 20,233 |
| Total Current Assets | $ 1,048,533 | $ 354,647 | $ 848,809 | $ 961,702 | $ 3,213,691 |
| Noncurrent Assets: | | | | | |
| Cash and Cash Equivalents-Restricted | $ 143,982 | $ 74,294 | $ 802 | $ 32,797 | $ 251,875 |
| Investments-Restricted | 159,809 | 19,533 | - | 18,310 | 197,652 |
| Accounts Receivable-Restricted | - | 33,115 | - | 2,028 | 35,143 |
| Due from Primary Government-Restricted | - | 6,343 | - | - | 6,343 |
| Other Assets-Restricted | - | 49,040 | - | - | 49,040 |
| Investments | - | - | 2,262,113 | 185,869 | 2,447,982 |
| Accounts Receivable | - | - | 136,725 | 267,645 | 404,370 |
| Loans and Notes Receivable | 1,413,897 | 27,565 | 56,657 | 1,559,073 | 3,057,192 |
| Depreciable Capital Assets (Net) | 1,774 | 1,336,185 | 1,733,805 | 606 | 3,072,370 |
| Nondepreciable Capital Assets | - | 707,149 | 182,238 | 2,743 | 892,130 |
| Other Assets | - | - | 12,671 | 3,679 | 16,350 |
| Total Noncurrent Assets | $ 1,719,462 | $ 2,253,224 | $ 4,385,011 | $ 2,072,750 | $ 10,430,447 |
| Total Assets | $ 2,767,995 | $ 2,607,871 | $ 5,233,820 | $ 3,034,452 | $ 13,644,138 |
| **LIABILITIES** | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | $ 16,527 | $ 72,449 | $ 195,769 | $ 17,300 | $ 302,045 |
| Payable to Other Governmental Units | - | 705 | - | - | 705 |
| Due to Primary Government | - | - | 4,915 | 23,708 | 28,623 |
| Unearned Revenue | - | 7,629 | 88,114 | 50,307 | 146,050 |
| Accrued Bond Interest Payable | 36,283 | 3,697 | 2,312 | 14,588 | 56,880 |
| General Obligation Bonds Payable | - | 76,882 | 244,355 | - | 321,237 |
| Loans and Notes Payable | - | - | 8,331 | 27 | 8,358 |
| Revenue Bonds Payable | 262,500 | 770 | 855 | 44,870 | 308,995 |
| Grants Payable | - | - | - | 2,998 | 2,998 |
| Claims Payable | - | 8,782 | 23,923 | 62,699 | 95,404 |
| Compensated Absences Payable | 129 | 2,345 | 55,357 | 35 | 57,866 |
| Securities Lending Collateral | - | 60,339 | 214,233 | 27,114 | 301,686 |
| Other Liabilities | - | 7,685 | 1,585 | 39 | 9,309 |
| Total Current Liabilities | $ 315,439 | $ 241,283 | $ 839,749 | $ 243,685 | $ 1,640,156 |
| Noncurrent Liabilities: | | | | | |
| Accounts Payable-Restricted | $ - | $ 31,493 | $ 78,614 | $ - | $ 110,107 |
| Unearned Revenue-Restricted | - | 93,366 | - | - | 93,366 |
| Accrued Bond Interest Payable-Restricted | - | 7,478 | - | - | 7,478 |
| Due to Primary Government | - | - | 57,009 | 46,423 | 103,432 |
| Unearned Revenue | - | - | 70,591 | - | 70,591 |
| General Obligation Bonds Payable | - | 809,972 | 344,189 | - | 1,154,161 |
| Loans and Notes Payable | - | - | 3,775 | 2,587 | 6,362 |
| Revenue Bonds Payable | 1,582,089 | 11,430 | 8,405 | 1,114,588 | 2,716,512 |
| Claims Payable | - | 13,013 | 12,955 | 397,301 | 423,269 |
| Compensated Absences Payable | 1,216 | 5,775 | 14,461 | 603 | 22,055 |
| Funds Held in Trust | 88,163 | - | 1,874 | - | 90,037 |
| Other Liabilities | - | 552 | 17,483 | 2,828 | 20,863 |
| Total Noncurrent Liabilities | $ 1,671,468 | $ 973,079 | $ 609,356 | $ 1,564,330 | $ 4,818,233 |
| Total Liabilities | $ 1,986,907 | $ 1,214,362 | $ 1,449,105 | $ 1,808,015 | $ 6,458,389 |
| **NET ASSETS** | | | | | |
| Invested in Capital Assets, Net of Related Debt | $ 1,774 | $ 1,324,245 | $ 1,204,372 | $ 869 | $ 2,531,260 |
| Restricted-Expendable | 779,314 | 119,298 | 1,440,502 | 1,014,219 | 3,353,333 |
| Restricted-Nonexpendable | - | - | 712,153 | - | 712,153 |
| Unrestricted | - | (50,034) | 427,688 | 211,349 | 589,003 |
| Total Net Assets | $ 781,088 | $ 1,393,509 | $ 3,784,715 | $ 1,226,437 | $ 7,185,749 |

The notes are an integral part of the financial statements.

## COMPONENT UNIT FUNDS
## STATEMENT OF ACTIVITIES
### YEARS ENDED DECEMBER 31, 2003 AND JUNE 30, 2004
### (IN THOUSANDS)

| | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|---|---|---|---|---|
| Net Expenses: | | | | | |
| Total Expenses | $ 344,155 | $ 642,289 | $ 2,077,781 | $ 404,056 | $ 3,468,281 |
| Program Revenues: | | | | | |
| Charges for Services | $ 134,464 | $ 287,595 | $ 958,932 | $ 154,003 | $ 1,534,994 |
| Operating Grants and Contributions | 154,844 | 160,293 | 679,618 | 19,123 | 1,013,878 |
| Capital Grants and Contributions | - | 183,303 | 132,296 | - | 315,599 |
| Net (Expense) Revenue | $ (54,847) | $ (11,098) | $ (306,935) | $ (230,930) | $ (603,810) |
| General Revenues: | | | | | |
| Taxes | $ - | $ 190,590 | $ - | $ - | $ 190,590 |
| Investment Income | - | 6,337 | 42,245 | 39,481 | 88,063 |
| Other Revenues | 686 | - | 72,195 | 10,178 | 83,059 |
| Total General Revenues | $ 686 | $ 196,927 | $ 114,440 | $ 49,659 | $ 361,712 |
| State Grants Not Restricted | $ 35,069 | $ - | $ 577,648 | $ 147,718 | $ 760,435 |
| Total General Revenues, Grants | $ 35,755 | $ 196,927 | $ 692,088 | $ 197,377 | $ 1,122,147 |
| Change in Net Assets | $ (19,092) | $ 185,829 | $ 385,153 | $ (33,553) | $ 518,337 |
| Net Assets, Beginning, as Reported | $ 800,180 | $ 1,207,680 | $ 3,399,562 | $ 1,259,990 | $ 6,667,412 |
| Net Assets, Ending | $ 781,088 | $ 1,393,509 | $ 3,784,715 | $ 1,226,437 | $ 7,185,749 |

The notes are an integral part of 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. 39, "Determining Whether Certain Organizations Are Component Units" was issued in May 2002. The statement provides additional guidance on determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, the statement requires reporting, as a component unit, an affiliated organization that raises and holds significant economic resources almost entirely for the direct benefit of a governmental unit, its component units, or its constituents. The state implemented this statement during the fiscal year ended June 30, 2004. For 2004, the state as primary government did not have any organization that met the criteria of GASB Statement No. 39. The University of Minnesota (U of M) (major component unit) includes several foundations that meet these criteria.

### Financial Reporting Entity of the State of Minnesota

This report includes the various state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota legislature 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 established criteria for 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 separately and identified separately in the note disclosures because of their separate legal status. The state does not have any blended component units.

Component units are classified as 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 in this report 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 constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. 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 and the Metropolitan Radio Board as component units. The fiscal year for MC 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 U of M includes several foundations as component units as required by GASB Statement No 39. 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 has 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 and 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 technical assistance. The state's General Fund provides a significant portion 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 appoints foundation board members, 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 RFA programs.

- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by a six-member board 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

Metropolitan Council
Mears Park Centre
230 East 5th Street
St. Paul, Minnesota 55101

University of Minnesota
657A West Bank Office Building
1300 South Second Street
Minneapolis, Minnesota 55454

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

Workers' Compensation Assigned Risk Plan
Park Glen Management Company
4500 Park Glen Road, Suite 410
Minneapolis, Minnesota 55416

Minnesota Partnership for Action Against Tobacco
Two Appletree Square, Suite 400
8011 34th Avenue South
Minneapolis, Minnesota 55425

Minnesota Technology, Incorporated
111 3rd Avenue South
Minneapolis, Minnesota 55401

National Sports Center Foundation
National Sports Center
1700 105th Avenue Northeast
Blaine, Minnesota 55449

Public Facilities Authority
Department of Employment & Economic Development
First National Bank Building
332 Minnesota Street, Suite E200
St. Paul, Minnesota 55101-1351

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 government-wide and fund financial statements. The government-wide financial statements focus and report on the state as a whole while the fund financial statements emphasize major individual funds and fund types. 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 in the function for which the expenses were made. General government expenses that benefit state agencies have not been allocated as indirect expenses to the various functions of the state, but are reported under the General Government function.

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

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 excluded from 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 excluded from the government-wide financial statements. The emphasis in fund statements is on the major funds in the governmental or business-type categories. Nonmajor funds are summarized into single columns.

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

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

- Enterprise funds account for activities 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, plant management, central services such as administrative hearings and intertechnologies, which directs and supports the various automated systems of the state.

The state has two major enterprise funds. The State Colleges and Universities Fund accounts for the activities of Minnesota State Colleges 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, or other funds. Pension, investment trust, and agency fund types are included in this fund category.

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

- 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 late August 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 with one exception. Trunk Highway Fund expenditures incurred by June 30, 2004, but not converted to Federal funding are reported as state funded expenditures. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

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.

Agency funds use the accrual basis of accounting, but do not have a measurement focus because agency funds do not recognize revenues and expenditures.

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 reported as nonoperating items.

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

Revenues – Taxes on property, individual income, and sales, 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 equivalents also include management pools and money market funds that are used essentially as demand deposit accounts.

Investments – Investments are reported at fair value. The basis for determining the fair value of investments that is not based on market quotations includes analysis of future cash flows, audited financial statements, and independent appraisals. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the 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 fund), 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 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 particular fund type.

**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, 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 providing 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; therefore, 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 GASB Statement No. 34, depreciation is reported on all assets other than works of art and historical treasures. The state capitol is considered a historical 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. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in notes to the Required Supplementary Information.

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

**Current and Noncurrent Assets**

For proprietary funds, assets are classified as current or noncurrent at fund level, but assets 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, including cash, various receivables, and short-term investments, considered available for appropriation and expenditure. 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**

Long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, postretirement 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 Liabilities 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 the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts or in qualifying contracts, as required by federal law.

As of February 29, 2004, the State Board of Investment (SBI) ceased managing investments included in the plan. As of June 30, 2004, various outside mutual funds manage the plan's investments. The activity reported in the statement of changes in net assets for the State Deferred Compensation Fund (fiduciary fund) covers the assets of the plan for investments provided by SBI through February 2004. The net assets held in trust as of June 30, 2004, as reported in the statement of net assets for the State Deferred Compensation Fund represent investments transferred to outside management after this date. Investments are reported at fair value. The assets of the plan managed by outside mutual funds are excluded from the state's financial statements because the funds are not under the state's control. The state is not liable for any investment losses under the plan.

**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 Balances**

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

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

**Budgeting and Budgetary Control**

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations may be carried forward to the following year of the biennium. The governor's budget for the biennium is developed by 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 by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. 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**

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

See Note 5 – Interfund Transactions for additional information.

**Change in Fund Structure**

Primary Government

Laws of Minnesota 2003 revised the fund structure of environmental programs and created a new fund to regroup existing programs for correcting known pollution problems. The Remediation Fund was created to account for remediation programs previously reported in the Environmental and Solid Waste funds. The Environmental Fund was restructured to collect revenues related to items such as air and water quality, to fund programs for air and water quality and waste management, and to transfer funds to the Remediation Fund based on operating need. The Solid Waste Fund was eliminated with fund balance transferred to the new Remediation Fund and the restructured Environmental Fund.

**Fund Name Change**

Within the special revenue fund type, the Northeast Minnesota Economic Protection Fund was renamed the Douglas J. Johnson Economic Protection Trust Fund.

**Valuation of School District Loans**

Significant changes in the economy have affected school districts' ability to levy debt. These economic changes include increased property values and more favorable interest rates on debt. As a result, the collectibility of school district loans issued by the Maximum Effort School Loan Fund (special revenue fund) was reexamined. During the year ended June 30, 2004, loans previously written off as uncollectible were reinstated as collectible, resulting in negative expenditures of $51,023,000 for the fund.

**Deficit Net Assets**

The State Printer Fund (internal service fund) reported deficit net assets of $196,000. The operation of state print shops has been discontinued. The state disposed of print shop capital assets prior to June 30, 2004, and is continuing to close out financial activity of the fund.

## 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. While cash in individual funds may be invested separately where permitted by statute, 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, 2003, or June 30, 2004, whichever is applicable. Warrants outstanding is the amount of negotiable warrants issued by the state, but not presented for collection as of June 30, 2004.

**Cash and Cash Equivalents**
**As of June 30, 2004**
**(In Thousands)**

| Carrying Amount | Primary Government | Component Units |
|---|---|---|
| Cash in Bank | $ 95,540 | $ 63,006 |
| Warrants Outstanding | (147,237) | - |
| Checks Outstanding | - | (23,788) |
| Cash on Hand and Imprest Cash | 3,166 | - |
| Cash with Fiscal Agent | 2,666 | 10,620 |
| Cash Equivalents: | | |
| Cash Management Investment Pools | 7,173,885 | 133,352 |
| Other | 163,841 | 1,353,581 |
| Total Cash and Cash Equivalents(1) | $ 7,291,861 | $ 1,536,771 |

(1)Includes fiduciary funds of $2,972,926.

### Deposits

At June 30, 2004, the primary government's bank balance was $91,392,000. For component units at December 31, 2003, or June 30, 2004, whichever is applicable, the bank balances were $71,817,000. 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.

## 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, 2004**
**(In Thousands)**

| Investment Type | Fair Value |
|---|---|
| Repurchase Agreements | $ 767,067 |
| Commercial Paper | 2,987,125 |
| Short-Term Corporate Notes | 537,487 |
| U.S. Treasury Obligations | 1,902,732 |
| Mortgage Backed | 4,541,805 |
| Corporate Obligations | 2,921,380 |
| Foreign and Other Obligations | 196,433 |
| Corporate Stocks | 25,573,911 |
| Other Equity | 3,118,965 |
| Total Investments in Risk Category 1 | $ 42,546,905 |
| Trustee Managed Pools (Not Categorized) | $ 2,888,267 |
| Total Investments[1] | $ 45,435,172 |

[1]Includes $37,096,546 for fiduciary funds and $7,337,726 of cash equivalents.

**Component Units**
**Investments at December 31, 2003 or June 30, 2004, As Applicable**
**(In Thousands)**

| Investment Type | Risk 1 | Risk 2 | Fair Value |
|---|---|---|---|
| Repurchase Agreements | $ 125,907 | $ 19,533 | $ 145,440 |
| Commercial Paper | 266,953 | - | 266,953 |
| Short Term Corporate Notes | 37,338 | - | 37,338 |
| U.S. Treasury Obligations | 1,208,485 | - | 1,208,485 |
| Mortgage Backed | 305,665 | - | 305,665 |
| Corporate Obligations | 982,744 | - | 982,744 |
| Municipal and Other Obligations | 66,305 | - | 66,305 |
| Corporate Stocks | 710,399 | - | 710,399 |
| Other Equity | 564,931 | - | 564,931 |
| Total Investments | $ 4,268,727 | $ 19,533 | $ 4,288,260 |
| Trustee Managed Pools/Mutual Funds | - | - | 734,824 |
| Total Investments(1) | $ 4,268,727 | $ 19,533 | $ 5,023,084 |

(1)Includes $1,486,933 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, 2004**
**(In Thousands)**

| | Wells Fargo | State Street |
|---|---|---|
| Fair Value of Securities on Loan | $ 636,644 | $ 4,552,158 |
| Collateral Held | $ 663,622 | $ 4,668,704 |
| Average Duration | 24 days | 52 days |
| Average Weighted Maturity | 24 days | 344 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, 2004, 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' 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 (major 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 are the components of net accounts receivable as reported in the government-wide Statement of Net Assets as of June 30, 2004:

**Components of Net Receivables**
**As of June 30, 2004**
**(In Thousands)**

| | Governmental Activities | | | |
|---|---|---|---|---|
| | General Fund | Federal Fund | Nonmajor Governmental Funds[1] | Total |
| Taxes: | | | | |
| Corporate and Individual | $ 395,918 | $ - | $ - | $ 395,918 |
| Sales and Use | 322,552 | - | - | 322,552 |
| Property | 283,025 | - | - | 283,025 |
| Health Care Provider | 152,145 | - | 59,716 | 211,861 |
| Highway Users | - | - | 78,371 | 78,371 |
| Other | 8,216 | - | - | 8,216 |
| Child Support | 180,576 | 181,258 | - | 361,834 |
| Workers' Compensation | - | - | 110,264 | 110,264 |
| Other | 179,389 | 45,885 | 89,936 | 315,210 |
| Net Receivables | $ 1,521,821 | $ 227,143 | $ 338,287 | $ 2,087,251 |

| | Business-type Activities | | | |
|---|---|---|---|---|
| | State Colleges and Universities | Unemployment Insurance | Nonmajor Enterprise Funds | Total |
| Unemployment Insurance | $ - | $ 306,512 | $ - | $ 306,512 |
| Tuition and Fees | 31,485 | - | - | 31,485 |
| Other | - | - | 24,956 | 24,956 |
| Net Receivables | $ 31,485 | $ 306,512 | $ 24,956 | $ 362,953 |
| Total Government-wide Net Receivables | | | | $ 2,450,204 |

[1]Includes $7,909 Internal Service Funds.

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

- Corporate and Individual Taxes $186,290,000
- Sales and Use Taxes $50,742,000
- Child Support $284,394,000
- Other Receivables $86,095,000

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

- Corporate and Individual Taxes $85,423,000
- Sales and Use Taxes $11,370,000
- Child Support $296,342,000
- Health Care Provider $53,097,000
- Other Receivables $24,346,000

## Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2004, consisted of the following:

**Primary Government**
**Loans and Notes Receivable**
**As of June 30, 2004**
**(In Thousands)**

| | General Fund | Special Revenue Funds | Capital Projects Funds | Enterprise Funds |
|---|---|---|---|---|
| Student Loan Program | $ - | $ - | $ - | $ 36,322 |
| Economic Development | 51,116 | 42,188 | 38,680 | - |
| School Districts | - | 106,810 | - | - |
| Energy | - | - | 2,815 | - |
| Agricultural | 384 | 44,542 | - | - |
| Transportation | - | 26,044 | - | - |
| Resources | 497 | 2,010 | - | - |
| Other | - | 13,121 | 30 | - |
| Total | $ 51,997 | $ 234,715 | $ 41,525 | $ 36,322 |

**Component Units**
**Loans and Notes Receivable**
**As of June 30, 2004**
**(In Thousands)**

| | |
|---|---|
| Housing Finance Authority | $ 1,413,897 |
| Metropolitan Council | 27,680 |
| University of Minnesota | 70,163 |
| Agricultural and Economic Development Board | 24,845 |
| Higher Education Services Office | 490,176 |
| Public Facilities Authority | 1,125,070 |
| Rural Finance Authority | 45,313 |
| Total | $ 3,197,144 |

## Note 5 – Interfund Transactions

### Primary Government

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

In the fund 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, 2004**
**(In Thousands)**

| | | |
|---|---|---|
| Due to the General Fund From: | | |
| Federal Fund | $ | 130,156 |
| Nonmajor Governmental Funds | | 54,307 |
| Nonmajor Enterprise Funds | | 9,192 |
| Total Due to General Fund From Other Funds | $ | 193,655 |
| Due to the Federal Fund From: | | |
| Nonmajor Governmental Funds | $ | 4,516 |
| Total Due to Federal Fund From Other Funds | $ | 4,516 |
| Due to the State Colleges and Universities Fund From: | | |
| Nonmajor Governmental Funds | $ | 14,156 |
| Total Due to State Colleges and Universities From Other Funds | $ | 14,156 |
| Due to Nonmajor Enterprise Funds From: | | |
| Internal Service Funds | $ | 467 |
| Total Due to Nonmajor Enterprise Funds Other Funds | $ | 467 |
| Due to Internal Service Funds From: | | |
| Internal Service Funds | $ | 27 |
| Total Due to Internal Service Funds From Other Funds | $ | 27 |
| Due to the Fiduciary Funds From: | | |
| Fiduciary Funds | $ | 6,559 |
| Total Due to Fiduciary Funds From Other Fiduciary Funds | $ | 6,559 |
| Due to the Nonmajor Governmental Funds From: | | |
| General Fund | $ | 36,204 |
| Federal Fund | | 12,367 |
| Unemployment Insurance | | 14,089 |
| Nonmajor Governmental Funds | | 70,127 |
| Nonmajor Enterprise Funds | | 4,848 |
| Internal Services Funds | | 90 |
| Total Due to Nonmajor Governmental Funds From Other Funds | $ | 137,725 |

The Central Motor Pool Fund had an outstanding advance of $4,700,000 from the General Fund as of June 30, 2004. This advance is not expected to be repaid within one year.

## Interfund Transfers
## Year Ended June 30, 2004
## (In Thousands)

| | | |
|---|---|---|
| Transfers to the General Fund From: | | |
| Federal Fund | $ | 21,268 |
| Nonmajor Governmental Funds | | 1,154,372 |
| Nonmajor Enterprise Funds | | 55,473 |
| Internal Service Funds | | 6,711 |
| Total Transfers to General Fund From Other Funds | $ | 1,237,824 |
| | | |
| Transfers to the Federal Fund From: | | |
| Unemployment Insurance Fund | $ | 73 |
| Nonmajor Governmental Funds | | 157 |
| Total Transfers to Federal Fund From Other Funds | $ | 230 |
| | | |
| Transfers to the State Colleges and Universities Fund From: | | |
| General Fund | $ | 559,631 |
| Nonmajor Governmental Funds – Capital Contributions | | 64,792 |
| Total Transfers to State Colleges and Universities From Other Funds | $ | 642,423 |
| | | |
| Transfers to the Fiduciary Funds From: | | |
| Other Fiduciary Funds | $ | 8,001 |
| Total Transfers to Fiduciary Funds From Other Funds | $ | 8,001 |
| | | |
| Transfers to the Nonmajor Governmental Funds From: | | |
| General Fund | $ | 456,585 |
| Federal Fund | | 20,012 |
| Unemployment Insurance Fund | | 55,552 |
| Nonmajor Governmental Funds | | 1,405,271 |
| Nonmajor Enterprise Funds | | 47,238 |
| Internal Service Funds | | 7,700 |
| Total Transfers to Nonmajor Governmental Funds From Other Funds | $ | 1,992,358 |
| | | |
| Transfers to the Nonmajor Enterprise Funds From: | | |
| Nonmajor Governmental Funds | $ | 5,295 |
| Total Transfers to Nonmajor Enterprise Funds From Other Funds | $ | 5,295 |

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.

- $573,087,000 from the Medical Education and Research Fund
- $456,344,000 from the Tobacco Use Prevention Fund

**Component Units**

Receivables and payables at June 30, 2004, between the primary government and component units, are summarized as follows:

**Primary Government and Component Units**
**Receivables and Payables**
**As of June 30, 2004**
**(In Thousands)**

| | Due From Primary Government | Due To Primary Government |
|---|---|---|
| Component Units | | |
| Major Component Units | | |
| Metropolitan Council | $ 54,231 | $ - |
| University of Minnesota | 127,407 | 61,924 |
| Total Major Component Units | $ 181,638 | $ 61,924 |
| Nonmajor Component Units | $ 247 | $ 70,131 |
| Total Component Units | $ 181,885 | $ 132,055 |

| | Due From Component Units | Due To Component Units |
|---|---|---|
| Primary Government | | |
| Major Governmental Funds: | | |
| General Fund | $ - | $ 101,083 |
| Federal Fund | - | 2,591 |
| Total Major Governmental Funds | $ - | $ 103,674 |
| Nonmajor Governmental Funds | $ 122,347 | $ 38,324 |
| Total Primary Government | $ 122,347 | $ 141,998 |

Due to primary government exceeds due from component units by $9,708,000 for amounts owed to the primary government by Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation because the fiscal year end used by the component units differs from the primary government. The rationale is the same for due from primary government exceeding due to component units by $39,887,000.

## Note 6 – Capital Assets

### Primary Government

**Capital Asset Activity**
**Year Ended June 30, 2004 (In Thousands)**

| | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | $ 1,378,064 | $ 86,283 | $ (1,256) | $ 1,463,091 |
| Buildings, Structures, Improvements | 20,263 | - | (224) | 20,039 |
| Construction in Progress | 198,185 | 83,551 | (156,090) | 125,646 |
| Infrastructure | 4,620,135 | 504,287 | (10,473) | 5,113,949 |
| Art and Historical Treasures | 100 | - | - | 100 |
| Total Capital Assets not Depreciated | $ 6,216,747 | $ 674,121 | $ (168,043) | $ 6,722,825 |
| Capital Assets Depreciated: | | | | |
| Buildings, Structures, Improvements | $ 1,393,620 | $ 153,325 | $ (2,079) | $ 1,544,866 |
| Infrastructure | 41,670 | 2,615 | - | 44,285 |
| Equipment, Furniture, Fixtures | 357,690 | 35,924 | (31,605) | 362,009 |
| Total Capital Assets Depreciated | $ 1,792,980 | $ 191,864 | $ (33,684) | $ 1,951,160 |
| Accumulated Depreciation for: | | | | |
| Buildings, Structures, Improvements | $ (584,518) | $ (31,201) | $ 1,958 | $ (613,761) |
| Infrastructure | (3,458) | (5) | - | (3,463) |
| Equipment, Furniture, Fixtures | (224,208) | (30,758) | 25,031 | (229,935) |
| Total Accumulated Depreciation | $ (812,184) | $ (61,964) | $ 26,989 | $ (847,159) |
| Total Capital Assets Depreciated, Net | $ 980,796 | $ 129,900 | $ (6,695) | $ 1,104,001 |
| Governmental Act. Capital Assets, Net | $ 7,197,543 | $ 804,021 | $ (174,738) | $ 7,826,826 |
| Business-type Activities: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | $ 59,664 | $ 12,398 | $ - | $ 72,062 |
| Construction in Progress | 82,354 | 119,081 | (110,190) | 91,245 |
| Total Capital Assets not Depreciated | $ 142,018 | $ 131,479 | $ (110,190) | $ 163,307 |
| Capital Assets Depreciated: | | | | |
| Buildings | $ 1,437,924 | $ 124,963 | $ - | $ 1,562,887 |
| Library Collections | 42,878 | 6,945 | (4,643) | 45,180 |
| Improvements, Other than Buildings | 16,779 | 186 | (450) | 16,515 |
| Equipment, Furniture, Fixtures | 291,045 | 15,983 | (24,475) | 282,553 |
| Total Capital Assets Depreciated | $ 1,788,626 | $ 148,077 | $ (29,568) | $ 1,907,135 |
| Accumulated Depreciation for: | | | | |
| Buildings | $ (739,239) | $ (41,491) | $ 361 | $ (780,369) |
| Library Collections | (22,875) | (7,025) | 5,218 | (24,682) |
| Improvements, Other than Buildings | (2,082) | (424) | 369 | (2,137) |
| Equipment, Furniture, Fixtures | (188,968) | (21,931) | 20,371 | (190,528) |
| Total Accumulated Depreciation | $ (953,164) | $ (70,871) | $ 26,319 | $ (997,716) |
| Total Capital Assets Depreciated, Net | $ 835,462 | $ 77,206 | $ (3,249) | $ 909,419 |
| Business-type Act. Capital Assets, Net | $ 977,480 | $ 208,685 | $ (113,439) | $ 1,072,726 |
| Fiduciary Funds: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | $ 429 | $ - | $ - | $ 429 |
| Total Capital Assets not Depreciated | $ 429 | $ - | $ - | $ 429 |
| Capital Assets Depreciated: | | | | |
| Buildings | $ 29,745 | $ 74 | $ (272) | $ 29,547 |
| Equipment, Furniture, Fixtures | 5,959 | 840 | (56) | 6,743 |
| Total Capital Assets Depreciated | $ 35,704 | $ 914 | $ (328) | $ 36,290 |
| Accumulated Depreciation for: | | | | |
| Buildings | $ (1,537) | $ (676) | $ - | $ (2,213) |
| Equipment, Furniture, Fixtures | (3,569) | (681) | 55 | (4,195) |
| Total Accumulated Depreciation | $ (5,106) | $ (1,357) | $ 55 | $ (6,408) |
| Total Capital Assets Depreciated, Net | $ 30,598 | $ (443) | $ (273) | $ 29,882 |
| Fiduciary Funds, Capital Assets, Net | $ 31,027 | $ (443) | $ (273) | $ 30,311 |

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, 2004**
**(In Thousands)**

| | |
|---|---|
| Governmental Activities: | |
| Public Safety and Corrections | $ 13,594 |
| Transportation | 14,558 |
| Agricultural and Environmental Resources | 3,183 |
| Economic and Workforce Development | 902 |
| General Education | 2,924 |
| Higher Education | - |
| Health and Human Services | 10,626 |
| General Government | 5,981 |
| Internal Service Funds | 10,196 |
| Total Governmental Activities | $ 61,964 |
| Business-type Activities: | |
| State Colleges and Universities | $ 67,753 |
| Unemployment Insurance | - |
| Lottery | 538 |
| Other | 2,580 |
| Total Business-type Activities | $ 70,871 |

Capital outlay expenditures in the governmental funds totaled $701,372,000 for fiscal year 2004. Donations of general capital assets received during fiscal year 2004 were valued at $633,000. Transfers from construction in progress to completed construction were $155,044,000. Increases in internal service funds were $8,918,000 and the Permanent School Fund increased by $18,000.

General capital assets purchased with resources provided by outstanding capital lease agreements at June 30, 2004, consisted of equipment with a cost of $62,356,820.

Authorizations and commitments as of June 30, 2004, for the largest construction in progress projects consisted of the following (in thousands):

| | Administration Projects | Amateur Sports | Correctional Facilities | Human Services | Transportation |
|---|---|---|---|---|---|
| Authorization | $ 76,485 | $ 5,000 | $ 10,450 | $ 3,619 | $ 7,000 |
| Expended through June 30, 2004 | 26,869 | - | 5,918 | 70 | 4,341 |
| Unexpended Commitment | 43,705 | 946 | 744 | 182 | - |
| Available Authorization | $ 5,911 | $ 4,054 | $ 3,788 | $ 3,367 | $ 2,659 |

Land in the Permanent School Fund totaling 2,515,231 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, 2003, or June 30, 2004, as applicable:

**Capital Assets**
**As of December 31, 2003 or June 30, 2004**
**(In Thousands)**

| | Major Component Units | | | | |
|---|---|---|---|---|---|
| | Housing Finance Agency | Metropolitan Council | University of Minnesota | Nonmajor Component Units | Totals |
| Land | $ - | $ 56,355 | $ 182,238 | $ 2,743 | $ 241,336 |
| Buildings and Improvements | - | 2,446,922 | 2,213,935 | 566 | 4,661,423 |
| Equipment | 2,836 | 424,824 | 641,218 | 1,696 | 1,070,574 |
| Infrastructure | - | - | 291,852 | - | 291,852 |
| Total | $ 2,836 | $ 2,928,101 | $ 3,329,243 | $ 5,005 | $ 6,265,185 |
| Less: Accumulated Depreciation | 1,062 | 884,767 | 1,466,497 | 1,656 | 2,353,982 |
| Net Total | $ 1,774 | $ 2,043,334 | $ 1,862,746 [1] | $ 3,349 | $ 3,911,203 |

[1] In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $53,297,000 as of June 30, 2004.

## Note 7 – Disaggregation of Payables

The following are the components of accounts payable as reported in the government-wide Statement of Net Assets as of June 30, 2004:

**Components of Accounts Payable**
**As of June 30, 2004**
**(In Thousands)**

| | Governmental Activities | | | |
|---|---|---|---|---|
| | General Fund | Federal Fund | Nonmajor Governmental Funds[1] | Total |
| School Aid Programs | $ 1,231,856 | $ 127,272 | $ 11 | $ 1,359,139 |
| Tax Refunds | 561,497 | - | 216 | 561,713 |
| Medical Assistance | 284,060 | 354,007 | - | 638,067 |
| Grants | 177,044 | 119,755 | 231,289 | 528,088 |
| Salaries and Benefits | 46,914 | 8,466 | 34,991 | 90,371 |
| Vendors/Service Providers | 32,462 | 42,029 | 189,369 | 263,860 |
| Other | 282 | 6,114 | 24,580 | 30,976 |
| Net Payables | $ 2,334,115 | $ 657,643 | $ 480,456 | $ 3,472,214 |

| | Business-type Activities | | | |
|---|---|---|---|---|
| | State Colleges and Universities | Unemployment Insurance | Nonmajor Enterprise Funds | Total |
| Salaries and Benefits | $ 82,063 | $ - | $ 2,564 | $ 84,627 |
| Vendors/Service Providers | 35,685 | - | 3,486 | 39,171 |
| Other | 15,302 | 15,196 | 20,121 | 50,619 |
| Net Payables | $ 133,050 | $ 15,196 | $ 26,171 | $ 174,417 |
| Total Government-wide Net Payables | | | | $ 3,646,631 |

[1]Includes $52,215 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 Retirement Fund<br>Correctional Employees Retirement Fund<br>Elective State Officers Fund<br>Judicial Retirement Fund<br>Legislative Retirement Fund<br>State Patrol Retirement Fund<br>Unclassified Employees Retirement Fund<br>Postretirement Health Care Benefits Fund |
| Teachers Retirement Association (TRA) | Teachers Retirement Fund |
| Public Employees Retirement Association (PERA) | Public Employees Retirement Fund<br>Police and Fire Fund<br>Public Employees Correctional Fund<br>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 market 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 thirty seven (537) 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)**

| | | SERF | TRF |
|---|---|---|---|
| Required Contributions: | | | |
| Employee | 2004 | $ 82,103 | $ 159,140 |
| | 2003 | $ 83,850 | $ 155,577 |
| | 2002 | $ 79,487 | $ 152,331 |
| Employer[1] | 2004 | $ 78,622 | $ 151,029 |
| | 2003 | $ 80,399 | $ 149,481 |
| | 2002 | $ 76,614 | $ 142,222 |

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

**Single Employer Plan Disclosures for Current Year**
**(In Thousands)**

| | CERF | JRF | LRF | SPRF |
|---|---|---|---|---|
| Annual Required Contributions (ARC)[1] | $ 20,170 | $ 8,619 | $ 2,069 | $ 8,940 |
| Interest on Net Pension Obligation (NPO)[1] | (664) | (685) | (878) | (2,314) |
| Amort Adj to ARC[1] | 429 | 636 | 751 | 1,465 |
| Annual Pension Cost | $ 19,935 | $ 8,570 | $ 1,942 | $ 8,091 |
| Contributions | (18,375) | (9,753) | (768) | (10,997) |
| Increase (Decrease) in NPO | $ 1,560 | $ (1,183) | $ 1,174 | $ (2,906) |
| NPO, Beginning (Asset) | (7,809) | (8,064) | (10,329) | (27,218) |
| NPO, Ending (Asset) | $ (6,249) | $ (9,247) | $ (9,155) | $ (30,124) |

[1]Components of annual pension cost.

**Single Employer Plan Disclosures**
**(In Thousands)**

| | | CERF | JRF | LRF | SPRF |
|---|---|---|---|---|---|
| Annual Pension Cost (APC) | 2004 | $ 19,935 | $ 8,570 | $ 1,942 | $ 8,091 |
| | 2003 | $ 19,071 | $ 8,986 | $ 2,197 | $ 7,055 |
| | 2002 | $ 16,909 | $ 8,241 | $ 2,998 | $ 6,314 |
| Percentage of APC Contributed | 2004 | 92% | 114% | 40% | 136% |
| | 2003 | 95% | 106% | 265% | 161% |
| | 2002 | 101% | 130% | 153% | 165% |
| NPO (End of Year) | 2004 | $ (6,249) | $ (9,247) | $ (9,155) | $ (30,124) |
| | 2003 | $ (7,809) | $ (8,064) | $ (10,329) | $ (27,218) |
| | 2002 | $ (8,790) | $ (7,553) | $ (6,696) | $ (22,892) |

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 for the LRF. The most recent date of actuarial valuation for the LRF is July 1, 2002.

- 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 postretirement 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 postretirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement 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 State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. For the faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the managerial employees, the employer rate is 6.0 percent and the employee rate is 4.0 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between $6,000 and $15,000. Statutes allow additional employer and employee contributions under specific circumstances. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is approximately 13,600.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. DCF covers approximately 1,000 units of government. At June 30, 2004, there were approximately 6,300 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 2004**
**(In Thousands)**

| | UERF | CURF | DCF | PHCBF |
|---|---|---|---|---|
| Employee Contributions | $ 4,258 | $ 23,033 | $ 1,115 | $ 37,273 |
| Employer Contributions | $ 5,877 | $ 25,869 | $ 1,238 | 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 and Reporting 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 – Postretirement Benefits

For certain employees, postretirement benefits are available upon retirement at age 55 under terms of their employment contract. Through fiscal year 2004, 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.

The cost of these benefits, which is recognized when paid, was $9,923,000 during fiscal year 2004. Approximately 1,500 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, 2004, were as follows:

**Primary Government**
**Long-Term Commitments**
**As of June 30, 2004**
**(In Thousands)**

| | |
|---|---|
| Special Revenue Fund: | |
| Trunk Highway Fund | $ 822,666 |
| Capital Projects Funds: | |
| General Projects Fund | 10,252 |
| Transportation Fund | 7,209 |
| Building Fund | 339,645 |
| Enterprise Funds: | |
| State Colleges and Universities | 42,286 |
| Total Primary Government | $ 1,222,058 |

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 October 2004, the Petrofund has reimbursed eligible applicants approximately $350 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.

**Remediation Fund**

The Landfill Investments and investment earnings (part of the Remediation Fund) (special revenue fund) are committed for landfill abatement projects and are not available until 2020.

**Component Units**

The University of Minnesota (U of M) has construction projects in progress with an estimated cost of $228,832,000 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 5 years and commenced on May 17, 2004. 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 amounts of the steam plant required payments at June 30, 2004, were as follows:

**University of Minnesota**
**Required Steam Plant Payments**
**(In Thousands)**

| Fiscal Year Ending June 30 | Total |
|---|---|
| 2005 | $ 879 |
| 2006 | 879 |
| 2007 | 867 |
| 2008 | 779 |
| 2009 | 683 |
| Total Commitments | $ 4,087 |

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2003, unpaid commitments for transit services were approximately $83.5 million. Future commitments for Metropolitan Transit Light Rail were approximately $78.3 million. Future commitments for regional transit services were approximately $20.4 million. Finally, future commitments for Environmental Services were approximately $111.7 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, 2004, totaled approximately $70,400,000 and $16,679,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2003, totaled approximately $2,986,000 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 |
| 2005 | $ 66,150 | 2005 | $ 9,763 | 2004 | $ 2,264 |
| 2006 | 55,935 | 2006 | 9,537 | 2005 | 1,890 |
| 2007 | 48,446 | 2007 | 7,478 | 2006 | 1,347 |
| 2008 | 37,538 | 2008 | 6,473 | 2007 | 658 |
| 2009 | 22,877 | 2009 | 6,033 | 2008 | 656 |
| 2010-2014 | 50,116 | 2010-2014 | 18,784 | 2009-2013 | 972 |
| 2015-2019 | 5,083 | 2015-2019 | - | 2014-2018 | 109 |
| 2020-2024 | 2,269 | 2020-2024 | - | 2019-2023 | 68 |
| Total | $ 288,414 | Total | $ 58,068 | 2024 | 13 |
| | | | | Total | $ 7,977 |

## Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2004, and the changes during fiscal year 2004:

**Long-Term Liabilities**
**Year Ended June 30, 2004**
**(In Thousands)**

| | Beginning Balances | Increases | Decreases | Ending Balances | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| Liabilities For: | | | | | |
| General Obligation Bonds | $ 3,295,545 | $ 438,792 | $ 678,841 | $ 3,055,496 | $ 249,433 |
| Bond Premium | 92,387 | 33,455 | 8,223 | 117,619 | 8,364 |
| Loans | 24,198 | 3,536 | 8,081 | 19,653 | 9,852 |
| Claims | 1,453,838 | 11,675 | 75,109 | 1,390,404 | 106,739 |
| Compensated Absences | 231,599 | 197,551 | 190,464 | 238,686 | 16,353 |
| Workers' Compensation | 112,108 | 12,597 | 13,159 | 111,546 | 11,976 |
| Capital Leases | 8,846 | 1,774 | 1,535 | 9,085 | 4,096 |
| Total | $ 5,218,521 | $ 699,380 | $ 975,412 | $ 4,942,489 | $ 406,813 |
| Business-type Activities | | | | | |
| Liabilities For: | | | | | |
| General Obligation Bonds | $ 125,950 | $ 24,207 | $ 8,298 | $ 141,859 | $ 9,492 |
| Bond Premium | 1,694 | 1,848 | 300 | 3,242 | - |
| Loans | 135,486 | 271,728 | 131,511 | 275,703 | 272,096 |
| Revenue Bonds | 52,925 | - | 1,515 | 51,410 | 1,575 |
| Compensated Absences | 102,566 | 47,770 | 36,911 | 113,425 | 9,900 |
| Workers' Compensation | 4,741 | 2,057 | 1,605 | 5,193 | 1,326 |
| Capital Leases | 12,483 | 5,670 | 3,285 | 14,868 | 2,417 |
| Total | $ 435,845 | $ 353,280 | $ 183,425 | $ 605,700 | $ 296,806 |

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

**Primary Government**
**Resources for Repayment of Long-Term Liabilities**
**(In Thousands)**

| | Governmental Activities | | | |
|---|---|---|---|---|
| | General Fund | Special Revenue Funds | Business-type Activities | Total |
| Liabilities For: | | | | |
| General Obligation Bonds | $ 2,601,016 | $ 454,480 | $ 141,859 | $ 3,197,355 |
| Bond Premium | 117,619 | - | 3,242 | 120,861 |
| Loans | - | 19,653 | 275,703 | 295,356 |
| Revenue Bonds | - | - | 51,410 | 51,410 |
| Claims | 104,022 | 1,286,382 | - | 1,390,404 |
| Compensated Absences | 88,942 | 149,744 | 113,425 | 352,111 |
| Workers' Compensation | 86,027 | 25,519 | 5,193 | 116,739 |
| Capital Leases | 3,527 | 5,558 | 14,868 | 23,953 |
| Total | $ 3,001,153 | $ 1,941,336 | $ 605,700 | $ 5,548,189 |

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 |
| 2005 | $ 249,433 | $ 147,097 | $ 9,492 | $ 7,483 | $ 258,925 | $ 154,580 |
| 2006 | 251,336 | 136,786 | 9,599 | 6,486 | 260,935 | 143,272 |
| 2007 | 261,434 | 124,863 | 9,731 | 6,036 | 271,165 | 130,899 |
| 2008 | 235,485 | 112,407 | 9,455 | 5,552 | 244,940 | 117,959 |
| 2009 | 227,481 | 100,308 | 9,484 | 5,075 | 236,965 | 105,383 |
| 2010-2014 | 936,363 | 346,534 | 43,932 | 18,407 | 980,295 | 364,941 |
| 2015-2019 | 632,252 | 140,054 | 33,273 | 8,362 | 665,525 | 148,416 |
| 2020-2024 | 261,712 | 24,869 | 16,893 | 1,664 | 278,605 | 26,533 |
| Total | $ 3,055,496 | $ 1,132,918 | $ 141,859 | $ 59,065 | $ 3,197,355 | $ 1,191,983 |

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

| Fiscal Year(s) | Business-type Activities Principal | Interest |
|---|---|---|
| 2005 | $ 1,575 | $ 2,992 |
| 2006 | 1,945 | 2,895 |
| 2007 | 2,190 | 2,783 |
| 2008 | 2,060 | 2,653 |
| 2009 | 2,125 | 2,514 |
| 2010-2014 | 11,430 | 10,779 |
| 2015-2019 | 13,150 | 7,286 |
| 2020-2024 | 14,620 | 2,945 |
| 2025-2029 | 2,315 | 177 |
| Total | $ 51,410 | $ 35,024 |

**Primary Government**
**Loans**
**Principal and Interest Payments**
**(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| Fiscal Year(s) | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | $ 9,852 | $ 400 | $ 272,096 | $ 13,055 | $ 281,948 | $ 13,455 |
| 2006 | 5,448 | 178 | 773 | 203 | 6,221 | 381 |
| 2007 | 2,719 | 58 | 633 | 168 | 3,352 | 226 |
| 2008 | 1,634 | 8 | 499 | 129 | 2,133 | 137 |
| 2009 | - | - | 356 | 100 | 356 | 100 |
| 2010-2014 | - | - | 1,346 | 170 | 1,346 | 170 |
| Total | $ 19,653 | $ 644 | $ 275,703 | $ 13,825 | $ 295,356 | $ 14,469 |

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<br>Capital Leases<br>Principal and Interest Payments (In Thousands) | | | | | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | | Business-type Activities | | Total | |
| Fiscal Year(s) | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | $ 4,096 | $ 376 | $ 2,417 | $ 897 | $ 6,513 | $ 1,273 |
| 2006 | 3,546 | 162 | 1,614 | 763 | 5,160 | 925 |
| 2007 | 1,112 | 40 | 1,320 | 666 | 2,432 | 706 |
| 2008 | 239 | 7 | 1,226 | 607 | 1,465 | 614 |
| 2009 | 92 | 2 | 787 | 516 | 879 | 518 |
| 2010-2014 | - | - | 2,639 | 1,879 | 2,639 | 1,879 |
| 2015-2019 | - | - | 2,119 | 1,339 | 2,119 | 1,339 |
| 2020-2024 | - | - | 1,121 | 733 | 1,121 | 733 |
| 2025-2029 | - | - | 1,025 | 301 | 1,025 | 301 |
| 2030-2034 | - | - | 600 | 40 | 600 | 40 |
| Total | $ 9,085 | $ 587 | $ 14,868 | $ 7,741 | $ 23,953 | $ 8,328 |

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 2004, the Department of Finance made the necessary transfers to the Debt Service Fund as follows:

| Primary Government<br>Transfers to Debt Service Fund<br>Year Ended June 30, 2004 (In Thousands) | |
|---|---|
| General Fund | $ 265,701 |
| Special Revenue Funds: | |
| Federal Fund | 200 |
| Trunk Highway Fund | 16,289 |
| Natural Resources Funds | 24 |
| Maximum Effort School Loan Fund | 13,876 |
| Miscellaneous Special Revenue Fund | 4,625 |
| Total Special Revenue Funds | $ 35,014 |
| Capital Projects Funds: | |
| Building Fund | $ 5,036 |
| Total Capital Projects Funds | $ 5,036 |
| Total Operating Transfers to Debt Service Fund | $ 305,751 |

General Obligation Bond Issues

On August 1, 2003, $296,645,000 in general obligation state various purpose bonds, $142,500,000 in general obligation state trunk highway bonds, and $20,855,000 in general obligation state refunding bonds were issued at a true interest rate of 4.00 percent. In addition, $3,000,000 of general obligation taxable state various purpose bonds were sold at a true interest rate of 3.42 percent. During fiscal year 2004, $687,139,000 in general obligation bond principal was repaid.

In August 2003, the state refunded $401,865,000 of general obligation bonds with proceeds from a June 2003 current refunding bond sale of $391,680,000 and $10,303,198 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of $11,751,487 and an economic gain of $11,356,612.

In October 2003, the state refunded $23,850,000 of general obligation bonds with proceeds from an August 2003 current refunding bond sale of $20,855,000 and $3,020,304 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of $1,050,655 and an economic gain of $896,114.

The state has also issued general obligation advance 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 balance outstanding for all extinguished debt at June 30, 2004, was $66,225,000, which is shown below. The state remains contingently liable to pay the advance 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 | $ 66,225 | 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, 2004. 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, 2004**
**(In Thousands)**

| Purpose | Authorized But Unissued | Amount Outstanding | Interest Rates Range - % |
|---|---|---|---|
| State Building | $ 28,435 | $ 1,180,072 | 3.00 – 6.00 |
| State Operated Community Services | - | 3,842 | 3.75 – 7.56 |
| State Transportation | 3,431 | 121,218 | 3.00 – 6.38 |
| Waste Management | 375 | 4,925 | 4.00 – 6.00 |
| Water Pollution Control | 1,246 | 88,200 | 3.00 – 6.00 |
| Maximum Effort School Loan | - | 100,100 | 4.00 – 6.00 |
| Reinvest in Minnesota | 629 | 5,055 | 4.00 – 6.00 |
| Rural Finance Administration | - | 70,100 | 4.63 – 7.05 |
| Refunding Bonds | - | 477,954 | 1.50 – 5.40 |
| Municipal Energy Building | 128 | 3,440 | 3.00 – 6.00 |
| Game and Fish Building | - | 42 | 1.50 – 5.00 |
| Trunk Highway | 380,225 | 233,120 | 1.50 – 5.50 |
| Airport Facilities | - | 38,680 | 5.30 – 7.95 |
| Landfill | - | 24,495 | 4.25 – 6.00 |
| Various Purpose | 959,518 | 846,112 | 3.00 – 5.62 |
| Total | $ 1,373,987 | $ 3,197,355 | |

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 fund) 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. As of fiscal year 2002, Giants Ridge financial activity, including revenue bonds, has been 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 | $ 3,130 | October 1, 2012 |

Claims

Municipal solid waste landfills liability of $175,069,000 for closure and postclosure care is reported for the landfill cleanup program payable from the Remediation Fund (special revenue fund) and the General Fund.

Claims of $58,215,000 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 $65,320,000 are for certain employees who qualify for postretirement benefits upon retirement at age 55 under terms of their employment contract. See Note 9 – Postretirement Benefits for the amount paid in fiscal year 2004.

The remaining claim amount of $1,091,800,000 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 $238,686,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental funds liability for workers' compensation of $111,546,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2004, 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 2004, 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 |
|---|---|---|
| 2005 | $ 500 | $ 1,594 |
| 2006 | 525 | 1,567 |
| 2007 | 550 | 1,539 |
| 2008 | 575 | 1,509 |
| 2009 | 600 | 1,478 |
| 2010-2014 | 3,525 | 6,870 |
| 2015-2019 | 4,650 | 5,774 |
| 2020-2024 | 6,250 | 4,258 |
| 2025-2029 | 8,450 | 2,178 |
| 2030-2034 | 2,025 | 121 |
| Total | $ 27,650 | $ 26,888 |

## Note 13 – Long-Term Liabilities – 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 to provide funds for rehabilitation, construction and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $3,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of bonds outstanding on June 30, 2004, was $1,844,589,000.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,250,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2004, was $827,438,000.

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, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2004, the outstanding principal of revenue bonds was $300,000,000.

The University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2004, the principal amount of revenue bonds outstanding was $9,260,000 and the principal amount of general obligation bonds outstanding was $588,544,000.

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 $886,854,000 in general obligation bonds outstanding, net of unamortized premium, and $12,200,000 of revenue bonds outstanding on December 31, 2003.

The Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2004, the principal amount of revenue bonds outstanding was $32,020,000.

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

| | U of M | | MC[1] | |
|---|---|---|---|---|
| Fiscal Years | Principal | Interest | Principal | Interest |
| 2005 | $ 244,355 | $ 20,530 | $ 76,882 | $ 33,078 |
| 2006 | 38,470 | 12,103 | 96,435 | 31,118 |
| 2007 | 38,520 | 9,725 | 69,170 | 27,169 |
| 2008 | 38,270 | 7,345 | 58,738 | 24,256 |
| 2009 | 22,160 | 4,987 | 55,217 | 21,806 |
| 2010-2014 | 40,500 | 20,075 | 240,118 | 76,161 |
| 2015-2019 | 67,050 | 15,566 | 185,049 | 35,224 |
| 2020-2024 | 68,000 | 9,819 | 98,276 | 6,931 |
| 2025-2029 | 17,700 | 5,224 | - | - |
| 2030-2034 | 12,850 | 1,146 | - | - |
| | $ 587,875 | $ 106,520 | $ 879,885 | $ 255,743 |
| Unamortized Discounts/Premiums and Issuance Costs | 669 | - | 6,969 | - |
| Total | $ 588,544 | $ 106,520 | $ 886,854 | $ 255,743 |

[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 |
|---|---|---|---|---|---|---|
| 2005 | $ 855 | $ 554 | $ 262,500 | $ 73,643 | $ 770 | $ 609 |
| 2006 | 905 | 502 | 138,110 | 71,183 | 810 | 573 |
| 2007 | 955 | 448 | 210,955 | 68,598 | 845 | 535 |
| 2008 | 1,015 | 389 | 39,695 | 63,068 | 890 | 494 |
| 2009 | 1,080 | 327 | 36,395 | 61,349 | 935 | 449 |
| 2010-2014 | 4,450 | 712 | 238,665 | 274,197 | 5,465 | 1,468 |
| 2015-2019 | - | - | 240,580 | 209,289 | 2,625 | 146 |
| 2020-2024 | - | - | 237,265 | 144,657 | - | - |
| 2025-2029 | - | - | 262,055 | 80,436 | - | - |
| 2030-2034 | - | - | 166,735 | 23,216 | - | - |
| 2035-2039 | - | - | 20,790 | 1,999 | - | - |
| 2040-2044 | - | - | 2,890 | 573 | - | - |
| 2045-2049 | - | - | 670 | 25 | - | - |
| | $ 9,260 | $ 2,932 | $ 1,857,305 | $ 1,072,233 | $ 12,340 | $ 4,274 |
| Unamortized Discounts/Premiums and Issuance Costs | - | - | (12,716) | - | (140) | - |
| Total | $ 9,260 | $ 2,932 | $ 1,844,589 | $ 1,072,233 | $ 12,200 | $ 4,274 |

[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 |
| 2005 | $ - | $ 3,531 | $ 40,595 | $ 40,981 | $ 4,275 | $ 1,815 |
| 2006 | - | 3,531 | 47,815 | 38,824 | 2,405 | 1,620 |
| 2007 | 714 | 3,531 | 47,935 | 36,494 | 2,490 | 1,485 |
| 2008 | 3,429 | 3,523 | 48,970 | 34,163 | 2,435 | 1,348 |
| 2009 | 3,429 | 3,487 | 52,030 | 31,805 | 2,485 | 1,208 |
| 2010-2014 | 22,693 | 16,793 | 269,505 | 120,680 | 9,050 | 4,223 |
| 2015-2019 | 23,310 | 15,576 | 258,110 | 52,504 | 6,935 | 1,689 |
| 2020-2024 | 52,416 | 13,902 | 62,555 | 6,224 | 1,945 | 136 |
| 2025-2029 | 77,783 | 9,942 | - | - | - | - |
| 2030-2034 | 77,166 | 5,250 | - | - | - | - |
| 2035-2039 | 39,060 | 1,103 | - | - | - | - |
| | $ 300,000 | $ 80,169 | $ 827,515 | $ 361,675 | $ 32,020 | $ 13,524 |
| Unamortized Discounts/Premiums and Issuance Costs | - | - | (77) | - | - | - |
| Total | $ 300,000 | $ 80,169 | $ 827,438 | $ 361,675 | $ 32,020 | $ 13,524 |

**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, 2004, and 2003, was 1.10 percent and 1.05 percent, respectively.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds, taxable Series 2003A bonds, and tax-exempt Series 2003B, reset every 28 – 35 days, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rates as of June 30, 2004, and 2003, for the Series 1999A bonds were 1.52 percent and 1.13 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2002A and 2002B bonds were 1.38 percent and 1.28 percent and 1.25 percent and 1.08 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2003A and 2003B bonds were 1.38 percent and 1.30 percent, and 1.20 percent and 1.10 percent, respectively.

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, 2004, of 1.08 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, 2004, the U of M had $588,544,000 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, 2004.

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 amount defeased for general obligation bonds was $112,635,000 with $29,600,000 outstanding at June 30, 2004. 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 $132,085,000 in general obligation bonds which refunded the remaining 2004-2017 maturities of the Series 1990PFA, 1991-1PFA, 1991-2PFA, 1992-2PFA, 1994PFA, 1994A, 1996D, and 1994D general obligation bonds. The transactions resulted in an economic gain of $10,778,062 and a reduction of $11,002,331 in future debt service payments.

## Note 14 – Landfill Closure and Postclosure

Minnesota Statutes, Section 115B.39, established the closed landfill program to provide environmental response to qualified, state-permitted, closed landfills. There are currently 108 closed sites in the program. Up to four 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 Remediation 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, 2004, cumulative expenditures of about $204 million have been disbursed by the Remediation Fund and the bond fund. Estimates show that the total of all payments for the program may reach $537 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, 2004**
**(In Thousands)**

| | Giants Ridge | Revenue Fund | MnSCU Mesabi Range/Vermilion Residence Halls | MnSCU Mesabi Range/Vermilion Modular Housing |
|---|---|---|---|---|
| Condensed Statement of Net Assets | | | | |
| Assets: | | | | |
| Current Assets | $ 7,521 | $ 46,374 | $ 61 | $ 118 |
| Restricted Assets | 2,666 | 31,819 | 450 | 138 |
| Capital Assets | 22,978 | 94,358 | 1,440 | 835 |
| Total Assets | $ 33,165 | $ 172,551 | $ 1,951 | $ 1,091 |
| Liabilities: | | | | |
| Current Liabilities | $ 2,896 | $ 17,574 | $ 136 | $ 182 |
| Noncurrent Liabilities | 15,018 | 43,204 | 345 | 525 |
| Total Liabilities | $ 17,914 | $ 60,778 | $ 481 | $ 707 |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | $ 12,773 | $ 72,465 | $ 1,095 | $ 309 |
| Restricted | - | 6,095 | 330 | 71 |
| Unrestricted | 2,478 | 33,213 | 45 | 4 |
| Total Net Assets | $ 15,251 | $ 111,773 | $ 1,470 | $ 384 |
| Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets | | | | |
| Operating Revenues - Customer Charges | $ 4,881 | $ 65,421 | $ 394 | $ 198 |
| Depreciation Expense | (1,141) | (5,967) | (64) | (28) |
| Other Operating Expenses | (4,354) | (54,221) | (256) | (101) |
| Operating Income (Loss) | $ (614) | $ 5,233 | $ 74 | $ 69 |
| Nonoperating Revenues (Expenses): | | | | |
| Interest Income | $ 113 | $ 800 | $ 2 | $ 1 |
| Interest Expense | (1,170) | (1,695) | (44) | (36) |
| Other | 587 | 2,504 | - | - |
| Capital Contributions | 256 | - | - | - |
| Transfers-In | 5,295 | - | 16 | - |
| Transfers-Out | (2,000) | - | - | - |
| Change in Net Assets | $ 2,467 | $ 6,842 | $ 48 | $ 34 |
| Beginning Net Assets | 12,784 | 104,931 | 1,422 | 350 |
| Ending Net Assets | $ 15,251 | $ 111,773 | $ 1,470 | $ 384 |
| Condensed Statement of Cash Flows | | | | |
| Net Cash Provided (Used) By: | | | | |
| Operating Activities | $ 309 | $ 12,833 | $ 148 | $ 132 |
| Noncapital Financing Activities | 5,295 | - | - | - |
| Capital and Related Financing Activities | (2,339) | (19,834) | (157) | (142) |
| Investing Activities | 114 | 853 | 2 | 1 |
| Net Increase (Decrease) | $ 3,379 | $ (6,148) | $ (7) | $ (9) |
| Beginning Cash and Cash Equivalents | $ 4,629 | $ 59,095 | $ 465 | $ 147 |
| Ending Cash and Cash Equivalents | $ 8,008 | $ 52,947 | $ 458 | $ 138 |

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):

| Fund | Liability As Of | Unfunded Liability |
|---|---|---|
| Minneapolis Employee Retirement Fund | June 30, 2004 | $ 129,751 |
| Minneapolis Teachers Retirement Fund | June 30, 2003 | $ 715,069 |
| St. Paul Teachers Retirement Fund | June 30, 2003 | $ 290,601 |
| Local Police and Fire Fund [1] | December 31, 2003 | $ 224,010 |

[1]The Local Police and Fire Fund 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, and St. Paul Teachers – 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 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 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, 2003, was approximately $4.2 million.

The National Sports Center Foundation, in connection with the Minnesota Amateur Sports Commission, six municipalities, and other local governmental entities, constructed a four-sheet ice arena and auxiliary facilities (the Super Rink) at the National Sports Center. The Super Rink was financed by state general obligation bonds, state grants, and local government contributions. Bond debt service is provided by operating proceeds of the Super Rink, as well as arena sponsorship and concession revenues. As part of the financing agreement for the Arena, revenues in excess of expenses from the operation of the National Sports Center may be required for debt service on the Super Rink, should operating proceeds from the Super Rink be insufficient to pay such debt service. However, a master agreement and a requirement of the bond documents between the Minnesota Amateur Sports Commission, municipalities, and other local government entities, provide for guaranteed annual rental income that exceeds anticipated debt service costs.

## 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, 2004, $38,680,000 of the revenue bonds remained outstanding. Of this amount, $22,275,000 is payable primarily from lease payments of NWA, and $16,405,000 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. As of June 30, 2004, $2,445,000 of these defeased bonds remain outstanding. The invested funds, which are held in escrow, will be sufficient to pay the principal on the bonds to their earliest call date.

## Note 18 – Equity

### Fund Balances – Primary Government

The following table identifies governmental 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, 2004**
**(In Thousands)**

| | General | Federal | Nonmajor Governmental | Fiduciary |
|---|---|---|---|---|
| Fund Balances: | | | | |
| Reserved for Encumbrances | $ 65,242 | $ - | $ 259,365 | $ - |
| Reserved for Inventory | - | - | 15,202 | - |
| Reserved for Long-Term Receivables | 50,564 | - | 248,272 | - |
| Reserved for Long-Term Commitments | - | - | 122,940 | - |
| Reserved for Local Governments | - | - | 441,027 | - |
| Reserved for Trust Principal | - | - | 918,428 | - |
| Reserved for Debt Requirements | - | - | 530,879 | - |
| Reserved for Other | 4,700 | 7,093 | - | - |
| Total Reserved Fund Balances | $ 120,506 | $ 7,093 | $ 2,536,113 | $ - |
| Unreserved Fund Balances: | | | | |
| Designated for Appropriation Carryover | $ - | $ - | $ 291,809 | $ - |
| Designated for Fund Purposes | - | - | 288,309 | 38,895,818 |
| Total Designated Fund Balance | $ - | $ - | $ 580,118 | $ - |
| Undesignated | (448,465) | - | 200,290 | - |
| Total Unreserved Fund Balance | $ (448,465) | $ - | $ 780,408 | $ 38,895,818 |
| Total Fund Balance | $ (327,959) | $ 7,093 | $ 3,316,521 | $ 38,895,818 |

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 $7,093,000 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 funds (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, 2004**
**(In Thousands)**

| | Special Revenue Funds |
|---|---|
| Public Safety and Corrections | $ 21,214 |
| Transportation | 27,193 |
| Environmental Resources | 53,106 |
| Economic and Workforce Development | 61,959 |
| General Education | 4,493 |
| Higher Education | 541 |
| Health and Human Services | 75,685 |
| General Government | 42,160 |
| Intergovernmental Aids | 1,958 |
| Total | $ 288,309 |

Deficit Fund Balance

A $20,845,000 deficit total fund balance in the Building Fund (nonmajor governmental fund) is a result of a delayed bond sales. An executive action was implemented to eliminate a forecasted deficit. The authorization in previous legislative sessions for the scheduled June 2004 general obligation bond sale for bonding projects was delayed until July 2004.

## 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 $2,000,000. The reinsurance program provides coverage up to $750,000,000. Once annual aggregate losses paid by the Risk Management Fund reach $5,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature. The liability coverage is up to the statutory limit (tort claims cap) of $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 $1,444,000. 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 2004, no significant change in claim liability occurred.

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, 2004, was 2,950 members and their dependents. The members of the pool include 21 school districts, 73 cities/townships, 3 counties, and 26 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 $65,000.

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, 2004, and 2003:

**Self-Insured Claim Liabilities**
**As of June 30, 2004 (In Thousands)**

| | Beginning Claims Liability | Net Additions and Changes in Claims | Payment of Claims | Ending Claims Liability |
|---|---|---|---|---|
| Risk Management Fund | | | | |
| Fiscal Year Ended 6/30/03 | $ 19,711 | $ (3,248) | $ 4,749 | $ 11,714 |
| Fiscal Year Ended 6/30/04 | $ 11,714 | $ (713) | $ 2,860 | $ 8,141 |
| Tort Claims [1] | | | | |
| Fiscal Year Ended 6/30/03 | $ - | $ 807 | $ 807 | $ - |
| Fiscal Year Ended 6/30/04 | $ - | $ 818 | $ 818 | $ - |
| Workers' Compensation | | | | |
| Fiscal Year Ended 6/30/03 | $ 119,341 | $ 10,151 | $ 12,643 | $ 116,849 |
| Fiscal Year Ended 6/30/04 | $ 116,849 | $ 14,653 | $ 14,764 | $ 116,738 |
| State Employee Insurance Plans | | | | |
| Fiscal Year Ended 6/30/03 | $ 40,681 | $ 365,268 | $ 367,503 | $ 38,446 |
| Fiscal Year Ended 6/30/04 | $ 38,446 | $ 389,309 | $ 391,072 | $ 36,683 |

[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 2004 | 2003 |
|---|---|---|
| Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year | $ 2,320 | $ 2,745 |
| Incurred Claims and Claim Adjustment Expenses: | | |
| Provision for Insured Events of Current Year | 19,466 | 19,715 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | (630) | (400) |
| Total Incurred Claims and Claim Adjustment Expenses | $ 18,836 | $ 19,315 |
| Payments: | | |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year | $ 17,679 | $ 17,418 |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years | 1,667 | 2,322 |
| Total Payments | $ 19,346 | $ 19,740 |
| Total Unpaid Claims and Claim Adjustment Expenses at End of Year | $ 1,810 | $ 2,320 |

**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 $300,000 per claim and $750,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

Workers' Compensation

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 5.5 percent. The self-insurance retention limit for workers' compensation is $1,440,000 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, 2003, and 2002 or June 30, 2004, and 2003, 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 12/31/02 | $ 18,848 | $ 7,055 | $ 7,255 | $ 18,648 |
| Fiscal Year Ended 12/31/03 | $ 18,648 | $ 10,374 | $ 7,227 | $ 21,795 |
| University of Minnesota – RUMINCO, Ltd. | | | | |
| Fiscal Year Ended 6/30/03 | $ 6,492 | $ 2,197 | $ 1,032 | $ 7,657 |
| Fiscal Year Ended 6/30/04 | $ 7,657 | $ 1,452 | $ 1,650 | $ 7,459 |
| University of Minnesota – Workers' Compensation | | | | |
| Fiscal Year Ended 6/30/03 | $ 9,000 | $ 6,489 | $ 3,489 | $ 12,000 |
| Fiscal Year Ended 6/30/04 | $ 12,000 | $ 2,601 | $ 3,601 | $ 11,000 |
| University of Minnesota – Medical/Dental | | | | |
| Fiscal Year Ended 6/30/03 | $ 13,497 | $ 112,834 | $ 108,864 | $ 17,467 |
| Fiscal Year Ended 6/30/04 | $ 17,467 | $ 121,758 | $ 120,806 | $ 18,419 |

## 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, 2004**
**(In Thousands)**

| | General Fund |
|---|---|
| GAAP Basis Fund Balance: | $ (327,959) |
| Less: Reserved Fund Balance | 120,506 |
| Undesignated Fund Balance | $ (448,465) |
| Basis of Accounting Differences: | |
| Revenue Accruals/Adjustments: | |
| Taxes Receivable | $ (376,153) |
| Tax Refunds Payable | 532,704 |
| Human Services Receivable | (33,228) |
| Deferred Revenue | (7,709) |
| Other Receivables | (18,304) |
| Investments at Market | (1,183) |
| Expenditure Accruals/Adjustments: | |
| Medical Assistance | 284,060 |
| Human Services Grants Payable | 44,302 |
| Education Aids | 1,224,718 |
| Police and Fire Aid | 73,269 |
| Permanent School Fund Reimbursement | (6,568) |
| Other Payables | 13,394 |
| Fund Structure Differences: | |
| Terminally Funded Pension Plans | 8,286 |
| Designated for Appropriation Carryover and Budgetary Reserve | (597,599) |
| Budgetary Basis: | |
| Undesignated Fund Balance | $ 691,524 |

## Note 21 – Prior Period Adjustments

### Prior Period Adjustment

Primary Government

GASB issued Technical Bulletin No. 2004-01, "Tobacco Settlement Recognition and Financial Reporting Entity Issues" in April 2004, which clarified the accounting principles for recognizing tobacco settlement resources. The recognition of tobacco settlement revenues should be made when domestic shipment (sales) of cigarettes occurs. As a result, during the year ended June 30, 2004, a prior period adjustment of $84,233,000 was recorded on the Government-wide Statement of Activities to recognize tobacco settlement revenues and associated accounts receivable that were understated for the year ended June 30, 2003.

## 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, 2004 was $671,000. The tort claims appropriation for the fiscal year ending June 30, 2005, is also $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. *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 Housing and Urban Development (HUD) housing assistance be counted as unearned income and a lowering of the exit level for MFIP from 120% of the federal poverty guidelines to 115% of the federal poverty guidelines. Fiscal year 2004 savings from implementation of the three challenged changes are estimated to be in excess of $20 million. On February 27, 2004, the Court ruled in plaintiffs' favor on cross-motions for summary judgment. The Department of Human Services appealed to the Court of Appeals with argument on October 7, 2004.

   c. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Minnesota Supreme Court. Minn. Stat. § 297F.24 (2003) imposes a 35 cent per pack fee on "non settlement cigarettes." A non-settlement cigarette "means a cigarette manufactured by a person other than a manufacturer [1] that ... is making annual Division Managers payments to the state of Minnesota under a settlement of the lawsuit styled as State v. Philip Morris Inc." or [2] that has entered into a similar agreement also requiring annual payments. Plaintiffs challenged enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. On November 19, 2003, the District Court upheld §

297F.24 against all of plaintiffs' challenges. On August 24, 2004, the Minnesota Court of Appeals affirmed. 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.

d. *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 Conditions (MR/RC) Waiver. All plaintiffs challenge the state's rebasing of MR/RC waiver funding. Plaintiffs allege that 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. The federal government has filed a motion to dismiss in *ARRM,* which has not yet been heard. 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.

e. *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.

*f.* *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 in excess of $10 million, since there are other cases pending before the Department of Revenue involving the same legal issue.

g. *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 plaintiffs 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.

## Note 23 – Subsequent Events

### Primary Government

On July 20, 2004, $219,900,000 of general obligation state various purpose bonds and $80,100,000 of general obligation state trunk highway bonds were sold at a true interest rate of 4.03 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 October 19, 2004, $180,000,000 of general obligation state various purpose bonds, $40,000,000 of general obligation state trunk highway bonds, and $171,880,000 of general obligation state refunding bonds were sold at a true interest rate of 3.55 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 May 27, 2004, the Minnesota Housing Finance Agency (HFA) approved series resolutions authorizing the issuance of $102,345,000 bonds for the purpose of providing funds for certain HFA home ownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G, were delivered on July 22, 2004.

On June 24, 2004, the HFA approved the remarketing of $38,610,000 convertible option Residential Housing Bonds 2003 Series H to provide funds for certain HFA homeownership programs. These bonds were remarketed on July 22, 2004.

On June 24, 2004, the HFA approved series resolutions authorizing the issuance of $41,510,000 convertible option. The Residential Housing Bonds, 2004 Series H, were delivered on July 22, 2004.

The HFA called for early redemption subsequent to June 30, 2004, for the following bonds:

| Program Funds | Retirement Date | Original Par Value |
|---|---|---|
| Residential Housing Finance | July 1, 2004 | $ 8,290,000 |
| Single Family | July 1, 2004 | 64,665,000 |
| Rental Housing | July 26, 2004 | 1,640,000 |
| Residential Housing Finance | August 20, 2004 | 1,670,000 |
| Single Family | August 20, 2004 | 47,620,000 |
| Rental Housing | September 16, 2004 | 870,000 |
| Total | | $ 124,755,000 |

On April 1, 2004, Metropolitan Council sold $41,375,000 General Obligation Transit Bond, Series 2004A; $25,000,000 General Obligation Waste Water Treatment Revenue Bonds, Series 2004B; and $6,000,000 General Obligation Park Bonds, Series 2004C.

Minnesota Technology, Incorporated (MTI) will no longer be included in the state's reporting entity as a discretely presented component unit beginning with the year ending June 30, 2005. The state is providing no base funding to MTI after the year ended June 30, 2004.

During July 2004, the Higher Education Services Office (HESO) issued $67,000,000 of 2004 Series A (Taxable) Supplemental Student Loan Program Revenue Bonds and $88,500,000 of 2004 Series B (Tax Exempt) Supplemental Student Loan Program Revenue Bonds.

On August 19, 2004, the Public Facilities Authority authorized the issuance of Clean Water Bond Fund (CWBF) revenue bonds, such principal amount not to exceed $240,000,000, and the amount of this total to be used for refunding outstanding CWBF revenue bonds not to exceed $120,000,000.

## 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 29,000 lane miles of pavement and approximately 2,700 bridges and tunnels maintained by the state.

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

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

### Lane Miles of Pavement

Measurement Scale

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

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

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

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

Established Condition Level

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

Assessed Conditions

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

| | Principal Arterial Average PQI | Non-Principal Arterial Average PQI |
|---|---|---|
| 2003 | 3.40 | 3.24 |
| 2002 | 3.39 | 3.30 |
| 2001 | 3.47 | 3.35 |
| 2000 | 3.47 | 3.35 |
| 1999 | 3.45 | 3.33 |

**Bridges and Tunnels**

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,705 bridges under Mn/DOT's jurisdiction.

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

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

| Rating | Description |
|---|---|
| 9 | Excellent. |
| 8 | Very good. |
| 7 | Good. Some minor problems. |
| 6 | Satisfactory. Structural elements show some minor deterioration. |
| 5 | Fair. All primary structural elements are sound but may have some minor section loss, cracking, spalling, or scour. |
| 4 | Poor. Advanced section loss, deterioration, spalling, or scour. |
| 3 | Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present. |
| 2 | Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken. |
| 1 | Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service. |
| 0 | Failure. Out of service, beyond corrective action. |

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

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 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Fair to Good | 96.0% | 95.6% | 95.9% | 96.1% | 96.3% |

| All Other Systems | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Fair to Good | 96.6% | 92.2% | 90.8% | 89.6% | 90.1% |

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, 2004, 2003, and 2002 (in thousands):

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| Costs to be Capitalized | $ 260,900 | $ 504,288 | $ 719,300 | $ 333,605 | $ 296,500 | $ 258,803 |
| Maintenance of System | 426,000 | 227,996 | 316,400 | 304,029 | 417,400 | 357,823 |
| Total Construction Program | $ 686,900 | $ 732,284 | $ 1,035,700 | $ 637,634 | $ 713,900 | $ 616,626 |

Mn/DOT 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 and Reporting Policies for the address).

The Elective State Officers Fund (ESOF) is excluded from the single employer plan disclosures since this plan is closed to new entrants and any 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 |
|---|---|---|---|---|---|
| Actuarial Valuation Date | 2003[1] | 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 July 1, 2003, Annual Valuation Report is the most recently issued report available. Effective with the July 1, 2002, Annual Valuation Report, the LRF is included biennially in even-numbered years only.
[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 six years.

| | Fiscal and Policy Year Ended (In Thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Required Contribution and Investment Revenue: | | | | | | | |
| Earned | $ 2,564 | $ 7,713 | $ 10,995 | $ 18,005 | $ 22,149 | $ 23,458 | $ 22,764 |
| Ceded | 195 | 624 | 1,031 | 1,972 | 2,243 | 2,321 | 2,231 |
| Net Earned | $ 2,369 | $ 7,089 | $ 9,964 | $ 16,033 | $ 19,906 | $ 21,137 | $ 20,533 |
| 2. Unallocated Expenses | $ 538 | $ 1,458 | $ 1,983 | $ 2,535 | $ 2,715 | $ 2,528 | $ 2,296 |
| 3. Estimated Claims and Expenses End of Policy Year: | | | | | | | |
| Incurred | $ 2,002 | $ 5,800 | $ 9,972 | $ 16,550 | $ 21,055 | $ 19,715 | $ 19,466 |
| Ceded | 91 | 171 | 772 | 760 | 2,513 | 1,570 | 1,980 |
| Net Incurred | $ 1,911 | $ 5,629 | $ 9,200 | $ 15,790 | $ 18,542 | $ 18,145 | $ 17,486 |
| 4. Net Paid (Cumulative) as of: | | | | | | | |
| End of Policy Year | $ 1,376 | $ 4,678 | $ 7,944 | $ 13,228 | $ 15,824 | $ 15,848 | $ 15,699 |
| One Year Later | 1,849 | 5,817 | 9,240 | 15,908 | 18,091 | 17,572 | |
| Two Years Later | 1,850 | 5,818 | 9,243 | 15,963 | 18,034 | | |
| Three Years Later | 1,850 | 5,818 | 9,243 | 15,963 | | | |
| Four Years Later | 1,850 | 5,818 | 9,243 | | | | |
| Five Years Later | 1,850 | 5,818 | | | | | |
| Six Years Later | 1,850 | | | | | | |
| 5. Re-estimated Ceded Claims and Expenses | $ 91 | $ 171 | $ 772 | $ 760 | $ 2,513 | $ 1,570 | $ 1,980 |
| 6. Re-estimated Net Incurred Claims and Expenses: | | | | | | | |
| End of Policy Year | $ 1,911 | $ 5,629 | $ 9,200 | $ 15,790 | $ 18,542 | $ 18,145 | $ 17,486 |
| One Year Later | 1,854 | 5,828 | 9,253 | 15,935 | 18,114 | 17,595 | |
| Two Years Later | 1,850 | 5,818 | 9,243 | 15,963 | 18,034 | | |
| Three Years Later | 1,850 | 5,818 | 9,243 | 15,963 | | | |
| Four Years Later | 1,850 | 5,818 | 9,243 | | | | |
| Five Years Later | 1,850 | 5,818 | | | | | |
| Six Years Later | 1,850 | | | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year | $ (61) | $ 189 | $ 43 | $ 173 | $ (508) | $ (550) | $ - |

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 October 1, 2005

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of October 1, 2005.

**GENERAL OBLIGATION BONDS OUTSTANDING OCTOBER 1, 2005**
**(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 October 1, 2005 — Previous Issues(1) | | $3,238,915 |
| | Plus October 1, 2005 Tax Exempt Bond Issue | | 397,000 |
| | Plus October 1, 2005 Refunding Bonds | | 160,960 |
| | Less Bonds Refunded by October 1, 2005 Issue | | (163,600) |
| | Total Outstanding October 1, 2005, Including New Issues | | $3,633,275 |

(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

### October 1, 2005
### ($ in Thousands)

| Purpose of Issue | Law Authorizing | Total Authorization(1)(2) | Previously Issued | Authorizations Dated October 1, 2005 | Remaining Authorization |
|---|---|---|---|---|---|
| Municipal Energy Building | 1983,Ch.323 | $ 29,935.0 | $ 29,935.0 | $ 0.0 | $ 0.0 |
| Building | 1987,Ch.400 | 369,560.5 | 369,560.5 | 0.0 | $ 0.0 |
| Water Pollution Control | 1987,Ch.400 | 66,740.0 | 66,740.0 | 0.0 | $ 0.0 |
| Building | 1989,Ch.300 | 112,235.0 | 112,235.0 | 0.0 | $ 0.0 |
| Building | 1990,Ch.610 | 270,129.1 | 270,126.0 | 0.0 | $ 3.1 |
| Wetlands/Reinvest in MN | 1991,Ch.354 | 27,360.0 | 27,360.0 | 0.0 | $ 0.0 |
| Building | 1992,Ch.558 | 196,910.0 | 196,910.0 | 0.0 | $ 0.0 |
| Waste Management | 1992,Ch.558 | 1,625.0 | 1,625.0 | 0.0 | $ 0.0 |
| Transportation | 1992,Ch.558 | 17,368.0 | 17,368.0 | 0.0 | $ 0.0 |
| Building | 1993,Ch.373 | 38,355.0 | 38,355.0 | 0.0 | $ 0.0 |
| Transportation | 1993,Ch.373 | 9,480.0 | 9,480.0 | 0.0 | $ 0.0 |
| Building | 1994,Ch.643 | 523,874.5 | 523,849.0 | 0.0 | $ 25.5 |
| Municipal Energy Building | 1994,Ch.643 | 3,975.0 | 3,975.0 | 0.0 | $ 0.0 |
| Transportation | 1994,Ch.643 | 34,820.0 | 34,820.0 | 0.0 | $ 0.0 |
| Water Pollution Control | X1995, Ch.2 | 710.0 | 710.0 | 0.0 | $ 0.0 |
| Building | 1996, Ch. 463 | 478,672.9 | 478,505.0 | 0.0 | $ 167.9 |
| Municipal Energy Building | 1996, Ch. 463 | 3,850.0 | 3,850.0 | 0.0 | $ 0.0 |
| Building | 1997, Ch. 246 | 82,427.0 | 82,427.0 | 0.0 | $ 0.0 |
| Water Pollution Control | 1997, Ch. 246 | 3,765.0 | 3,765.0 | 0.0 | $ 0.0 |
| Building | X1997, Ch. 2 | 37,544.5 | 37,525.0 | 0.0 | $ 19.5 |
| Building | 1998, Ch. 404 | 100,656.0 | 100,656.0 | 0.0 | $ 0.0 |
| Building | 1999, Ch. 240 | 439,530.1 | 437,165.0 | 500.0 | $ 1,865.1 |
| Transportation | 1999, Ch. 240 | 28,000.0 | 27,814.0 | 186.0 | $ 0.0 |
| Transportation | 2000, Ch. 479 | 7,000.0 | 6,545.0 | 455.0 | $ 0.0 |
| Trunk Highway | 2000, Ch. 479 | 100,100.0 | 98,750.0 | 100.0 | 1,250.0 |
| Various Purpose | 2000, Ch. 492 | 528,426.3 | 503,380.0 | 3,600.0 | $ 21,446.3 |
| Various Purpose | X2001, Ch. 12 | 117,205.0 | 112,750.0 | 0.0 | $ 4,455.0 |
| Various Purpose | 2002, Ch. 280 | 7,800.0 | 0.0 | 0.0 | $ 7,800.0 |
| Various Purpose | 2002, Ch. 374 | 75,120.0 | 67,860.0 | 1,600.0 | $ 5,660.0 |
| Various Purpose | 2002, Ch. 393 | 624,712.0 | 532,645.0 | 33,900.0 | $ 58,167.0 |
| Trunk Highway | X2002, Ch. 1 | 10,115.0 | 10,100.0 | 0.0 | $ 15.0 |
| Various Purpose | X2002, Ch. 1 | 16,315.0 | 13,600.0 | 0.0 | $ 2,715.0 |
| Trunk Highway | X2003, Ch. 19, Art.3 | 400,400.0 | 149,750.0 | 110,000.0 | $ 140,650.0 |
| Trunk Highway | X2003, Ch. 19, Art.4 | 110,110.0 | 102,000.0 | 1,500.0 | $ 6,610.0 |
| Various Purpose | X2003, Ch. 20 | 236,915.0 | 162,200.0 | 28,400.0 | $ 46,315.0 |
| Various Purpose | 2005, Ch. 20 | 944,980.0 | 0.0 | 214,259.0 | $ 730,721.0 |
| Rural Finance Authority | X2005, Ch. 3 | 18,000.0 | 0.0 | 2,500.0 | $ 15,500.0 |
| Totals | | $6,074,721.1 | $4,634,335.5 | $397,000.0 | $1,043,385.6 |

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.

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, 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) | 2.06% | 1.9% | 3.00% |

Of the State's general obligation bonds outstanding on June 30, 2005, 40.1 percent were scheduled to mature within five years, and 70.3 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 |
|---|---|---|---|
| 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 |
| 2005 | 323,453 | 70,768 | 393,921 |

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 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| GENERAL FUND | | | | | | | | |
| STATE BUILDING CAPITAL IMPROVEMENT | | | | | | | | |
| | '87.400 | **75** | **15** | **5** | **5** | **5** | **5** | **5** |
| | | 21 | 3 | 3 | 3 | 2 | 2 | 2 |
| | '89.300 | **6,285** | **915** | **515** | **515** | **515** | **515** | **515** |
| | | 1,975 | 331 | 287 | 260 | 234 | 206 | 178 |
| | '90.610 | **1,935** | **415** | **125** | **120** | **120** | **120** | **120** |
| | | 595 | 89 | 74 | 68 | 63 | 57 | 51 |
| | '92.558 | **7,575** | **1,870** | **515** | **515** | **505** | **505** | **505** |
| | | 2,007 | 352 | 281 | 253 | 227 | 202 | 176 |
| | '93.373 | **920** | **345** | **55** | **55** | **55** | **55** | **55** |
| | | 223 | 43 | 31 | 28 | 25 | 22 | 19 |
| | '94.643 | **140,880** | **18,565** | **10,495** | **10,520** | **10,420** | **10,415** | **10,415** |
| | | 45,856 | 6,959 | 6,139 | 5,610 | 5,084 | 4,555 | 4,017 |
| | X'95.002 | **575** | **245** | **40** | **40** | **30** | **30** | **30** |
| | | 122 | 26 | 17 | 15 | 14 | 12 | 10 |
| | '96.463 | **216,920** | **17,035** | **16,850** | **16,845** | **16,405** | **16,405** | **16,405** |
| | | 75,367 | 10,775 | 9,902 | 9,055 | 8,211 | 7,383 | 6,547 |
| | '97.246 | **48,370** | **4,555** | **4,255** | **4,255** | **3,755** | **3,755** | **3,755** |
| | | 15,315 | 2,328 | 2,108 | 1,902 | 1,696 | 1,514 | 1,332 |
| | X'97.002 | **25,730** | **1,925** | **1,925** | **1,925** | **1,925** | **1,925** | **1,925** |
| | | 9,540 | 1,294 | 1,197 | 1,100 | 1,002 | 905 | 807 |
| | '98.404 | **28,275** | **1,990** | **1,990** | **1,990** | **1,985** | **1,985** | **1,985** |
| | | 11,276 | 1,473 | 1,372 | 1,269 | 1,165 | 1,061 | 957 |
| | '99.240 | **321,105** | **23,375** | **25,195** | **20,555** | **20,490** | **20,490** | **18,505** |
| | | 131,479 | 15,989 | 14,766 | 13,612 | 12,568 | 11,505 | 10,473 |
| STATE MUNICIPAL ENERGY BUILDING BONDS | | | | | | | | |
| | '83.323 | **645** | **220** | **125** | **125** | **55** | **55** | **25** |
| | | 74 | 27 | 18 | 12 | 8 | 5 | 3 |
| | '90.610 | **25** | **0** | **0** | **5** | **5** | **5** | **5** |
| | | 6 | 1 | 1 | 1 | 1 | 1 | 0 |
| | '94.643 | **625** | **395** | **95** | **95** | **20** | **20** | **0** |
| | | 37 | 22 | 9 | 4 | 2 | 1 | 0 |
| | '96.463 | **1,145** | **385** | **345** | **345** | **60** | **10** | **0** |
| | | 89 | 46 | 28 | 12 | 2 | 1 | 0 |
| REFUNDING BONDS | | | | | | | | |
| | '16A.66 | **575,416** | **64,257** | **79,497** | **75,217** | **75,858** | **74,503** | **52,575** |
| | | 117,510 | 25,512 | 22,929 | 19,295 | 15,477 | 11,718 | 8,541 |
| REINVESTMENT IN MINNESOTA (RIM) | | | | | | | | |
| | '87.400 | **15** | **15** | **0** | **0** | **0** | **0** | **0** |
| | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | '89.300 | **5** | **5** | **0** | **0** | **0** | **0** | **0** |
| | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **5** | **5** | **5** | **5** | **5** | **5** | **5** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 2 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **515** | **515** | **515** | **515** | **515** | **125** | **75** | **20** | **0** | **0** | **0** | **0** | **0** | **0** |
| 150 | 122 | 93 | 65 | 36 | 8 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| **120** | **120** | **120** | **120** | **120** | **120** | **115** | **30** | **30** | **10** | **10** | **0** | **0** | **0** |
| 45 | 39 | 33 | 27 | 21 | 14 | 8 | 4 | 2 | 1 | 0 | 0 | 0 | 0 |
| **505** | **505** | **505** | **505** | **505** | **505** | **55** | **55** | **20** | **0** | **0** | **0** | **0** | **0** |
| 150 | 123 | 97 | 71 | 45 | 20 | 6 | 3 | 1 | 0 | 0 | 0 | 0 | 0 |
| **55** | **55** | **55** | **55** | **50** | **10** | **10** | **5** | **5** | **0** | **0** | **0** | **0** | **0** |
| 16 | 13 | 10 | 7 | 4 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **10,415** | **10,410** | **10,410** | **10,390** | **10,320** | **7,505** | **5,505** | **2,570** | **1,295** | **645** | **445** | **120** | **20** | **0** |
| 3,476 | 2,931 | 2,384 | 1,840 | 1,298 | 759 | 431 | 202 | 102 | 46 | 19 | 4 | 1 | 0 |
| **30** | **30** | **30** | **30** | **30** | **5** | **5** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 9 | 7 | 5 | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **16,405** | **15,955** | **16,055** | **16,050** | **16,050** | **14,255** | **10,730** | **6,580** | **2,760** | **1,025** | **780** | **190** | **140** | **0** |
| 5,706 | 4,861 | 4,037 | 3,212 | 2,390 | 1,567 | 936 | 447 | 205 | 81 | 36 | 12 | 4 | 0 |
| **3,755** | **3,355** | **3,355** | **3,355** | **3,355** | **3,355** | **3,355** | **155** | **0** | **0** | **0** | **0** | **0** | **0** |
| 1,148 | 963 | 798 | 632 | 465 | 297 | 129 | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| **1,925** | **1,930** | **1,685** | **1,685** | **1,685** | **1,685** | **1,685** | **535** | **535** | **430** | **180** | **85** | **85** | **50** |
| 709 | 612 | 514 | 427 | 341 | 256 | 171 | 86 | 58 | 31 | 16 | 9 | 5 | 1 |
| **1,985** | **1,985** | **1,985** | **1,985** | **1,985** | **1,985** | **1,985** | **1,335** | **990** | **45** | **45** | **20** | **20** | **0** |
| 853 | 749 | 645 | 541 | 437 | 333 | 229 | 125 | 61 | 5 | 3 | 2 | 1 | 0 |
| **18,505** | **18,505** | **18,505** | **18,505** | **18,505** | **18,505** | **18,505** | **18,505** | **18,505** | **13,120** | **8,775** | **2,675** | **840** | **540** |
| 9,509 | 8,551 | 7,587 | 6,618 | 5,649 | 4,688 | 3,738 | 2,786 | 1,831 | 981 | 429 | 138 | 48 | 14 |
| **25** | **15** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **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 | 0 |
| **51,980** | **34,740** | **32,410** | **23,005** | **11,375** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 6,059 | 4,069 | 2,483 | 1,144 | 284 | 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 |

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| GENERAL FUND (CONT) | | | | | | | | |
| REINVESTMENT IN MINNESOTA (RIM) (CONT) | | | | | | | | |
| | '90.610 | **65** | **10** | **10** | **5** | **5** | **5** | **5** |
| | | 19 | 3 | 3 | 3 | 2 | 2 | 2 |
| | '91.354 | **1,805** | **405** | **135** | **130** | **130** | **130** | **130** |
| | | 520 | 89 | 73 | 67 | 60 | 53 | 46 |
| RURAL FINANCE AUTHORITY (RFA) | | | | | | | | |
| | '86.398 | **23,000** | **14,000** | **9,000** | **0** | **0** | **0** | **0** |
| | | 1,311 | 942 | 369 | 0 | 0 | 0 | 0 |
| | '96.463 | **33,100** | **0** | **5,000** | **18,000** | **4,500** | **3,100** | **2,500** |
| | | 5,789 | 1,863 | 1,863 | 1,343 | 414 | 236 | 69 |
| | '00.492 | **5,000** | **0** | **0** | **0** | **500** | **0** | **0** |
| | | 1,859 | 261 | 261 | 261 | 249 | 236 | 236 |
| | '02.393 | **15,000** | **0** | **0** | **0** | **10,500** | **4,500** | **0** |
| | | 2,693 | 705 | 705 | 705 | 465 | 113 | 0 |
| LANDFILL | | | | | | | | |
| | '94.639 | **19,330** | **1,835** | **1,465** | **1,465** | **1,465** | **1,465** | **1,455** |
| | | 6,705 | 978 | 886 | 810 | 736 | 661 | 585 |
| POLLUTION CONTROL | | | | | | | | |
| | '87.400 | **990** | **130** | **80** | **80** | **80** | **80** | **80** |
| | | 297 | 50 | 44 | 39 | 35 | 31 | 27 |
| | '89.300 | **180** | **15** | **15** | **15** | **15** | **15** | **15** |
| | | 55 | 9 | 8 | 7 | 7 | 6 | 5 |
| | '90.610 | **645** | **80** | **50** | **50** | **50** | **50** | **50** |
| | | 192 | 31 | 27 | 25 | 22 | 20 | 17 |
| | '92.558 | **775** | **195** | **65** | **65** | **50** | **50** | **50** |
| | | 193 | 36 | 29 | 25 | 22 | 19 | 17 |
| | '93.373 | **1,480** | **330** | **115** | **115** | **115** | **115** | **115** |
| | | 435 | 78 | 64 | 58 | 52 | 46 | 39 |
| | '94.643 | **11,100** | **1,800** | **845** | **845** | **835** | **835** | **835** |
| | | 3,348 | 542 | 466 | 425 | 383 | 342 | 299 |
| | X'95.002 | **390** | **30** | **30** | **30** | **30** | **30** | **30** |
| | | 124 | 18 | 17 | 15 | 14 | 12 | 11 |
| | '96.463 | **16,980** | **1,275** | **1,275** | **1,275** | **1,275** | **1,275** | **1,275** |
| | | 5,729 | 810 | 747 | 685 | 624 | 562 | 500 |
| | '97.246 | **2,695** | **195** | **190** | **190** | **190** | **190** | **190** |
| | | 1,056 | 138 | 129 | 119 | 109 | 99 | 89 |
| | '98.404 | **2,855** | **185** | **185** | **185** | **185** | **185** | **185** |
| | | 1,165 | 145 | 135 | 126 | 116 | 106 | 96 |
| | '99.240 | **31,150** | **2,020** | **2,020** | **2,020** | **1,970** | **1,970** | **1,970** |
| | | 13,199 | 1,609 | 1,503 | 1,398 | 1,294 | 1,189 | 1,085 |
| VARIOUS PURPOSE | | | | | | | | |
| | '00.492 | **296,384** | **25,915** | **32,240** | **17,045** | **17,845** | **19,850** | **17,850** |
| | | 112,721 | 14,450 | 13,001 | 11,761 | 10,876 | 9,910 | 8,942 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **5** | **5** | **5** | **5** | **5** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **130** | **130** | **130** | **125** | **125** | **45** | **45** | **15** | **0** | **0** | **0** | **0** | **0** | **0** |
| 39 | 32 | 25 | 18 | 11 | 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 | 0 |
| **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **0** | **4,500** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 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 | 0 |
| **1,455** | **1,455** | **1,455** | **1,455** | **1,455** | **1,345** | **810** | **375** | **375** | **0** | **0** | **0** | **0** | **0** |
| 509 | 433 | 357 | 282 | 207 | 132 | 76 | 37 | 16 | 0 | 0 | 0 | 0 | 0 |
| **80** | **80** | **80** | **80** | **80** | **60** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 23 | 18 | 14 | 10 | 6 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **15** | **15** | **15** | **15** | **15** | **15** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 4 | 3 | 3 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **50** | **50** | **50** | **50** | **50** | **50** | **15** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 15 | 12 | 10 | 7 | 5 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **50** | **50** | **50** | **50** | **50** | **50** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 14 | 11 | 9 | 6 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **115** | **115** | **115** | **115** | **115** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 33 | 26 | 20 | 13 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **835** | **835** | **835** | **835** | **835** | **465** | **465** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 256 | 212 | 169 | 125 | 80 | 36 | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **30** | **30** | **30** | **30** | **30** | **30** | **30** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 10 | 8 | 7 | 5 | 4 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **1,275** | **1,275** | **1,275** | **1,275** | **1,275** | **1,275** | **975** | **320** | **135** | **50** | **50** | **50** | **50** | **50** |
| 437 | 373 | 309 | 245 | 182 | 118 | 61 | 28 | 17 | 11 | 9 | 6 | 4 | 1 |
| **190** | **190** | **185** | **185** | **185** | **185** | **185** | **135** | **85** | **10** | **10** | **5** | **0** | **0** |
| 80 | 70 | 60 | 50 | 41 | 31 | 21 | 12 | 6 | 1 | 1 | 0 | 0 | 0 |
| **180** | **180** | **180** | **180** | **180** | **180** | **180** | **180** | **180** | **125** | **0** | **0** | **0** | **0** |
| 87 | 77 | 68 | 58 | 48 | 39 | 29 | 20 | 11 | 3 | 0 | 0 | 0 | 0 |
| **1,970** | **1,970** | **1,970** | **1,970** | **1,970** | **1,970** | **1,970** | **1,970** | **1,970** | **950** | **500** | **0** | **0** | **0** |
| 980 | 876 | 771 | 666 | 561 | 457 | 353 | 250 | 146 | 49 | 13 | 0 | 0 | 0 |
| **24,355** | **20,735** | **13,030** | **13,030** | **13,034** | **13,035** | **13,035** | **13,035** | **13,045** | **11,980** | **8,400** | **3,975** | **3,150** | **1,800** |
| 7,860 | 6,711 | 5,846 | 5,169 | 4,492 | 3,822 | 3,161 | 2,497 | 1,832 | 1,171 | 659 | 348 | 169 | 45 |

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| GENERAL FUND (CONT) | | | | | | | | |
| VARIOUS PURPOSE (CONT) | | | | | | | | |
| | X'01.012 | **76,965** | **4,625** | **4,625** | **4,625** | **4,295** | **4,295** | **4,295** |
| | | 34,151 | 3,763 | 3,538 | 3,308 | 3,083 | 2,866 | 2,649 |
| | '02.374 | **69,740** | **4,030** | **7,210** | **4,040** | **3,920** | **3,920** | **3,920** |
| | | 29,671 | 3,439 | 3,160 | 2,880 | 2,679 | 2,480 | 2,280 |
| | '02.393 | **341,972** | **18,210** | **19,600** | **19,610** | **19,335** | **17,335** | **18,035** |
| | | 162,421 | 16,594 | 15,753 | 14,800 | 13,823 | 12,901 | 12,011 |
| | X'02.001 | **7,455** | **380** | **380** | **380** | **380** | **380** | **380** |
| | | 3,665 | 360 | 344 | 326 | 307 | 288 | 269 |
| | X'03.020 | **137,200** | **6,860** | **6,860** | **6,860** | **6,860** | **6,860** | **6,860** |
| | | 68,521 | 6,626 | 6,328 | 6,003 | 5,660 | 5,317 | 4,974 |
| STATE TRANSPORTATION | | | | | | | | |
| | '84.597 | **2,700** | **700** | **700** | **700** | **300** | **300** | **0** |
| | | 323 | 136 | 95 | 55 | 27 | 11 | 0 |
| | '87.400 | **120** | **20** | **10** | **10** | **10** | **10** | **10** |
| | | 38 | 6 | 6 | 5 | 5 | 4 | 3 |
| | '89.300 | **85** | **25** | **10** | **10** | **5** | **5** | **5** |
| | | 20 | 4 | 3 | 3 | 2 | 2 | 2 |
| | '90.610 | **1,130** | **150** | **85** | **85** | **80** | **80** | **80** |
| | | 365 | 54 | 48 | 44 | 40 | 36 | 32 |
| | '92.558 | **3,628** | **430** | **260** | **245** | **245** | **245** | **245** |
| | | 1,265 | 175 | 157 | 145 | 133 | 121 | 108 |
| | '93.373 | **2,975** | **365** | **230** | **230** | **210** | **210** | **210** |
| | | 1,082 | 154 | 137 | 126 | 114 | 103 | 92 |
| | '94.643 | **20,635** | **1,945** | **1,450** | **1,450** | **1,445** | **1,445** | **1,445** |
| | | 7,581 | 1,028 | 940 | 868 | 795 | 722 | 648 |
| | X'95.002 | **1,790** | **170** | **140** | **140** | **140** | **140** | **140** |
| | | 566 | 86 | 78 | 71 | 64 | 58 | 51 |
| | '96.463 | **4,465** | **355** | **350** | **345** | **345** | **345** | **345** |
| | | 1,506 | 218 | 201 | 184 | 167 | 150 | 133 |
| | '97.246 | **2,030** | **150** | **150** | **150** | **145** | **145** | **145** |
| | | 758 | 102 | 94 | 87 | 79 | 72 | 65 |
| | X'97.002 | **980** | **70** | **70** | **70** | **70** | **70** | **70** |
| | | 342 | 46 | 44 | 40 | 37 | 33 | 30 |
| | '98.404 | **3,025** | **225** | **225** | **225** | **225** | **225** | **225** |
| | | 1,101 | 152 | 141 | 130 | 118 | 107 | 96 |
| | '99.240 | **22,255** | **1,430** | **1,430** | **1,430** | **1,430** | **1,430** | **1,430** |
| | | 9,523 | 1,163 | 1,088 | 1,013 | 938 | 861 | 785 |
| | '00.479 | **6,175** | **360** | **360** | **360** | **355** | **355** | **355** |
| | | 2,703 | 299 | 282 | 264 | 246 | 228 | 210 |
| | X'01.012 | **3,965** | **205** | **205** | **205** | **205** | **205** | **205** |
| | | 1,918 | 192 | 183 | 173 | 162 | 152 | 142 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 4,295 | 1,845 | 840 | 275 |
| 2,432 | 2,214 | 1,997 | 1,780 | 1,563 | 1,345 | 1,128 | 911 | 694 | 476 | 259 | 103 | 35 | 7 |
| 3,920 | 3,920 | 3,555 | 3,560 | 3,560 | 3,560 | 3,570 | 3,570 | 3,575 | 3,575 | 3,575 | 1,920 | 420 | 420 |
| 2,080 | 1,880 | 1,690 | 1,508 | 1,326 | 1,145 | 963 | 780 | 598 | 416 | 233 | 92 | 32 | 11 |
| 18,035 | 18,030 | 16,980 | 17,230 | 17,240 | 17,242 | 17,245 | 17,250 | 17,260 | 17,260 | 17,260 | 15,970 | 13,785 | 9,060 |
| 11,104 | 10,197 | 9,316 | 8,456 | 7,589 | 6,721 | 5,853 | 4,986 | 4,117 | 3,249 | 2,380 | 1,544 | 798 | 227 |
| 380 | 380 | 380 | 380 | 380 | 380 | 380 | 380 | 380 | 380 | 380 | 380 | 355 | 260 |
| 250 | 231 | 212 | 193 | 174 | 155 | 136 | 117 | 97 | 78 | 59 | 40 | 22 | 7 |
| 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 | 6,860 |
| 4,631 | 4,288 | 3,945 | 3,602 | 3,259 | 2,916 | 2,573 | 2,230 | 1,887 | 1,544 | 1,201 | 858 | 515 | 172 |
| 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 |
| 10 | 10 | 10 | 10 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 2 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 5 | 5 | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 80 | 80 | 80 | 80 | 80 | 65 | 65 | 20 | 10 | 10 | 0 | 0 | 0 | 0 |
| 28 | 24 | 20 | 15 | 11 | 7 | 4 | 2 | 1 | 0 | 0 | 0 | 0 | 0 |
| 245 | 245 | 245 | 245 | 245 | 243 | 240 | 140 | 95 | 5 | 5 | 5 | 0 | 0 |
| 96 | 84 | 71 | 59 | 46 | 33 | 21 | 11 | 5 | 1 | 0 | 0 | 0 | 0 |
| 210 | 210 | 210 | 210 | 210 | 120 | 120 | 80 | 65 | 25 | 25 | 25 | 10 | 0 |
| 80 | 69 | 58 | 46 | 35 | 24 | 17 | 11 | 7 | 4 | 2 | 1 | 0 | 0 |
| 1,445 | 1,445 | 1,445 | 1,445 | 1,445 | 1,350 | 1,320 | 770 | 570 | 115 | 90 | 15 | 0 | 0 |
| 574 | 500 | 425 | 350 | 275 | 200 | 131 | 76 | 40 | 8 | 3 | 0 | 0 | 0 |
| 140 | 140 | 140 | 140 | 140 | 110 | 110 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 44 | 37 | 30 | 23 | 15 | 8 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 345 | 345 | 335 | 335 | 335 | 295 | 295 | 80 | 5 | 5 | 5 | 0 | 0 | 0 |
| 115 | 98 | 81 | 64 | 47 | 30 | 15 | 3 | 1 | 0 | 0 | 0 | 0 | 0 |
| 145 | 140 | 140 | 140 | 140 | 140 | 140 | 90 | 70 | 0 | 0 | 0 | 0 | 0 |
| 57 | 50 | 43 | 35 | 28 | 21 | 14 | 7 | 3 | 0 | 0 | 0 | 0 | 0 |
| 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | 23 | 19 | 16 | 12 | 9 | 5 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| 225 | 225 | 230 | 230 | 230 | 230 | 230 | 25 | 25 | 10 | 10 | 5 | 0 | 0 |
| 84 | 73 | 62 | 50 | 38 | 27 | 15 | 4 | 2 | 1 | 1 | 0 | 0 | 0 |
| 1,430 | 1,425 | 1,425 | 1,425 | 1,425 | 1,425 | 1,425 | 1,425 | 1,425 | 510 | 190 | 65 | 65 | 15 |
| 708 | 632 | 556 | 479 | 402 | 326 | 250 | 175 | 99 | 30 | 12 | 6 | 2 | 0 |
| 355 | 355 | 350 | 350 | 345 | 345 | 345 | 345 | 345 | 345 | 345 | 70 | 70 | 65 |
| 193 | 175 | 157 | 140 | 122 | 105 | 88 | 71 | 53 | 36 | 19 | 9 | 5 | 2 |
| 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 205 | 70 |
| 132 | 121 | 111 | 101 | 91 | 80 | 70 | 60 | 50 | 39 | 29 | 19 | 9 | 2 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE — INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| GENERAL FUND (CONT) | | | | | | | | |
| STATE TRANSPORTATION (CONT) | | | | | | | | |
| | '02.374 | **3,510** | **195** | **195** | **195** | **195** | **195** | **195** |
| | | 1,656 | 178 | 168 | 158 | 148 | 138 | 128 |
| | '02.393 | **21,600** | **1,150** | **1,150** | **1,150** | **1,150** | **1,150** | **1,150** |
| | | 10,241 | 1,056 | 1,003 | 946 | 888 | 830 | 772 |
| | X'02.001 | **4,550** | **250** | **250** | **250** | **250** | **250** | **250** |
| | | 2,150 | 229 | 216 | 204 | 191 | 178 | 165 |
| | X'03.020 | **1,140** | **60** | **60** | **60** | **60** | **60** | **60** |
| | | 541 | 55 | 53 | 50 | 47 | 44 | 41 |
| WASTE MANAGEMENT | | | | | | | | |
| | '90.610 | **1,320** | **150** | **150** | **100** | **100** | **100** | **100** |
| | | 389 | 65 | 56 | 50 | 45 | 40 | 34 |
| | '92.558 | **1,210** | **105** | **105** | **90** | **65** | **65** | **65** |
| | | 479 | 59 | 53 | 48 | 44 | 41 | 37 |
| | '96.463 | **2,000** | **140** | **140** | **140** | **140** | **140** | **140** |
| | | 749 | 99 | 92 | 86 | 79 | 71 | 64 |
| INFRASTRUCTURE DEVELOPMENT | | | | | | | | |
| STATE BUILDING CAPITAL IMPROVEMENT | | | | | | | | |
| | '90.610 | **580** | **330** | **25** | **25** | **25** | **25** | **25** |
| | | 102 | 24 | 14 | 13 | 11 | 10 | 9 |
| | '92.558 | **1,830** | **1,830** | **0** | **0** | **0** | **0** | **0** |
| | | 54 | 54 | 0 | 0 | 0 | 0 | 0 |
| | '94.643 | **51,370** | **5,255** | **4,020** | **4,020** | **4,015** | **4,015** | **4,010** |
| | | 16,799 | 2,559 | 2,304 | 2,104 | 1,903 | 1,701 | 1,495 |
| | '96.463 | **73,770** | **5,530** | **5,365** | **5,350** | **5,340** | **5,340** | **5,335** |
| | | 26,579 | 3,636 | 3,370 | 3,111 | 2,844 | 2,575 | 2,303 |
| | '98.404 | **46,675** | **2,965** | **2,965** | **2,900** | **2,900** | **2,900** | **2,900** |
| | | 19,568 | 2,354 | 2,202 | 2,052 | 1,903 | 1,751 | 1,598 |
| VARIOUS PURPOSE | | | | | | | | |
| | '00.492 | **102,301** | **6,040** | **6,040** | **6,025** | **6,025** | **6,025** | **6,025** |
| | | 44,650 | 5,091 | 4,784 | 4,478 | 4,171 | 3,861 | 3,549 |
| | '02.393 | **108,835** | **5,935** | **5,930** | **5,930** | **5,930** | **5,930** | **5,930** |
| | | 51,362 | 5,414 | 5,129 | 4,832 | 4,531 | 4,226 | 3,921 |
| | X'03.020 | **22,610** | **1,190** | **1,190** | **1,190** | **1,190** | **1,190** | **1,190** |
| | | 10,734 | 1,095 | 1,041 | 982 | 922 | 863 | 803 |
| SPORTS & HEALTH TAX REFUNDING BONDS | | | | | | | | |
| | '16A.66 | **3,045** | **1,100** | **1,215** | **470** | **140** | **120** | **0** |
| | | 226 | 122 | 67 | 25 | 10 | 3 | 0 |
| GROUP TOTAL GENERAL FUND | | **2,995,081** | **257,877** | **267,897** | **243,707** | **239,473** | **230,148** | **199,335** |
| | | 1,082,698 | 144,718 | 132,666 | 120,029 | 107,474 | 95,633 | 84,674 |
| GAME & FISH | | | | | | | | |
| | '16A.66 | **29** | **13** | **8** | **3** | **3** | **3** | **0** |
| | | 2 | 1 | 1 | 0 | 0 | 0 | 0 |
| GROUP TOTAL GAME & FISH | | **29** | **13** | **8** | **3** | **3** | **3** | **0** |
| | | 2 | 1 | 1 | 0 | 0 | 0 | 0 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 0 | 0 |
| 118 | 107 | 97 | 87 | 77 | 67 | 56 | 46 | 36 | 26 | 15 | 5 | 0 | 0 |
| 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 | 0 |
| 713 | 655 | 597 | 539 | 481 | 423 | 365 | 307 | 248 | 190 | 132 | 74 | 23 | 0 |
| 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 50 | 0 |
| 152 | 139 | 126 | 113 | 100 | 87 | 74 | 61 | 48 | 35 | 22 | 9 | 1 | 0 |
| 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 0 |
| 38 | 35 | 32 | 29 | 26 | 23 | 20 | 17 | 14 | 11 | 8 | 5 | 2 | 0 |
| 100 | 100 | 100 | 100 | 100 | 100 | 10 | 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | 24 | 19 | 14 | 9 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 | 65 | 65 | 65 | 65 | 65 | 65 | 65 | 65 | 65 | 65 | 0 | 0 | 0 |
| 34 | 31 | 28 | 24 | 21 | 18 | 15 | 11 | 8 | 5 | 2 | 0 | 0 | 0 |
| 140 | 140 | 140 | 140 | 140 | 140 | 140 | 100 | 75 | 5 | 0 | 0 | 0 | 0 |
| 57 | 50 | 43 | 36 | 28 | 21 | 14 | 7 | 2 | 0 | 0 | 0 | 0 | 0 |
| 25 | 25 | 25 | 25 | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | 6 | 4 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4,010 | 4,010 | 4,010 | 4,010 | 4,005 | 2,740 | 2,240 | 890 | 120 | 0 | 0 | 0 | 0 | 0 |
| 1,288 | 1,078 | 869 | 659 | 450 | 241 | 116 | 29 | 3 | 0 | 0 | 0 | 0 | 0 |
| 5,335 | 5,335 | 5,335 | 5,335 | 5,335 | 4,725 | 4,725 | 3,425 | 1,660 | 275 | 25 | 0 | 0 | 0 |
| 2,029 | 1,755 | 1,481 | 1,205 | 929 | 653 | 413 | 198 | 66 | 8 | 1 | 0 | 0 | 0 |
| 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,745 | 2,100 | 1,000 | 100 | 0 | 0 |
| 1,446 | 1,296 | 1,144 | 990 | 837 | 686 | 537 | 388 | 242 | 108 | 30 | 3 | 0 | 0 |
| 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 | 0 |
| 3,239 | 2,930 | 2,620 | 2,308 | 1,996 | 1,686 | 1,380 | 1,073 | 766 | 461 | 202 | 51 | 6 | 0 |
| 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 | 0 |
| 3,615 | 3,310 | 3,005 | 2,700 | 2,394 | 2,089 | 1,784 | 1,480 | 1,175 | 870 | 565 | 263 | 57 | 0 |
| 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 | 0 |
| 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 | 0 |
| 202,740 | 185,500 | 169,375 | 160,195 | 148,485 | 129,160 | 121,515 | 103,595 | 94,560 | 78,945 | 66,770 | 44,700 | 31,640 | 19,465 |
| 74,564 | 64,824 | 55,835 | 47,433 | 39,510 | 32,184 | 25,818 | 19,888 | 14,817 | 10,184 | 6,508 | 3,689 | 1,764 | 487 |
| 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 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE    INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| TRUNK HIGHWAY | | | | | | | | |
| REFUNDING BONDS (CONT) | | | | | | | | |
| | '16A.66 | **1,310** | **530** | **595** | **185** | **0** | **0** | **0** |
| | | 81 | 52 | 24 | 5 | 0 | 0 | 0 |
| TRUNK HIGHWAY | | | | | | | | |
| | '00.479 | **85,195** | **5,065** | **5,065** | **5,065** | **5,050** | **5,050** | **5,050** |
| | | 36,649 | 4,221 | 3,962 | 3,705 | 3,449 | 3,189 | 2,928 |
| | X'02.001 | **9,600** | **505** | **505** | **505** | **505** | **505** | **505** |
| | | 4,560 | 465 | 442 | 417 | 392 | 366 | 341 |
| | X'03.018 | **96,900** | **5,100** | **5,100** | **5,100** | **5,100** | **5,100** | **5,100** |
| | | 46,002 | 4,692 | 4,463 | 4,208 | 3,953 | 3,698 | 3,443 |
| | X'03.019 | **147,550** | **7,450** | **7,450** | **7,450** | **7,450** | **7,450** | **7,450** |
| | | 73,022 | 7,139 | 6,806 | 6,446 | 6,074 | 5,701 | 5,329 |
| GROUP TOTAL TRUNK HIGHWAY | | **340,555** | **18,650** | **18,715** | **18,305** | **18,105** | **18,105** | **18,105** |
| | | 160,314 | 16,569 | 15,697 | 14,781 | 13,867 | 12,954 | 12,041 |
| MAX EFFORT SCHOOL LOAN | | | | | | | | |
| REFUNDING BONDS | | | | | | | | |
| | '16A.66 | **34,540** | **5,215** | **5,180** | **4,870** | **4,750** | **4,710** | **3,745** |
| | | 5,733 | 1,453 | 1,275 | 1,035 | 794 | 558 | 346 |
| SCHOOL LOANS | | | | | | | | |
| | '91.265 | **55** | **55** | **0** | **0** | **0** | **0** | **0** |
| | | 2 | 2 | 0 | 0 | 0 | 0 | 0 |
| | '93.373 | **60** | **60** | **0** | **0** | **0** | **0** | **0** |
| | | 2 | 2 | 0 | 0 | 0 | 0 | 0 |
| | '94.643 | **150** | **150** | **0** | **0** | **0** | **0** | **0** |
| | | 5 | 5 | 0 | 0 | 0 | 0 | 0 |
| | X'95.002 | **8,650** | **1,185** | **690** | **685** | **685** | **685** | **685** |
| | | 2,533 | 426 | 370 | 332 | 298 | 263 | 227 |
| | '00.492 | **13,790** | **805** | **805** | **805** | **805** | **805** | **805** |
| | | 5,957 | 674 | 634 | 593 | 553 | 512 | 472 |
| | X'01.012 | **17,670** | **930** | **930** | **930** | **930** | **930** | **930** |
| | | 8,389 | 856 | 814 | 767 | 721 | 674 | 628 |
| | '02.393 | **11,905** | **620** | **620** | **620** | **620** | **620** | **620** |
| | | 5,715 | 577 | 549 | 518 | 487 | 456 | 425 |
| GROUP TOTAL MAX EFFORT SCHOOL LOAN | | **86,820** | **9,020** | **8,225** | **7,910** | **7,790** | **7,750** | **6,785** |
| | | 28,335 | 3,993 | 3,641 | 3,245 | 2,852 | 2,463 | 2,098 |
| STATE GUARANTEED BONDS | | | | | | | | |
| GUARANTEED BOND CLASS | | | | | | | | |
| | '91.350 | **37,825** | **975** | **1,035** | **1,105** | **1,180** | **1,260** | **1,350** |
| | | 19,189 | 2,348 | 2,282 | 2,211 | 2,133 | 2,050 | 1,966 |
| GROUP TOTAL STATE GUARANTEED BONDS | | **37,825** | **975** | **1,035** | **1,105** | **1,180** | **1,260** | **1,350** |
| | | 19,189 | 2,348 | 2,282 | 2,211 | 2,133 | 2,050 | 1,966 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 3,550 | 725 | 75 | 0 |
| 2,669 | 2,411 | 2,151 | 1,889 | 1,628 | 1,369 | 1,114 | 858 | 602 | 348 | 131 | 23 | 2 | 0 |
| 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 5 |
| 316 | 291 | 265 | 240 | 215 | 190 | 164 | 139 | 114 | 89 | 63 | 38 | 13 | 0 |
| 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 | 0 |
| 3,188 | 2,933 | 2,678 | 2,423 | 2,168 | 1,913 | 1,658 | 1,403 | 1,148 | 893 | 638 | 383 | 128 | 0 |
| 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 7,450 | 6,000 |
| 4,956 | 4,584 | 4,211 | 3,839 | 3,466 | 3,094 | 2,721 | 2,349 | 1,976 | 1,604 | 1,231 | 859 | 486 | 150 |
| 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 18,105 | 16,605 | 13,780 | 13,130 | 6,005 |
| 11,128 | 10,218 | 9,305 | 8,391 | 7,476 | 6,565 | 5,657 | 4,748 | 3,840 | 2,933 | 2,063 | 1,302 | 629 | 150 |
| 3,545 | 1,510 | 1,015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 179 | 73 | 20 | 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 685 | 680 | 680 | 680 | 680 | 630 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 192 | 156 | 120 | 84 | 50 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 805 | 805 | 805 | 805 | 805 | 805 | 805 | 805 | 800 | 800 | 800 | 120 | 0 | 0 |
| 431 | 391 | 350 | 310 | 269 | 229 | 188 | 147 | 107 | 67 | 26 | 3 | 0 | 0 |
| 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 930 | 0 |
| 581 | 535 | 488 | 442 | 395 | 349 | 302 | 256 | 209 | 163 | 116 | 70 | 23 | 0 |
| 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 615 | 620 | 130 |
| 394 | 363 | 332 | 301 | 270 | 239 | 208 | 177 | 146 | 115 | 84 | 53 | 22 | 3 |
| 6,585 | 4,545 | 4,050 | 3,035 | 3,035 | 2,985 | 2,355 | 2,355 | 2,350 | 2,350 | 2,350 | 1,665 | 1,550 | 130 |
| 1,777 | 1,517 | 1,310 | 1,137 | 984 | 832 | 698 | 580 | 462 | 344 | 226 | 126 | 45 | 3 |
| 1,430 | 1,515 | 1,605 | 26,370 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,883 | 1,794 | 1,698 | 824 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,430 | 1,515 | 1,605 | 26,370 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,883 | 1,794 | 1,698 | 824 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# STATE OF MINNESOTA

## GENERAL OBLIGATION DEBT

## SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

| GROUP & FUND & TYPE | AUTHORIZATION YEAR-CHAPTER | AMOUNT OUTSTANDING 6/30/2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| TOTAL PRINCIPAL - LESS GUARANTEE | | **3,422,485** | **285,560** | **294,845** | **269,925** | **265,370** | **256,005** | **224,225** |
| TOTAL INTEREST - LESS GUARANTEE | | 1,271,349 | 165,282 | 152,004 | 138,055 | 124,193 | 111,050 | 98,813 |
| TOTAL DEBT SERVICE - LESS GUARANTEE (1) | | 4,693,834 | 450,842 | 446,849 | 407,980 | 389,563 | 367,055 | 323,038 |
| TOTAL PRINCIPAL - ALL FUNDS | | **3,460,310** | **286,535** | **295,880** | **271,030** | **266,550** | **257,265** | **225,575** |
| TOTAL INTEREST - ALL FUNDS | | 1,290,538 | 167,630 | 154,286 | 140,265 | 126,326 | 113,100 | 100,779 |
| TOTAL DEBT SERVICE - ALL FUNDS (1) | | 4,750,848 | 454,165 | 450,166 | 411,295 | 392,876 | 370,365 | 326,354 |

The Total Debt Service - All Funds does not include:
$56,350,000 of bonds dated April 1, 1995; $2,040,000 of bonds dated May 1, 1995; $113,650,000 of bonds dated August 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 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **227,430** | **208,150** | **191,530** | **181,335** | **169,625** | **150,250** | **141,975** | **124,055** | **115,015** | **99,400** | **85,725** | **60,145** | **46,320** | **25,600** |
| 87,470 | 76,559 | 66,450 | 56,960 | 47,970 | 39,581 | 32,173 | 25,217 | 19,119 | 13,461 | 8,798 | 5,117 | 2,438 | 640 |
| 314,900 | 284,709 | 257,980 | 238,295 | 217,595 | 189,831 | 174,148 | 149,272 | 134,134 | 112,861 | 94,523 | 65,262 | 48,758 | 26,240 |
| | | | | | | | | | | | | | |
| **228,860** | **209,665** | **193,135** | **207,705** | **169,625** | **150,250** | **141,975** | **124,055** | **115,015** | **99,400** | **85,725** | **60,145** | **46,320** | **25,600** |
| 89,353 | 78,353 | 68,149 | 57,784 | 47,970 | 39,581 | 32,173 | 25,217 | 19,119 | 13,461 | 8,798 | 5,117 | 2,438 | 640 |
| 318,213 | 288,018 | 261,284 | 265,489 | 217,595 | 189,831 | 174,148 | 149,272 | 134,134 | 112,861 | 94,523 | 65,262 | 48,758 | 26,240 |

*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 2005 valuation, was estimated by the Commissioner of Revenue to be $465,979,422,000. 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 |
|---|---|---|---|---|
| 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 | 4,524,447 | 363,687,940 | 11.83 |
| 2004 | 407,146,983 | 4,713,782 | 411,860,765 | 13.25 |
| 2005 (est) | 461,108,486 | 4,870,936 | 465,979,422 | 13.14 |

## 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, 2005, principal in the amount of $14,755,414 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, 2005, principal in the amount of $14,406,498 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 October 1, 2005, $7,415,000 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 October 1, 2005. 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.

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# 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 |
|---|---|---|---|---|
| 1999, Chapter 240 | | | | |
| | Natural Resources | Statewide | Flood Hazard Grants (State Share) | 1,698 |
| | Natural Resources | Statewide | Flood Hazard Grants (Local Share) | 17,270 |
| | Administration | Park Rapids | Infrastructure Improvement Grant | 1,000 |
| | Transportation | Statewide | Light Rail Transit | 60,000 |
| | University of Minnesota | Minneapolis | Folwell Hall Renovations | 690 |
| | Transportation | Statewide | Transitways Hiawatha Corridor | 40,000 |
| | Transportation | Statewide | Local Bridges | 28,000 |
| | Transportation | Statewide | Local Bridges | 28,000 |
| | Natural Resources | Statewide | Trail Acquisition and Development | 3,350 |
| | Administration | St. Paul | Capitol Building | 6,500 |
| | Veterans Home Board | Minneapolis | Veterans Home | 6,000 |
| | Veterans Home Board | Hastings | VHB Power Plant | 5,000 |
| 2000, Chapter 479 | | | | |
| | Transportation | Statewide | Local Bridge Replacement | 7,000 |
| | Transportation | Systemwide | Trunk Highway Improvements | 100,000 |
| 2000, Chapter 492 | | | | |
| | Administration, Department of | Capitol Complex | 717 Delaware Street (Health Building) | 4,000 |
| | Administration, Department of | Statewide | Statewide CAPRA | 10,000 |
| | Administration, Department of | Capitol Complex | Electrical Utility Infrastructure, Phase 4 | 2,500 |
| | Children, Families & Learning | Minneapolis | Minnesota Planetarium | 1,000 |
| | Children, Families & Learning | Statewide | Library Access Grants | 1,000 |
| | 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 | 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 |
| | 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 | St. Cloud | Riverview Renovation Design | 3,864 |
| | Military Affairs, Department of | Systemwide | Asset Preservation | 1,500 |
| | Military Affairs, Department of | Little Falls | Camp Ripley Museum | 125 |
| | Natural Resources, Department of | Systemwide | ADA Compliance | 2,000 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| | 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 | 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 | 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 |
| | 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 | 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 |
| | Public Safety, Department of | Little Falls | Public Safety Training Facility | 3,000 |
| | Trade & Economic Development | Statewide | MPFA Wastewater Infrastructure Funding | 12,010 |
| | Veterans Homes Board | Statewide | Asset Preservation | 3,000 |
| | 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 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| 2002, Chapter 374 | | | | |
| | Natural Resources | Systemwide | 1998 Forest Road/Bridges | 750 |
| | Natural Resources | Systemwide | 1998 Metro Greenway Acquisition | 2,000 |
| | Natural Resources | Systemwide | Safe Harbors Program | 3,223 |
| | BWSR | Systemwide | Local Road Replacement | 300 |
| | Administration | Statewide | 2000 Asset Preservation | 350 |
| | Administration | St. Paul | 2000 Bureau of Criminal Apprehension Facility | 42,700 |
| | Administration | Statewide | 2000 Property Acquisition | 450 |
| | Administration | Statewide | 1998 Asset Preservation | 750 |
| | Administration | Statewide | 1998 Real Property Acquisition | 1,000 |
| | CAAPB | Capitol Complex | HHH Memorial | 250 |
| | 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 | St. Paul | Plant Growth Phase II | 17,700 |
| | University of MN | Crookston | Bede Hall Replacement | 7,701 |
| | 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 | Winona | Science Lab Facility | 30,000 |
| | 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 | 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 |
| | Administration | Statewide | Statewide CAPRA | 14,000 |
| | Administration | Capitol Complex | Electrical Work | 3,231 |
| | Administration | St. Paul | New State Buildings | 60,000 |
| | Military Affairs | Systemwide | Asset Preservation and Kitchen Repair | 2,500 |
| | Military Affairs | Systemwide | ADA improvements | 357 |
| | Military Affairs | Systemwide | Facility Life Safety | 1,000 |
| | Transportation | Systemwide | Local Bridge Assistance | 45,000 |
| | Metropolitan Council | Metro | Northwest Metro Busway | 20,000 |
| | Commerce | Systemwide | Energy Investment Loans | 5,000 |
| | DHS | Systemwide | Systemwide Roof Replacement | 2,789 |
| | DHS | Systemwide | Systemwide Asset Preservation | 4,000 |
| | DHS | Systemwide | Systemwide Building Demolition | 2,750 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| | 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 | St. Paul | Fort Snelling Improvements | 500 |
| | Finance | Statewide | Bond Sale Expense | 880 |
| X2003, Chapter 19 | | | | |
| | Transportation | Statewide | Trunk Highway System Projects | 400,400 |
| | Transportation | Statewide | Trunk Highway System Projects | 110,110 |
| X2003, Chapter 20 | | | | |
| | UofM | Minneapolis | Jones Hall | 8,000 |
| | UofM | Minneapolis | Teaching & Technology Ctr | 3,000 |
| | 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 | 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 |
| | 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 | 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 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| | 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 | 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 |
| | DHS | Statewide | County & Local Preservation Grants | 300 |
| | DHS | Jackson | Fort Belmont — Grant | 200 |
| | DOF | Statewide | Bond Sale Expense | 236 |
| 2005, Chapter 20 | | | | |
| | UofM | Systemwide | HEAPR | 40,000 |
| | UofM | Duluth | Life Science | 10,100 |
| | UofM | Duluth | Rec Sports Center | 8,700 |
| | UofM | Morris | District Facilities | 5,800 |
| | UofM | Minneapolis | TC Kolthoff Hall | 17,400 |
| | UofM | Minneapolis | TC Education Science | 14,500 |
| | UofM | St. Paul | Academic Health Center | 11,600 |
| | UofM | Grand Rapids | Research and Outreach | 283 |
| | MnSCU | Systemwide | HEAPR | 41,500 |
| | MnSCU | Anoka CC | Cambridge Academic Building Addition | 10,483 |
| | MnSCU | Bemidji | Bridgeman Hall | 10,863 |
| | MnSCU | Central Lakes TC | Heavy Equipment/Music | 5,953 |
| | MnSCU | Century College | Technology Center | 4,888 |
| | MnSCU | Century College | New Science and Library Design | 1,000 |
| | MnSCU | Dakota TC | Info & Telecom Renovation | 7,387 |
| | MnSCU | Fond du Lac CTC | Library design | 635 |
| | MnSCU | Inver Hills CC | CC Student Services | 6,045 |
| | MnSCU | Lake Superior | Academic and Student Services | 11,243 |
| | MnSCU | Minneapolis | CTC Health and Science Lab | 900 |
| | MnSCU | Winona | Student Services/Nursing | 3,802 |
| | MnSCU | Fergus Falls | Instruction, Fine Arts | 7,604 |
| | MnSCU | Moorhead | Science and Trades Addit | 7,061 |
| | MnSCU | Mankato | Science/Trafton Hall | 2,560 |
| | MnSCU | Moorhead | Hagen Hall Science Renovation | 10,477 |
| | MnSCU | Moorhead | McLean Hall Renov Design | 500 |
| | MnSCU | Northland CTC | Workforce Addition, Nursing Renov | 2,156 |
| | MnSCU | Riverland CTC | Science Lab Renovations | 5,540 |
| | MnSCU | Rochester CTC | Health Science Renovation | 12,759 |
| | MnSCU | St. Cloud | State Centennial Renovation | 3,150 |
| | MnSCU | St. Cloud | State Brown Science and Math Design | 900 |
| | MnSCU | St. Cloud | Tech Workforce Center Addition | 15,056 |
| | MnSCU | St. Paul | Construction Trades Renovation | 10,993 |
| | MnSCU | South Central TC | Tech Applied Lab | 5,157 |
| | MnSCU | Winona | Pasteur Hall Science Facility | 11,118 |
| | MnSCU | Systemwide | Science Renovations | 6,668 |
| | MnSCU | Systemwide | Workforce Classrooms | 3,083 |
| | MnSCU | Systemwide | Technology Upgrade | 1,019 |
| | MnSCU | Systemwide | Demolition | 1,625 |
| | MnSCU | Systemwide | Program Consolidation | 1,173 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| | MnSCU | Systemwide | Land Acquisition | 300 |
| | Ctr for Arts Educ | | Asset Preservation | 558 |
| | Ctr for Arts Educ | | Beta Building Demolition | 525 |
| | Education | Red Lake | Maximum Effort School Loan | 18,000 |
| | Education | East Metro | Magnet School | 1,083 |
| | Education | Statewide | Library Capital Improvement Grants | 1,000 |
| | Education | Statewide | Early Childhood Facilities | 500 |
| | MN State Academies | Systemwide | Asset Preservation | 4,255 |
| | Natural Resources | Statewide | Flood Hazard Mitigation Grants | 27,000 |
| | Natural Resources | Statewide | Dam Repair/Reconstruction/Removal | 2,000 |
| | Natural Resources | Statewide | Rim Critical Habitat Match | 2,000 |
| | Natural Resources | Statewide | RIM Wildlife Area Acquisition | 10,000 |
| | Natural Resources | Systemwide | Fisheries Acquisition and Improvement | 1,050 |
| | Natural Resources | Systemwide | Water Access/Fishing Piers | 2,000 |
| | Natural Resources | Red River | Canoe and Boating Routes | 300 |
| | Natural Resources | Statewide | Stream Protection | 500 |
| | Natural Resources | Systemwide | Reforestation | 2,000 |
| | Natural Resources | Statewide | Metro Greenways | 500 |
| | Natural Resources | Systemwide | Native Prairie Bank Easements | 1,000 |
| | Natural Resources | Systemwide | SNA Acquisition | 7,910 |
| | Natural Resources | Statewide | County Forest Reforestation | 1,000 |
| | Natural Resources | Systemwide | Fish Hatchery Improvements | 1,700 |
| | Natural Resources | Systemwide | RIM Wildlife Management Area Development | 600 |
| | Natural Resources | Systemwide | State Forest Land Acquisition | 1,500 |
| | Natural Resources | Systemwide | Forest Roads and Bridges | 300 |
| | Natural Resources | Systemwide | State Park Acquisition | 2,500 |
| | Natural Resources | Systemwide | State Park Building Development | 1,800 |
| | Natural Resources | Statewide | Local Initiative Grants | 1,000 |
| | Natural Resources | Lake Superior | Safe Harbors | 2,000 |
| | Natural Resources | Statewide | Asset Preservation | 2,000 |
| | Natural Resources | Systemwide | Field Office Renovations | 300 |
| | PCA | Statewide | Closed Landfill | 10,000 |
| | OEA | Statewide | Capital Assistance Program | 4,000 |
| | BWSR | Statewide | RIM Reserve and CREP | 23,000 |
| | BWSR | Statewide | Local Government Road Wetland Replacement | 4,362 |
| | BWSR | Statewide | Area 2 Minn River Flooding | 500 |
| | Agriculture | Statewide | Water Management Research Partnership | 619 |
| | Agriculture | Statewide | Joint Plant Pathology Research Facility | 3,300 |
| | MN Zoo | Apple Valley | Gateway of the North — New Exhibit | 20,640 |
| | MN Zoo | Apple Valley | Asset Preservation | 2,000 |
| | Administration | Statewide | CAPRA | 3,000 |
| | Administration | Statewide | Asset Preservation- Admin Properties | 2,500 |
| | Administration | Statewide | Parking | 1,779 |
| | CAAPB | St. Paul | Capitol Restoration Design | 1,200 |
| | CAAPB | St. Paul | Capitol Building Repair | 1,170 |
| | Military Affairs | Systemwide | Asset Preservation | 3,000 |
| | Military Affairs | Systemwide | Facility Life Safety | 1,000 |
| | Veteran's Affairs | St. Paul | WWII Monument | 670 |
| | Public Safety | Blue Earth | Fire and Police Station | 642 |
| | Transportation | Statewide | Local Bridge Replacement | 40,000 |
| | Transportation | Statewide | Local Road Improvement Grants | 10,000 |
| | Transportation | Statewide | Port Development | 2,000 |
| | Transportation | Systemwide | Northstar Commuter Rail | 37,500 |
| | Transportation | New Brighton | Rail Service Improvement Grants | 2,500 |
| | Transportation | Duluth | Aerial Lift Bridge | 1,000 |
| | Transportation | St. Paul | Holman Field Flood Protection | 1,000 |
| | Met Council | Minneapolis | Cedar Avenue Bus Rapid Transit | 10,000 |
| | Met Council | Minneapolis | Central Corridor | 5,250 |

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

| Law Authorizing | Agency | Location Or Program | Project/Program Description | Total Project Appropriation |
|---|---|---|---|---|
| | Met Council | Hastings | Red Rock Corridor | 500 |
| | Met Council | St. Paul | Rush Line Corridor | 500 |
| | Met Council | Metropolitan | Regional Parks | 14,664 |
| | Human Services | St. Peter | New Facilities Sex Offender Program | 3,259 |
| | Human Services | St. Peter | Forensic Nursing Facility | 8,600 |
| | Human Services | Systemwide | Redevelopment/Demolition | 9,000 |
| | Human Services | Willmar | Regional Treatment Center Retrofit | 900 |
| | Human Services | Systemwide | Roof Repair | 1,014 |
| | Human Services | Systemwide | Asset Preservation | 3,000 |
| | Human Services | Systemwide | RTC Grave Markers | 300 |
| | Vet's Home Board | Systemwide | Asset Preservation | 4,000 |
| | Vet's Home Board | Luverne | Dementia Wander Area | 306 |
| | Vet's Home Board | Minneapolis | Adult Day Care | 1,031 |
| | Vet's Home Board | Willmar | Vets Home Predesign | 100 |
| | Corrections | Faribault | MCF Expansion | 84,844 |
| | Corrections | Stillwater | MCF 150 Bed Segregation Unit | 3,500 |
| | Corrections | Willow River | MCF Activities Building | 2,000 |
| | Corrections | Moose Lake | MCF CIP Expansion | 350 |
| | Corrections | Systemwide | Asset Preservation | 8,000 |
| | DEED | Statewide | US EPA Drinking Water/ Wastewater | 14,380 |
| | DEED | Statewide | Wastewater Infrastructure Funding | 29,900 |
| | DEED | Statewide | Total Maximum Daily Load Grants | 2,000 |
| | DEED | Austin | Flood Damage | 2,000 |
| | DEED | Bursnville | Water Treatment | 3,000 |
| | DEED | Crookston | Emergency Riverbank Protection | 2,500 |
| | DEED | Worthington | Lewis and Clark Rural Water System | 2,000 |
| | DEED | Roseau | Infrastructure Repair and Improvements | 13,220 |
| | DEED | Statewide | Rural Infrastructure | 10,000 |
| | DEED | Statewide | Redevelopment Grants | 15,000 |
| | DEED | Statewide | Bioscience Development | 18,500 |
| | DEED | Buffalo Lake | Maintenance Garage/Street Repair | 690 |
| | DEED | Detroit Lakes | Regional Pavillion | 283 |
| | DEED | Hibbing | Laurentian Energy Authority | 2,000 |
| | DEED | Minneapolis | Minnesota Planetarium | 22,000 |
| | DEED | Minneapolis | Shubert Theater | 1,000 |
| | DEED | Moorhead | Heritage Hjemkomst | 1,000 |
| | DEED | Big Island | Veteran's Camp | 2,000 |
| | DEED | Rochester | U of M/Mayo Biotech Research Facility | 21,726 |
| | DEED | St. Paul | Phalen Boulevard | 4,000 |
| | Housing Finance | Statewide | Permanent Supportive Housing Loans | 12,000 |
| | Housing Finance | Hennepin | County Housing | 350 |
| | Historical Society | Systemwide | Historic Sites Asset Preservation | 4,000 |
| | Historical Society | St. Paul | Fort Snelling Revitalization | 1,000 |
| | Historical Society | Statewide | County and Local Preservation Grants | 1,000 |
| | Finance | Statewide | Bond Sale Expenses | 884 |
| X2005, Chapter 3 | | | | |
| | Agriculture | Statewide | Rural Finance Authority Loans | 18,000 |

(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 May 1, 1996, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after May 1, 2007 will be called for redemption and prepayment on May 1, 2006 at par plus accrued interest.

**($ in Thousands)**

| Maturing May 1 | Principal Amount | Interest Rate |
|---|---|---|
| 2007 | $ 8,070,000* | 5.20% |
| 2008 | 8,100,000 | 5.30% |
| 2009 | 8,100,000 | 5.40% |
| 2010 | 8,100,000 | 5.60% |
| 2011 | 8,100,000 | 5.60% |
| 2012 | 8,100,000 | 5.70% |
| 2013 | 8,100,000 | 5.70% |
| 2014 | 8,100,000 | 5.70% |
| 2015 | 8,080,000 | 5.70% |
| 2016 | 8,000,000 | 5.70% |
| | $80,850,000 | |

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated November 1, 1996, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2007 will be called for redemption and prepayment on November 1, 2006 at par plus accrued interest.

| Maturing November 1 | Principal Amount | Interest Rate |
|---|---|---|
| 2007 | $ 8,275,000 | 5.00% |
| 2008 | 8,275,000 | 5.00% |
| 2009 | 8,275,000 | 5.125% |
| 2010 | 8,275,000 | 5.125% |
| 2011 | 8,275,000 | 5.25% |
| 2012 | 8,275,000 | 5.25% |
| 2013 | 8,275,000 | 5.25% |
| 2014 | 8,275,000 | 5.00% |
| 2015 | 8,275,000 | 5.00% |
| 2016 | 8,275,000 | 5.00% |
| | $82,750,000 | |

*$4,500,000 in principal of the State Various Purpose Bonds maturing on May 1, 2007 will not be called and will remain outstanding.

# 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 established the Cash Flow Account at $350 million for the Current Biennium.

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, 2006
(Thousand of Dollars)

| | Jul-05 | Aug-05 | Sep-05 | Oct-05 | Nov-05 | Dec-05 | Jan-06 | Feb-06 | Mar-06 | Apr-06 | May-06 | Jun-06 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Beginning Cash Balance** | $ 3,039,377 | $ 2,109,754 | $ 1,547,962 | $ 1,663,233 | $ 1,545,002 | $ 1,258,427 | $ 1,545,319 | $ 2,198,232 | $ 1,724,288 | $ 1,647,447 | $ 1,653,665 | $ 1,756,523 | |
| **Receipts:** | | | | | | | | | | | | | |
| Individual Income Tax | 456,556 | 458,855 | 690,149 | 465,408 | 477,641 | 612,892 | 889,575 | 191,374 | 350,368 | 696,786 | 616,345 | 673,183 | 6,579,132 |
| Sales and Use Taxes | 173,724 | 407,466 | 368,388 | 417,504 | 361,495 | 352,180 | 453,623 | 321,689 | 302,042 | 356,341 | 352,630 | 595,695 | 4,462,777 |
| Corporate & Bank Excise | 1,952 | 30,067 | 144,991 | 38,491 | 15,891 | 136,691 | 34,360 | 20,060 | 201,035 | 19,635 | 17,135 | 111,835 | 772,145 |
| Statewide Property Tax | 33,911 | 0 | 0 | 0 | 1,130 | 275,108 | 3,824 | 0 | 0 | 0 | 0 | 320,725 | 634,698 |
| Motor Vehicle Taxes | 52,386 | 33,404 | 29,954 | 33,122 | 27,311 | 24,438 | 24,317 | 23,036 | 28,961 | 32,437 | 33,187 | 46,030 | 388,584 |
| Tobacco Product Taxes | 2,638 | 17,853 | 28,882 | 22,040 | 21,102 | 19,720 | 21,038 | 22,146 | 18,968 | 19,687 | 20,480 | 29,181 | 243,734 |
| Insurance Taxes | 1,912 | 5,615 | 56,396 | 15,464 | 2,176 | 59,048 | 14,622 | 16,579 | 90,888 | 18,051 | 1,352 | 77,177 | 359,280 |
| Other Excise Taxes | 101,138 | 22,899 | 14,705 | 65,805 | 12,939 | 17,933 | 55,376 | 26,983 | 19,926 | 66,469 | 34,945 | 15,552 | 454,670 |
| Investment Earnings | 5,431 | 1,665 | 2,938 | 1,825 | 1,950 | 2,076 | 1,917 | 2,330 | 2,353 | 2,542 | 2,611 | 2,696 | 30,335 |
| Tobacco Settlement | 0 | 0 | 0 | 0 | 0 | 171,657 | 0 | 0 | 0 | 0 | 0 | 0 | 171,657 |
| Inter-governmental Grants | 4,585 | 52,646 | 3,223 | 6,185 | 11,146 | 18,245 | 4,858 | 8,493 | 4,725 | 8,115 | 3,782 | 4,885 | 130,890 |
| Other Sources | 178,374 | 297,316 | 358,580 | 227,030 | 230,728 | 352,334 | 362,830 | 235,703 | 229,732 | 224,888 | 243,233 | 362,103 | 3,302,851 |
| Subtotal Receipts | $ 1,012,607 | $ 1,327,786 | $ 1,698,207 | $ 1,292,874 | $ 1,163,511 | $ 2,042,323 | $ 1,866,341 | $ 868,393 | $ 1,248,997 | $ 1,444,952 | $ 1,325,700 | $ 2,239,061 | $ 17,530,751 |
| Total Resources | $ 4,051,984 | $ 3,437,540 | $ 3,246,169 | $ 2,956,107 | $ 2,708,513 | $ 3,300,750 | $ 3,411,659 | $ 3,066,625 | $ 2,973,285 | $ 3,092,399 | $ 2,979,364 | $ 3,995,584 | |
| **Expenditures:** | | | | | | | | | | | | | |
| State Payroll | 205,733 | 189,248 | 222,254 | 242,917 | 195,390 | 195,720 | 194,824 | 198,999 | 237,238 | 257,773 | 206,138 | 185,628 | 2,531,864 |
| Agency Operations | 132,693 | 104,278 | 88,987 | 87,624 | 98,659 | 130,545 | 79,083 | 104,751 | 104,019 | 75,856 | 146,498 | 217,629 | 1,370,622 |
| Aid to School Districts | 459,272 | 991,779 | 691,400 | 444,755 | 183,951 | 502,415 | 588,011 | 541,602 | 657,939 | 658,932 | 353,744 | 111,470 | 6,185,270 |
| Aid to Cities | 230,850 | 6,338 | 14,765 | 104,544 | 14,151 | 277,536 | 2,601 | 4,445 | 4,791 | 3,268 | 1,968 | 4,898 | 670,154 |
| Aid to Counties | 233,140 | 53,869 | 32,804 | 114,673 | 28,728 | 205,709 | 18,575 | 34,651 | 39,790 | 22,094 | 29,414 | 19,532 | 832,981 |
| Aid to Higher Education Institution: | 93,730 | 79,417 | 0 | 53,598 | 50,562 | 53,676 | 51,431 | 4,818 | 50,912 | 67,025 | 98,869 | 80,071 | 684,109 |
| Aid to Non-Gov't Organizations | 27,936 | 22,848 | 18,045 | 17,327 | 20,309 | 12,616 | 17,353 | 17,582 | 10,376 | 17,141 | 18,618 | 25,508 | 225,659 |
| Aid to Special Districts | 34,192 | 37,425 | 21,529 | 34,739 | 16,724 | 15,117 | 29,510 | 11,949 | 13,118 | 14,271 | 14,286 | 14,407 | 257,266 |
| Payments to Individuals | 513,938 | 222,731 | 303,957 | 291,742 | 430,938 | 311,651 | 205,058 | 414,953 | 193,238 | 307,495 | 345,080 | 302,044 | 3,842,825 |
| Other | 10,745 | 181,646 | 189,194 | 19,185 | 29,321 | 50,447 | 26,981 | 8,586 | 14,418 | 14,879 | 8,227 | 17,169 | 570,800 |
| Debt Service | 0 | 0 | 0 | 0 | 381,352 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 381,352 |
| Total Expenditures | $ 1,942,229 | $ 1,889,578 | $ 1,582,936 | $ 1,411,105 | $ 1,450,085 | $ 1,755,432 | $ 1,213,428 | $ 1,342,337 | $ 1,325,838 | $ 1,438,734 | $ 1,222,842 | $ 978,357 | $ 17,552,901 |
| Ending Cash Balance | $ 2,109,754 | $ 1,547,962 | $ 1,663,233 | $ 1,545,002 | $ 1,258,427 | $ 1,545,319 | $ 2,198,232 | $ 1,724,288 | $ 1,647,447 | $ 1,653,665 | $ 1,756,523 | $ 3,017,228 | |
| Minimum Statutory Cash Balance for the Month | $ 1,968,613 | $ 1,314,176 | $ 1,016,871 | $ 1,525,797 | $ 1,329,087 | $ 1,434,550 | $ 1,593,810 | $ 1,884,779 | $ 1,529,067 | $ 1,514,778 | $ 1,419,670 | $ 1,539,128 | |

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
Fiscal Year Ended June 30, 2007
(Thousand of Dollars)

| | Jul-06 | Aug-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Jan-07 | Feb-07 | Mar-07 | Apr-07 | May-07 | Jun-07 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Beginning Cash Balance** | $ 3,017,228 | $ 2,103,485 | $ 1,399,499 | $ 1,383,515 | $ 1,310,406 | $ 1,104,767 | $ 1,347,592 | $ 1,824,169 | $ 1,369,805 | $ 1,247,892 | $ 1,269,071 | $ 1,451,037 | |
| **Receipts:** | | | | | | | | | | | | | |
| Individual Income Tax | 436,127 | 485,363 | 725,609 | 500,774 | 504,408 | 641,585 | 947,631 | 227,505 | 389,749 | 795,389 | 612,121 | 723,097 | $ 6,989,359 |
| Sales and Use Taxes | 174,206 | 419,845 | 379,742 | 430,389 | 363,629 | 357,023 | 463,910 | 337,243 | 316,076 | 373,756 | 369,686 | 619,258 | 4,604,762 |
| Corporate & Bank Excise | 25,254 | 27,454 | 134,554 | 32,354 | 9,754 | 129,554 | 28,431 | 13,931 | 202,231 | 17,731 | 15,131 | 109,331 | 745,706 |
| Statewide Property Tax | 94 | 0 | 0 | 0 | 1,180 | 287,330 | 3,926 | 0 | 0 | 0 | 0 | 363,989 | 656,519 |
| Motor Vehicle Taxes | 23,079 | 37,571 | 34,017 | 37,551 | 31,468 | 28,524 | 28,392 | 27,093 | 33,354 | 36,542 | 37,332 | 50,681 | 405,603 |
| Tobacco Product Taxes | 8,582 | 22,823 | 22,821 | 21,326 | 20,419 | 19,056 | 20,335 | 21,424 | 18,314 | 19,004 | 19,818 | 28,447 | 242,370 |
| Insurance Taxes | 6,276 | 5,734 | 58,410 | 16,627 | 2,088 | 61,166 | 15,645 | 17,124 | 94,546 | 19,394 | 1,100 | 80,734 | 378,845 |
| Other Excise Taxes | 71,757 | 28,025 | 19,147 | 73,924 | 17,427 | 22,656 | 62,849 | 32,075 | 24,832 | 74,765 | 40,709 | 20,019 | 488,186 |
| Investment Earnings | 1,658 | 3,174 | 1,946 | 2,075 | 2,192 | 2,310 | 2,163 | 2,551 | 2,567 | 2,743 | 2,812 | 2,881 | 29,073 |
| Tobacco Settlement | 0 | 0 | 0 | 0 | 0 | 168,469 | 0 | 0 | 0 | 0 | 0 | 0 | 168,469 |
| Inter-governmental Grants | 62,926 | 151,892 | 97,152 | 99,235 | 121,457 | 169,317 | 111,973 | 102,304 | 89,102 | 95,579 | 103,707 | 133,335 | 1,337,978 |
| Other Sources | 135,646 | 194,551 | 263,411 | 132,577 | 119,350 | 204,491 | 254,851 | 141,323 | 144,941 | 136,755 | 143,110 | 233,882 | 2,104,888 |
| Subtotal Receipts | $ 945,605 | $ 1,376,432 | $ 1,736,809 | $ 1,346,833 | $ 1,193,372 | $ 2,091,481 | $ 1,940,106 | $ 922,572 | $ 1,315,712 | $ 1,571,657 | $ 1,345,525 | $ 2,365,653 | $ 18,151,757 |
| Total Resources | $ 3,962,832 | $ 3,479,917 | $ 3,136,308 | $ 2,730,347 | $ 2,503,778 | $ 3,196,248 | $ 3,287,698 | $ 2,746,741 | $ 2,685,516 | $ 2,819,549 | $ 2,614,597 | $ 3,816,690 | |
| **Expenditures:** | | | | | | | | | | | | | |
| State Payroll | $ 210,914 | $ 190,265 | $ 227,813 | $ 248,400 | $ 199,174 | $ 198,622 | $ 197,424 | $ 200,982 | $ 242,160 | $ 260,510 | $ 207,098 | $ 187,360 | $ 2,570,724 |
| Agency Operations | 131,413 | 134,860 | 82,545 | 121,711 | 102,245 | 137,171 | 104,361 | 93,582 | 116,207 | 121,426 | 116,983 | 144,247 | 1,406,751 |
| Aid to School Districts | 502,279 | 1,054,040 | 725,396 | 461,270 | 193,368 | 520,290 | 606,539 | 574,222 | 689,005 | 678,708 | 394,820 | 131,012 | 6,530,949 |
| Aid to Cities | 245,291 | 6,747 | 74,717 | 42,869 | 4,496 | 285,125 | 12,079 | 4,074 | 3,776 | 3,852 | 2,419 | 4,432 | 689,878 |
| Aid to Counties | 141,228 | 150,563 | 45,324 | 104,419 | 28,808 | 211,615 | 21,992 | 35,417 | 36,301 | 27,443 | 27,530 | 26,845 | 857,485 |
| Aid to Higher Education Institution | 51,549 | 93,909 | 58,961 | 12,542 | 48,376 | 103,459 | 35,667 | 48,889 | 44,196 | 60,664 | 83,041 | 68,739 | 709,994 |
| Aid to Non-Gov't Organizations | 22,577 | 26,910 | 17,760 | 20,683 | 21,271 | 14,826 | 16,650 | 19,879 | 10,680 | 16,188 | 12,402 | 30,002 | 229,826 |
| Aid to Special Districts | 28,376 | 23,356 | 16,945 | 40,400 | 16,649 | 23,141 | 43,021 | 11,031 | 14,016 | 14,412 | 14,782 | 15,560 | 261,690 |
| Payments to Individuals | 482,978 | 341,271 | 443,924 | 327,798 | 318,254 | 322,640 | 382,471 | 346,828 | 232,263 | 323,307 | 250,506 | 232,571 | 4,004,811 |
| Other | 42,742 | 58,496 | 59,409 | 39,849 | 66,576 | 31,767 | 43,325 | 42,033 | 49,019 | 43,968 | 53,977 | 56,522 | 587,684 |
| Debt Service | 0 | 0 | 0 | 0 | 399,794 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 399,794 |
| Total Expenditures | $ 1,859,347 | $ 2,080,417 | $ 1,752,793 | $ 1,419,941 | $ 1,399,012 | $ 1,848,657 | $ 1,463,529 | $ 1,376,937 | $ 1,437,625 | $ 1,550,478 | $ 1,163,560 | $ 897,291 | $ 18,249,586 |
| Calculated Ending Cash Balance | $ 2,103,485 | $ 1,399,499 | $ 1,383,515 | $ 1,310,406 | $ 1,104,767 | $ 1,347,592 | $ 1,824,169 | $ 1,369,805 | $ 1,247,892 | $ 1,269,071 | $ 1,451,037 | $ 2,919,399 | |
| Minimum Statutory Cash Balance for the Month | $ 2,068,140 | $ 1,294,235 | $ 885,181 | $ 1,526,880 | $ 1,401,140 | $ 1,545,196 | $ 1,662,519 | $ 1,780,499 | $ 1,380,273 | $ 1,347,362 | $ 1,440,021 | $ 1,394,519 | |

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# APPENDIX E

## Obligations of State Agencies

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of October 1, 2005, 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 $3,000,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the MHFA, which will be outstanding as of October 1, 2005:

**Minnesota Housing Finance Agency**
**Bonds Outstanding As Of: October 1, 2005**

| | Number of Series | Interest Rate | Maturity Due | Original Amount (in thousands) | Outstanding Amount 11/01/2004 (in thousands) |
|---|---|---|---|---|---|
| Rental Housing | 21 | 1.95% to 6.60% | 2006-2045 | $ 458,670 | $ 202,270 |
| Residential Housing Finance | 40 | 1.75% to 5.85% | 2006-2036 | 414,005 | 1,297,960 |
| Single Family Mortgage | 66 | 2.00% to 8.05% | 2006-2035 | 297,895 | 464,930 |
| | 127 | | | $3,170,570 | $1,965,160 |

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 October 1, 2005 will have $581,897,417. 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 Office of Higher Education (MOHE).* The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance 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 MOHE's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of October 1, 2005, MOHE will have $487,000,000 of bonds outstanding payable from the Student Educational Loan Fund II and III. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MOHE, and, if necessary, from proceeds of additional MOHE 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 October 1, 2005, 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 October 1, 2005, the MHEFA will have $681,308,643 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 October 1, 2005, the MSABC will have $5,410,000 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 October 1, 2005, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Finance is authorized to issue up to $141.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $125.6 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 October 1, 2005, 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 October 1, 2005, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $746,515,000, Drinking Water Revenue Bonds, $115,255,000, and Transportation Revenue Bonds, $27,450,000, for a total outstanding amount of $889,220,000. 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.

*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 October 1, 2005, MAEDB will have outstanding $22,850,000 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 $559,803,086 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 October 1, 2005 the IRRRA will have $14,255,000 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, $36,850,000 of the revenue bonds will remain outstanding as of October 1, 2005, of which $21,225,000 are payable primarily from lease payments of NAI, and $15,625,000 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. NAI filed for bankruptcy on September 14, 2005. All $36,850,000 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 October 1, 2005, there will be $27,150,000 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 2004 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 unit, 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.

The State has tentative voluntary agreements with three of the bargaining units including AFSCME, MAPE and MMA. Members of AFSCME and MAPE have ratified the agreements for the Current Biennium. The remaining agreements are currently being negotiated. Expired agreements remain in effect until subsequent agreements are reached.

## INFORMATION ON STATE BARGAINING UNITS

| UNIT<br>Union or Association | Employees as of<br>July 2005 |
|---|---|
| AFSCME (6 bargaining units) | 18,140 |
| MN Association of Professional Employees (MAPE) | 10,730 |
| Middle Management Association (MMA) | 2,700 |
| MN Government Engineers Council (MGEC) | 890 |
| MN Nurses Association (MNA) | 750 |
| MN Law Enforcement Association (MLEA) | 720 |
| State Residential Schools Education Association (SRSEA) | 170 |
| State College Faculty Association (MSCF) | 4,100 |
| State University Interfaculty Organization (IFO) | 2,940 |
| State University Admin and Service Faculty (MSUAF) | 580 |
| Total Represented Employees | 41,720 |
| Total State Employment | 47,540 |
| Percent of All Executive Branch Employees Unionized | 88% |

# 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.

Since 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 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 General Fund Appropriation | | |
|---|---|---|---|
| | **Previous Biennium** | **Current Biennium** | **Next Biennium** |
| | | **($ in thousands)** | |
| Constitutional Officers' Retirement | $ 766 | $ 796 | $ 860 |
| Legislators' Retirement Plan[1] | 1,350 | 1,585 | 1,664 |
| Minneapolis Employees Retirement Fund[2] | 13,725 | 16,130 | 16,130 |
| Basic Local Police & Fire Association[3] | 164,246 | 193,028 | 222,718 |
| Local Police or Fire Associations Amortization | 10,005 | 9,296 | 9,296 |
| Public Employees Retirement Association Aid | 29,169 | 29,168 | 29,168 |
| Minneapolis Teachers' Retirement Assoc.[4] | 31,590 | 31,600 | 31,600 |
| St. Paul Teachers' Retirement Association[4] | 5,929 | 5,934 | 5,934 |
| TOTAL | $256,780 | $287,637 | $317,370 |

(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) Effective July 1, 1998, the state contribution is provided on a formula basis and is capped at no more than $9 million per fiscal year. Any requirements beyond the capped aid are the exclusive obligation of the employer units.

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

(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.

**2005 Pension Legislation**

- Increased employer and employee contributions for Public Employees Retirement Association (PERA).
- Extended the amortization date for the unfunded liability for the Minneapolis Police Relief Association from 2010 to 2020.
- Provided that any unfunded liability for the Bloomington Fire Department Relief Association be amortized over 20 years.

## TABLE G-2

### Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, July 1, 2004[(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 Employee Fund | $ 7,884 | $ 7,878 | 100.08% | 48,899 | 49,179 |
| — Correctional Employee Fund | 487 | 524 | 92.83% | 3,326 | 2,205 |
| — State Patrol Employee Fund | 595 | 545 | 109.09% | 834 | 843 |
| — Judges Retirement Fund | 139 | 190 | 73.00% | 294 | 272 |
| — Legislators Retirement Fund[(2)] | 46 | 83 | 55.48% | 87 | 433 |
| — Constitutional Officers Fund[(2)] | .2 | 4 | 5.09% | 0 | 16 |
| Public Employees Retirement Association: | | | | | |
| — Public Employees Fund | 11,478 | 14,959 | 76.73% | 138,164 | 190,960 |
| — PERA Police & Fire Fund | 4,747 | 4,692 | 101.16% | 10,055 | 8,260 |
| — Local Correctional Service Fund | 76 | 86 | 88.59% | 3,251 | 1,808 |
| Teachers Retirement Association | 17,520 | 17,519 | 100.01% | 72,008 | 66,639 |
| 2. Other Funds to Which the State Contributes | | | | | |
| Mpls Employees Retirement Fund | 1,513 | 1,643 | 92.10% | 552 | 5,162 |
| Local Police & Fire Associations[(1)] | 637 | 853 | 74.75% | 224 | 1,749 |
| St. Paul Teachers' Retirement Fund | 899 | 1,251 | 71.82% | 4,568 | 5,286 |
| Minneapolis Teachers' Retirement Fund | 878 | 1,720 | 50.75% | 5,074 | 8,391 |
| Duluth Teachers' Retirement Fund | 277 | 302 | 91.79% | 1,178 | 2,099 |

(1) The information provided in this table reflects the condition of all funds as of June 30, 2004, except for five local police & fire relief association funds that report separately on December 31, 2003: Minneapolis Fire, Minneapolis Police, Fairmont Police, Bloomington Fire, 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.

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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 2004, 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 2030, compared to 0.9 percent nationally.

### 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 2004 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 2004 was highly concentrated in the fabricated metals, machinery, and computers and electronics categories. Of particular importance is the computers and electronics category in which 24.3 percent of the State's durable goods employment was concentrated in 2004, as compared to 14.9 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the 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 2004, 36.0 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 27.7 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 2004, 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 2000-2004 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.9 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 and recovery presents a mixed picture. For the 2000 to 2004 period, Minnesota non-farm employment declined 0.4 percent compared to 1.0 percent nationally. However since the fall of 2003, Minnesota seasonally adjusted non-farm employment has grown slightly more slowly than its national counterpart.

**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 2004, 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 2004. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and fourth during the period 2000 to 2004. Table 8 shows that Minnesota ranked fourth in personal income growth among neighboring states in 2003-2004. Over the period 1990 to 2000, Table 9 shows Minnesota non-farm employment grew 25.7 percent while the entire North Central Region grew 18.6 percent. During the 2000-2004 period, Minnesota non-farm employment declined 0.3 percent, while regional employment declined 2.9 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2003 and 2004, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 4.9 percent in 2003, as compared to the national average of 6.0 percent. In 2004, Minnesota's unemployment rate averaged 4.7 percent, as compared to the national average of 5.6 percent.

**TABLE 1**
**RESIDENT POPULATION**
**(Thousands of Persons)**

| Year | U.S. | Minnesota | % Change U.S. | % Change Minnesota |
|---|---|---|---|---|
| 1990 | 249,623 | 4,390 | 0.9 | 0.7 |
| 1991 | 252,981 | 4,441 | 1.3 | 1.2 |
| 1992 | 256,514 | 4,496 | 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 | 282,192 | 4,934 | 1.2 | 1.2 |
| 2001 | 285,102 | 4,986 | 1.0 | 1.1 |
| 2002 | 287,941 | 5,025 | 1.0 | 0.8 |
| 2003 | 290,789 | 5,064 | 1.0 | 0.8 |
| 2004 | 293,655 | 5,101 | 1.0 | 0.7 |

Source: Global Insight (USA), Inc., @ Markets Data Bank.

**TABLE 2**
**EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2004**
**(Thousands of Jobs)**

| Category | Minnesota | % of Total | U.S. | % of Total |
|---|---|---|---|---|
| Manufacturing Durables | 219.6 | 8.0 | 8,923 | 6.7 |
| Manufacturing Non-Durables | 123.0 | 4.5 | 5,406 | 4.0 |
| Natural Resources and Mining | 5.9 | 0.2 | 591 | 0.4 |
| Construction | 126.5 | 4.6 | 6,964 | 5.2 |
| Trade | 430.1 | 15.7 | 20,690 | 15.5 |
| Transportation, Warehousing, Public Utilities | 92.8 | 3.4 | 4,820 | 3.6 |
| Information | 60.2 | 2.2 | 3,138 | 2.3 |
| Financial Activities | 175.8 | 6.4 | 8,052 | 6.0 |
| Professional and Business Services | 301.8 | 11.0 | 16,414 | 12.3 |
| Education and Health Services | 376.9 | 13.8 | 16,954 | 12.7 |
| Leisure and Hospitality | 248.6 | 9.1 | 12,479 | 9.3 |
| Other Services | 118.4 | 4.3 | 5,431 | 4.1 |
| Government | 397.6 | 14.5 | 21,618 | 16.2 |
| Agriculture | 61.3 | 2.2 | 2,232 | 1.7 |
| Total | 2,738.5 | 100.0 | 133,712 | 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 2005. Minnesota Leisure and Hospitality data includes Indian gaming.

Minnesota employment data benchmarked to March 2004 levels.

Industry detail determined according to the North American Industry Classification System (NAICS).

U.S. employment data benchmarked to March 2004 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 2005.

Columns may not add due to rounding.

**TABLE 3**
**EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2004**
**(Thousands of Jobs)**

| Durable Goods | Minnesota | % of Total | U.S. | % of Total |
|---|---|---|---|---|
| Wood Products | 17.1 | 7.8 | 548 | 6.1 |
| Fabricated Metals | 41.2 | 18.8 | 1,498 | 16.8 |
| Machinery | 34.4 | 15.5 | 1,142 | 12.8 |
| Computers and Electronics | 53.4 | 24.3 | 1,326 | 14.9 |
| Electrical Equipment | 7.9 | 3.6 | 447 | 5.0 |
| Transportation Equipment | 14.8 | 6.7 | 1,764 | 19.8 |
| Furniture and Related | 12.6 | 5.7 | 573 | 6.4 |
| Miscellaneous Manufacturing | 20.7 | 9.4 | 656 | 7.4 |
| Other Durables | 17.5 | 8.0 | 971 | 10.9 |
| Total | 219.6 | 100.0 | 8,925 | 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 2004. U.S. data benchmarked to March 2004. 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 2004**
**(Thousands of Jobs)**

| Non-Durable Goods | Minnesota | % of Total | U.S. | % of Total |
|---|---|---|---|---|
| Food Manufacturing | 44.3 | 36.0 | 1,497 | 27.7 |
| Paper and Paper Products | 12.3 | 10.0 | 499 | 9.2 |
| Printing and Related | 30.5 | 24.8 | 665 | 12.3 |
| Plastic and Rubber Products | 16.4 | 13.3 | 807 | 14.9 |
| Other Non Durables | 19.5 | 15.9 | 1,938 | 35.8 |
| Total | 123.0 | 100.0 | 5,406 | 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 2004. U.S. data benchmarked to March 2004. 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 2004
## (Thousands of Jobs)

| | Minnesota | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | % Change | | | | | % Change | |
| Category | 1990 | 2000 | 2004 | 1990-2000 | 2000-2004 | 1990 | 2000 | 2004 | 1990-2000 | 2000-2004 |
| Manufacturing Durables | 217.2 | 255.5 | 219.6 | 17.6 | (14.1) | 10,736 | 10,876 | 8,923 | 1.3 | (18.0) |
| Manufacturing Non-Durables | 124.3 | 141.1 | 123.0 | 13.5 | (12.8) | 6,959 | 6,388 | 5,406 | (8.2) | (15.4) |
| Natural Resources and Mining | 8.4 | 8.1 | 5.9 | (3.6) | (27.2) | 765 | 599 | 591 | (21.7) | (1.3) |
| Construction | 77.9 | 118.9 | 126.5 | 52.6 | 6.4 | 5,263 | 6,787 | 6,964 | 29.0 | 2.6 |
| Trade | 362.1 | 436.2 | 430.1 | 20.5 | (1.4) | 18,451 | 21,213 | 20,690 | 15.0 | (2.5) |
| Transportation Warehousing and Utilities | 85.9 | 103.4 | 92.8 | 20.4 | (10.3) | 4,216 | 5,012 | 4,820 | 18.9 | (3.8) |
| Information | 54.4 | 69.3 | 60.2 | 27.4 | (13.1) | 2,688 | 3,631 | 3,138 | 35.1 | (13.6) |
| Financial Activities | 129.3 | 164.8 | 175.8 | 27.5 | 6.7 | 6,614 | 7,687 | 8,052 | 16.2 | 4.7 |
| Professional and Business Services | 214.5 | 319.3 | 301.8 | 48.9 | (5.5) | 10,848 | 16,666 | 16,414 | 53.6 | (1.5) |
| Education and Health Services | 241.8 | 325.0 | 376.9 | 34.4 | 16.0 | 10,984 | 15,108 | 16,954 | 37.6 | 12.2 |
| Leisure and Hospitality | 181.0 | 235.0 | 248.6 | 29.8 | 5.8 | 9,288 | 11,862 | 12,479 | 27.7 | 5.2 |
| Other Services | 92.2 | 114.7 | 118.4 | 24.4 | 3.2 | 4,261 | 5,168 | 5,431 | 21.3 | 5.1 |
| Government | 346.9 | 393.4 | 397.6 | 13.4 | 3.5 | 18,415 | 20,790 | 21,618 | 12.9 | 4.0 |
| Agriculture | 103.1 | 90.2 | 61.3 | (32.0) | (16.5) | 3,223 | 2,464 | 2,232 | (23.5) | (9.4) |
| Total | 2,239.0 | 2,774.9 | 2,738.5 | 23.9 | (0.1) | 112,711 | 135,093 | 133,712 | 19.9 | (1.0) |

Sources: Minnesota 1990, 2000 and 2004 — Minnesota Department of Employment and Economic Development, unpublished data.

U.S. 1990, 2000 and 2004, Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota employment data benchmarked to March 2004. Minnesota Leisure and Hospitality data includes Indian gaming. U.S. employment benchmarked to March 2004. 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 2005.

U.S. and Minnesota agricultural employment data for 2004 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 | 32,017 | 29,845 | 107.3 |
| 2001 | 32,609 | 30,575 | 106.7 |
| 2002 | 33,180 | 30,804 | 107.7 |
| 2003 | 34,031 | 31,472 | 108.1 |
| 2004 | 35,861 | 32,937 | 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 2000-2004

| State | 1990 Personal Income (Millions) | 2000 Personal Income (Millions) | 1990-2000 Annual Compound Rate of Increase (%) | Regional Rank 1990-2000 | 2004 Personal Income (Millions) | 2000-2004 Rate of Increase (%) | Regional Rank 2000-2004 | 2000 Population (Thousands) | 1990 Per Capita Personal Income ($) | 1990 Regional Rank | 2004 Population (Thousands) | 2004 Per Capita Personal Income ($) | 2004 Regional Rank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Illinois | 238,499 | 400,373 | 5.32 | 6 | 436,731 | 2.20 | 12 | 12,440 | 20,824 | 1 | 12,714 | 34,351 | 2 |
| Ohio | 203,630 | 320,538 | 4.64 | 12 | 358,920 | 2.87 | 10 | 11,364 | 18,743 | 4 | 11,459 | 31,322 | 7 |
| Michigan | 176,189 | 294,227 | 5.26 | 7 | 323,142 | 2.37 | 11 | 9,956 | 18,922 | 3 | 10,113 | 31,954 | 4 |
| Indiana | 97,213 | 165,285 | 5.45 | 4 | 187,714 | 3.23 | 8 | 6,092 | 17,491 | 9 | 6,238 | 30,094 | 12 |
| Wisconsin | 88,635 | 153,548 | 5.65 | 2 | 177,154 | 3.64 | 6 | 5,374 | 18,072 | 6 | 5,509 | 32,157 | 3 |
| Missouri | 90,407 | 152,722 | 5.38 | 5 | 176,137 | 3.63 | 7 | 5,606 | 17,627 | 8 | 5,755 | 30,608 | 10 |
| Minnesota | 87,318 | 157,964 | 6.11 | 1 | 182,924 | 3.74 | 4 | 4,934 | 19,891 | 2 | 5,101 | 35,861 | 1 |
| Iowa | 48,358 | 77,763 | 4.86 | 10 | 90,929 | 3.99 | 3 | 2,928 | 17,389 | 10 | 2,954 | 30,560 | 11 |
| Kansas | 44,876 | 74,570 | 5.21 | 9 | 84,282 | 3.11 | 9 | 2,693 | 18,085 | 5 | 2,736 | 30,811 | 9 |
| Nebraska | 28,444 | 47,329 | 5.22 | 8 | 54,756 | 3.71 | 5 | 1,713 | 17,983 | 7 | 1,747 | 31,339 | 6 |
| South Dakota | 11,273 | 19,438 | 5.60 | 3 | 23,787 | 5.18 | 2 | 756 | 16,172 | 11 | 771 | 30,856 | 8 |
| North Dakota | 10,166 | 16,097 | 4.70 | 11 | 19,918 | 5.47 | 1 | 641 | 15,943 | 12 | 634 | 31,398 | 5 |

Source: Global Insight (USA), Inc., @ Markets Data Bank.

## TABLE 8
## GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION[1]
## 2003-2004

| Rank | State | Percent Growth |
|---|---|---|
| 1 | North Dakota | 8.73 |
| 2 | Iowa | 8.29 |
| 3 | South Dakota | 7.77 |
| 4 | MINNESOTA | 6.14 |
| 5 | Wisconsin | 5.46 |
| 6 | Kansas | 5.07 |
| 7 | Indiana | 4.99 |
| 8 | Illinois | 4.74 |
| 9 | Missouri | 4.52 |
| 10 | Nebraska | 4.43 |
| 11 | Ohio | 4.15 |
| 12 | Michigan | 2.80 |
| | REGION | 4.74 |

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 | 2004 Employment | % Increase 1990-2000 | 2000-2004 |
|---|---|---|---|---|---|
| Illinois | 5,288.4 | 6,044.8 | 5,807.1 | 14.3 | (3.9) |
| Ohio | 4,882.3 | 5,624.7 | 5,407.0 | 15.2 | (3.9) |
| Michigan | 3,969.7 | 4,673.9 | 4,390.8 | 17.7 | (6.1) |
| Indiana | 2,521.9 | 3,000.1 | 2,929.9 | 19.0 | (2.3) |
| Wisconsin | 2,291.5 | 2,833.8 | 2,803.2 | 23.7 | (1.1) |
| Missouri | 2,345.0 | 2,748.7 | 2,692.9 | 17.2 | (2.0) |
| MINNESOTA | 2,135.9 | 2,684.9 | 2,677.4 | 25.7 | (0.3) |
| Iowa | 1,226.4 | 1,478.5 | 1,456.1 | 20.6 | (1.5) |
| Kansas | 1,088.5 | 1,344.9 | 1,323.2 | 23.6 | (1.6) |
| Nebraska | 730.1 | 914.0 | 922.9 | 25.2 | 1.0 |
| South Dakota | 288.7 | 377.7 | 382.9 | 30.8 | 1.4 |
| North Dakota | 265.8 | 327.7 | 337.2 | 23.2 | 2.9 |
| Region | 27,034.2 | 32,053.7 | 31,130.6 | 18.6 | (2.9) |

Source: Global Insight (USA), Inc., @ Markets Data Bank. Minnesota employment data from Minnesota Department of Employment and Economic Development, benchmarked to March 2004.

**TABLE 10**
**MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1998-2004 AND THE FIRST SEVEN MONTHS OF 2005 NOT SEASONALLY ADJUSTED**

| Year | Annual Average Minnesota | Annual Average U.S. |
|---|---|---|
| 1998 | 2.7% | 4.5% |
| 1999 | 2.8% | 4.2% |
| 2000 | 3.2% | 4.0% |
| 2001 | 3.9% | 4.7% |
| 2002 | 4.6% | 5.8% |
| 2003 | 4.9% | 6.0% |

| Month | Minnesota | U.S. |
|---|---|---|
| 2004 | | |
| January | 5.9% | 6.3% |
| February | 5.4% | 6.0% |
| March | 5.7% | 6.0% |
| April | 4.6% | 5.4% |
| May | 4.2% | 5.3% |
| June | 4.9% | 5.8% |
| July | 4.5% | 5.7% |
| August | 4.4% | 5.4% |
| September | 4.3% | 5.1% |
| October | 3.9% | 5.1% |
| November | 4.0% | 5.2% |
| December | 4.3% | 5.1% |
| Annual Average | 4.7% | 5.6% |

| Month | Minnesota | U.S. |
|---|---|---|
| 2005 | | |
| January | 5.2% | 5.7% |
| February | 4.7% | 5.8% |
| March | 5.0% | 5.4% |
| April | 4.1% | 4.9% |
| May | 3.8% | 4.9% |
| June | 3.9% | 5.2% |
| July | 3.4% | 5.2% |

Source: Minnesota Department of Employment and Economic Development.

**TABLE 11**
**MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500**

| Rank | | | Revenues | Assets | Profits | Industry | |
|---|---|---|---|---|---|---|---|
| **04** | **03** | **Company** | **$000** | **$000** | **$000** | **Category** | **Rank** |
| 27 | 23 | Target | 49,934,000 | 32,293,000 | 3,198,000 | General Merchandisers | 2 |
| 40 | 54 | UnitedHealth Group | 37,218,000 | 27,879,000 | 2,587,000 | Health Care: Insurance | 1 |
| 77 | 78 | Best Buy | 24,901,000 | 8,652,000 | 705,000 | Specialty Retailers | 4 |
| 85 | 227 | St. Paul Travelers Cos. | 22,934,000 | 111,815,000 | 955,000 | Insurance; P & C (stock) | 4 |
| 104 | 99 | Supervalu | 20,209,700 | 6,152,900 | 280,100 | Wholesalers: Food and Grocery | 2 |
| 105 | 105 | Minnesota Mining & Mfg. | 20,011,000 | 20,708,000 | 2,990,000 | Miscellaneous | 1 |
| 143 | 133 | U.S. Bancorp | 14,705,700 | 195,104,000 | 4,166,800 | Commercial Banks | 6 |
| 190 | 207 | Northwest Airlines | 11,279,000 | 14,042,000 | (862,000) | Airlines | 4 |
| 197 | 186 | General Mills | 11,070,000 | 18,448,000 | 1,055,000 | Consumer Food Products | 4 |
| 198 | 212 | Cenex Harvest States. | 11,050,600 | 4,031,300 | 221,300 | Wholesalers: Food and Grocery | 3 |
| 246 | 273 | Medtronic | 9,087,200 | 14,110,800 | 1,959,300 | Medical Products & Equipment | 2 |
| 256 | 254 | Xcel Energy | 8,506,700 | 20,304,800 | 356,000 | Utilities: Gas & Electric | 15 |
| 279 | 308 | Land O'Lakes | 7,742,200 | 3,199,800 | 21,400 | Consumer Food Products | 9 |
| 319 | 284 | Thrivent Financial for Lutherans | 6,445,200 | 53,541,300 | 353,600 | Insurance: Life, Health (mutual) | 6 |
| 402 | 411 | Hormel Foods | 4,779,900 | 2,534,000 | 231,700 | Consumer Food Products | 12 |
| 442 | 467 | C.H. Robinson Worldwide | 4,341,500 | 1,080,700 | 137,300 | Transportation and Logistics | 3 |
| 455 | 451 | Ecolab | 4,184,900 | 3,716,200 | 310,500 | Chemicals | 13 |
| 476 | 433 | Nash Finch | 3,897,100 | 815,600 | 14,900 | Wholesalers: Food and Grocery | 6 |

Source: *Fortune Magazine,* dated April 18, 2005.

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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 1, 2005 (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 2005 (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: $557,960,000 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 $557,960,000 General Obligation State Bonds dated October 1, 2005 (the "Bonds") consisting of $285,400,000 General Obligation State Various Purpose Bonds, $111,600,000 General Obligation State Trunk Highway Bonds and $160,960,000 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: October , 2005.