OFFICIAL STATEMENT DATED APRIL 17, 2007

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.

$264,050,000
STATE OF MINNESOTA

General Obligation
State Refunding Bonds

Dated: April 25, 2007 **Due: August 1, as shown below**

Year	Amount	Interest Rate	Price or Yield	CUSIP 604129	Year	Amount	Interest Rate	Price or Yield	CUSIP 604129
2008	$15,700,000	5.00%	3.58%	DX1	2014	$27,020,000	5.00%	3.73%	ED4
2009	20,845,000	5.00	3.60	DY9	2015	27,020,000	5.00	3.77	EE2
2010	28,065,000	5.00	3.61	DZ6	2016	27,045,000	5.00	3.84	EF9
2011	28,100,000	5.00	3.63	EA0	2017	27,050,000	5.00	3.88	EG7
2012	27,195,000	5.00	3.65	EB8	2018	8,945,000	5.00	3.94	EH5
2013	27,065,000	5.00	3.69	EC6					

(Plus accrued interest from Date of Issue)

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 will not be subject to redemption and prepayment in advance of their stated maturity dates.

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 Wednesday, April 25, 2007.

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	Mark Ritchie
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF FINANCE

Tom J. Hanson

TABLE OF CONTENTS

OFFICIAL STATEMENT

STATE OF MINNESOTA

$264,050,000

General Obligation State Refunding Bonds

Dated April 25, 2007

INTRODUCTION

General

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 14 through 55, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $264,050,000 General Obligation State Refunding Bonds of the State of Minnesota (the "State") to be dated April 25, 2007 (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."

The Bonds are being issued for the purpose of refunding $101,470,000 in principal amount of outstanding general obligation bonds of the State dated August 1, 1997, and $81,900,000 in principal amount of outstanding general obligation bonds of the State dated June 1, 1998, and $90,400,000 in principal amount of outstanding general obligation bonds of the State dated November 1,1998 (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 date and in the principal amount and bear interest at the annual rate shown on the cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months, and is payable semiannually on each February 1 and August 1 to maturity or prior redemption, commencing February 1, 2008. 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 will not be subject to redemption prior to their stated maturity dates.

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 $264,050,000 General Obligation State Refunding Bonds. The maturity schedule is shown below. The Bonds are scheduled to mature on August 1 of each year.

$264,050,000 General Obligation State Refunding Bonds

Year	Principal Amount	Year	Principal Amount
2008	$15,700,000	2014	$27,020,000
2009	20,845,000	2015	27,020,000
2010	28,065,000	2016	27,045,000
2011	28,100,000	2017	27,050,000
2012	27,195,000	2018	8,945,000
2013	27,065,000		

Sources and Uses of Funds

Sources:		
Bond Proceeds:		
Par Amount of Bonds	264,050,000	
Premium on Bonds (Est.)	17,396,712	
Total Bond Proceeds		281,446,712
Other Sources:		
Previous Debt Service Balance		17,838,693
Total Sources		299,285,405
Uses:		
Refunding Escrow		
Cash Deposit	2,260,064	
SLG Purchases	279,438,012	
Total Refunding Escrow		281,698,076
Delivery Date Expenses		
Cost of Issuance		190,000
Debt Service Fund Deposit		
Premium on Bonds	17,396,712	
Rounding	617	
Total Debt Service Fund Deposit		17,397,329
Total Uses		299,285,405

Legal Opinions

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

Forecast 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 15.

CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2007 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2005	$ 1,393
Non-dedicated Revenues	31,272
Dedicated Revenues, Transfers In and Other Resources	939
Total Resources	$33,604
Expenditures	31,478
Projected Unreserved Balance at June 30, 2007	$ 2,126
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	110
Projected Unrestricted Balance at June 30, 2007	$ 1,013

Economic Update

The April 2007 Economic Update shows General Fund tax receipts for Fiscal Year 2007 are now estimated to be $5.8 million above the February 2007 forecast.

Corporate income tax receipts showed the largest variance with $29.9 million above the February 2007 forecast. Individual income tax receipts were estimated to be $9.7 million above forecast. Gross sales tax receipts were also above forecast, but larger than expected sales tax refunds left net sales tax receipts $18.4 million lower than the forecast. All other tax receipts were $15.4 million below forecast.

Bonds Outstanding

The total amount of State general obligation bonds outstanding on April 1, 2007, including this issue will be approximately $4.0 billion. The total amount of general obligation bonds authorized but unissued as of April 1, 2007, will be approximately $1.3 billion. See Appendix B, pages B-1 and B-2.

Cash Flow Information

The Commissioner of Finance anticipates that the Statutory General Fund will have a positive cash balance throughout 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) 201-8014, 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) 201-8046, email sue.gurrola@state.mn.us. Questions regarding legal matters should be directed to Leonard S. Rice, Dorsey & Whitney LLP, 50 South Sixth Street, Suite 1500, Minneapolis, Minnesota 55402, telephone (612) 343-7971, email rice.len@dorsey.com.

THE BONDS

Authorization and Purpose

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. The issuance of such Bonds was approved by resolution of the State Executive Council on March 20, 2007.

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, and to refund outstanding bonds of the State. 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.

Security(1)

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

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (as defined on page 15) 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

(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).

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.)

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 of the Bonds in the aggregate principal amount of such 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 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), 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 and www.dtc.org.

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

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

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

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

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

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

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

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

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

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

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

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

REDEMPTION AND PREPAYMENT

The Bonds will not be subject to redemption and prepayment in advance of their stated maturity dates.

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

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes, if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. 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. In January 2006, the Kentucky Court of Appeals held, in *Davis v. Department of Revenue*, that the state's exemption of interest on its own bonds and those of its political subdivisions and its taxation of interest on the bonds of other states and their political subdivisions unlawfully discriminates against interstate commerce. The Kentucky Supreme Court declined to review this decision. Kentucky officials have filed a petition seeking United States Supreme Court review of the *Davis* decision. In 1994, the Ohio Court of Appeals had reached the opposite conclusion on this legal issue, upholding a similar Ohio statute, in *Shaper v. Tracy*.

If the United States Supreme Court were to review and affirm the *Davis* decision, it is likely that Minnesota's tax treatment of state and local government bonds would also be held to be unconstitutional. A challenge of Minnesota's treatment of state and local government bonds is possible even in the absence of a decision by the United States Supreme Court. If Minnesota's treatment of state and local government bonds were held to unlawfully discriminate against interstate commerce, the court would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those and other years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Bonds to become taxable by Minnesota and the market value of the Bonds to decline.

Premium Bonds

The Bonds (the "Premium Bonds") are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire 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, Inc., of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the refunding portion of the Bonds. The Financial Advisor is not a public accounting firm and has not been engaged by the State to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement Supplement, which comprises pages 14 through 55 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, 2006, 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 year ending June 30, 2006 is $761,000 and for the fiscal year ending June 30, 2007 is also $761,000.

2. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al. (Minnesota Supreme Court).* The U.S. Supreme Court denied plaintiff's petition for a writ of certiorari.

3. *Medical Assistance Supplemental Payments to Government Owned Facilities.* The petition for review was granted and this matter has been fully briefed for the court, and the parties are awaiting assignment of an oral argument date. On December 16, 2006, CMS notified DHS that it was disallowing over $9.5 million in federal funding representing the federal share of supplemental payments made to county-owned nursing homes in May 2006. DHS is administratively appealing this disallowance.

4. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* and related case *Liggett Group v. State.* The U.S. Supreme Court denied plaintiff's petition for a writ of certiorari.

5. *Stewart Title Guaranty Company v. Commissioner of Revenue* (Minnesota Tax Court). The trial of this matter has been rescheduled for August 2007.

6. *Merrill Lynch Fenner & Smith, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). The trial of this matter has been scheduled for June 2008.

7. *Great Lakes Gas Transmission LP v. Commissioner of Revenue, Northern Border Pipeline Co. v. Commissioner of Revenue, Viking Gas Transmission Co. v. Commissioner of Revenue* (Ramsey County District Court). Plaintiff pipeline companies transport natural gas under applicable FERC tariffs and use a portion of the shipped gas to run their compressor engines. Pursuant to provisions contained in Minn. Stat. § 297A.63, subd. 1, Minnesota imposes a use tax upon "the privilege of using, storing, distributing, or consuming in Minnesota tangible personal property purchased for use, storage, distribution, or consumption in this state." Plaintiffs allege that that under FERC tariffs they do not "purchase" the gas they use, and are challenging the State's imposition of a use tax upon compressor gas on the grounds that such taxation violates Minn. Stat. § 297A.63, subd. 1 along with the Supremacy, Commerce and Equal Protection Clauses of the United States Constitution. The Department of Revenue estimates the value of these issues at approximately $20 million annually. This case has not yet been set for trial.

CONTINUING DISCLOSURE

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

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Bonds at public sale to Citigroup Global Markets Inc. as Underwriters, for a price of $281,446,712.15 and accrued interest, if any, 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.

Tom J. Hanson
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, 2006 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, independent auditor for 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.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2006 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2007 will be available by December 31, 2007. Revenues and expenditures on a budgetary basis for the eight-month period ending March 31, 2007 and comparative data for the same period ending March 31, 2006 are summarized on pages 19 and 20.

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 session 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 2005. 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 17 to 39 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 to restore any monies used from the Budget Reserve Account remain unchanged.

Tax Relief Account

The tax relief account (the "Tax Relief Account") was established in the General Fund and is treated as a General Fund reserve. The use of the funds from the Tax Relief Account requires legislative action.

The 2006 Legislature reduced the Tax Relief Account balance from $317 million to $110 million for the Current Biennium. Any year-end balance in odd-numbered fiscal years is deposited to the account.

Control Procedures

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

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

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

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

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

REVENUE AND EXPENDITURE FORECASTING

General

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

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

The baseline economic forecast which the State Economist uses in preparing the State revenue and expenditure forecast is provided by 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 (the "Council"), 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 realization by Minnesota resident taxpayers are estimated to have totaled $6.5 billion in tax year 2004, 5.2 percent of residents' adjusted gross income. In tax year 2005 net capital gains realizations by Minnesota residents were estimated to total $8.7 billion or 6.5 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 rate of realizations instead of adjusting instantaneously to a shock in model variables. Capital gains are now forecast to grow at an average compound annual rate of 6.9 percent.

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 2007 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 2007 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 2.8 percent over the 2005 to 2009 period. Forecast growth rates for 2005 through 2009 are slightly above the potential rate of growth. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

GII FEBRUARY 2007
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2005 Actual %	Calendar Year 2006 Actual %	Calendar Year 2007 Forecast %	Calendar Year 2008 Forecast %	Calendar Year 2009 Forecast %
REAL GDP Growth Rate	3.2	3.4	2.7	3.0	3.2
GDP DEFLATOR (Inflation)	3.0	2.9	2.1	2.0	2.0
NOMINAL GDP Growth Rate	6.3	6.4	4.9	5.0	5.2

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2007 revenue and expenditure forecast is expected to be released in late November 2007. The November 2007 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

Economic Update

The April 2007 Economic Update shows General Fund tax receipts for Fiscal Year 2007 are now estimated to be $5.8 million above the February 2007 Forecast.

Corporate income tax receipts showed the largest variance with $29.9 million above the February 2007 forecast. Individual income tax receipts were estimated to be $9.7 million above forecast. Gross sales tax receipts were also above forecast, but larger than expected sales tax refunds left net sales tax receipts $18.4 million lower than the forecast. All other tax receipts were $15.4 million below 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, 2004 through 2006, and for the additional time periods shown. For the Fiscal Years ended June 30, 2004 through 2006 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 nine-month periods ending March 31, 2006 and March 31, 2007, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2006 and 2007, 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 1,2005 through March 31 2006 (1)	July 1,2006 through March 31 2007 (1)
	2004	2005	2006		
UNRESTRICTED REVENUES:					
Income Tax - Individual..................................	$ 6,799,651	$ 7,436,665	$ 8,066,172	$ 5,218,703	$ 5,466,010
Income Tax - Corporation..................................	764,351	779,422	1,288,941	925,141	1,072,175
Sales Tax	4,160,206	4,520,823	4,689,500	3,308,908	3,394,147
Statewide Property Tax	599,622	610,809	631,279	283,602	299,731
Inheritance and Gift Tax..................................	91,326	80,372	210,291	187,800	90,176
Liquor, Wine and Malt Beverage Tax..................	66,667	75,025	67,939	48,207	48,141
Cigarette and Tobacco Tax	159,558	169,067	222,507	139,452	121,942
Mining Taxes..	2,040	5,660	6,630	223	370
Gross Earnings Taxes..................................	274,218	287,416	259,299	219,116	205,416
Motor Vehicle Excise Tax..................................	315,836	300,065	251,605	203,896	198,397
Income Reciprocity Tax..................................	47,623	54,289	53,768	56,802	63,481
Department Earnings..................................	482,738	516,297	535,909	443,659	400,706
Investment Income..................................	17,022	21,936	55,867	34,618	68,812
Tobacco Settlement..................................	174,266	175,488	180,790	179,060	180,605
All Other Revenues..................................	759,894	731,767	663,689	466,897	413,136
TOTAL UNRESTRICTED REVENUES...........	$ 14,715,019	$ 15,765,101	$ 17,184,185	$ 11,716,084	$ 12,023,245
RESTRICTED REVENUES..................................	74,899	86,146	77,294	55,530	53,784
LESS REVENUE REFUNDS:					
Income Tax - Individual	$ 962,861	$ 902,243	$ 997,460	$ 691,588	$ 708,468
Income Tax - Corporation..................................	115,514	68,288	99,026	81,216	104,584
Sales Tax..	202,211	240,654	217,507	150,937	208,847
All Other..	34,193	36,323	44,261	25,721	26,792
TOTAL REFUNDS..................................	$ 1,314,778	$ 1,247,508	$ 1,358,255	$ 949,462	$ 1,048,692
NET REVENUES..................................	$ 13,475,141	$ 14,603,739	$ 15,903,224	$ 10,822,153	$ 11,028,337

(1) For Fiscal Years 2004, 2005 and 2006, the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the nine-month periods ended March 31, 2006 and 2007, only current receipts have been included.

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 1,2005 through March 31 2006 (1)	July 1,2006 through March 31 2007 (1)
	2004 (2)	2005 (2)	2006		
EXPENDITURES:					
Personal Services	$ 1,070,557	$ 1,069,652	$ 1,110,675	$ 757,538	$ 805,480
Purchased Services	299,999	347,287	345,879	226,029	274,444
Materials and Supplies	49,750	59,906	56,270	35,509	38,598
Capital Outlay (3)	6,758	6,388	192,094	11,933	20,039
Grants and Subsidies:					
Individuals	3,429,391	3,759,643	4,018,406	2,923,649	3,208,624
Municipalities and Towns	735,927	706,557	713,640	644,679	692,879
Counties	803,163	687,776	769,145	647,982	661,216
School Districts (4)	5,892,313	6,038,169	6,545,175	5,320,035	4,821,559
Private Organizations	169,717	168,858	176,014	120,272	121,061
University of Minnesota	487,731	502,142	540,414	299,550	263,562
Other	147,685	142,698	182,897	134,998	140,478
TOTAL EXPENDITURES	$ 13,092,992	$ 13,489,076	$ 14,650,609	$ 11,122,173	$ 11,047,940
NET OTHER FINANCING SOURCES (USES) (5)	(221,992)	693,739	506,773	510,374	597,475
TOTAL EXPENDITURES and NET OTHER FINANCING SOURCES (USES)	$ 12,871,000	$ 14,182,815	$ 15,157,382	$ 11,632,547	$ 11,645,415

(1) For Fiscal Years 2004, 2005 and 2006, the schedule of expenditures includes all expenditures for the Fiscal Year, and encumbrances outstanding as of June 30. For the nine-month periods ended March 31, 2006 and 2007 only current year expenditures have been included.

(2) For Fiscal Years 2005 and 2004, the expenditures were restated to remove the impact of the change in the payments to School Districts on the allocation of expenditures.

(3) Capital Outlay increased in Fiscal Year 2006 from 2005 due to the capital leases on the Human Services and Agriculture/Health buildings.

(4) Grants to School Districts increased in Fiscal Year 2006 from 2005 due to a 4% increase in the per pupil general education formula and one-time reversal of a prior year reduction in aid payments.

(5) Transfer-In exceeded Transfer-Out in Fiscal Year 2004 due to a one-time transfer to the General fund to eliminate the Medical Education and Research and Tobacoco Use Prevention Funds.

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
Cash Flow Account	350
Budget Reserve Account	653
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 2005 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 be 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
Cash Flow Account	350
Budget Reserve Account	653
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
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Acount	0
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 general assistance medical care ("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 is being 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 were expected to yield $401 million over the biennium. The new fees are being 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. See also Litigation section on page 13 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

The following table compares estimates of the Previous Biennium and Current Biennium revenues and shows the rate of revenue growth/decline. Estimates as of End of 2006 Legislative Session.

	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 was estimated at $30.574 billion. Compared to Previous Biennium expenditures, this represented a biennial expenditure growth of $2.379 billion, or 8.4 percent.

Compared to the February 2005 forecast of General Fund spending, authorized spending was $397 million more than forecast. Of this amount a $565 million increase in K-12 education spending was 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. Estimates as of End of 2006 Legislative Session.

	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 increased 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 was authorized — 25 percent of the total budget. This was a $598 million or 13.8 percent increase over the Previous Biennium. It was 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 represented an 8.6 percent increase from the Previous Biennium and an $8.2 million increase from the February 2005 forecast. The enacted budget conformed closely to that proposed by the Governor.

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

Public safety spending, representing nearly 6 percent of the budget, was 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 was provided for additional enforcement, supervision, sentencing changes, and treatment for sex and methamphetamine offenders.

Debt service costs were 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 accounted for $1.521 billion, or 5 percent of the approved budget. This funding level represented 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 was $792 million.

Next Biennium:

The planning estimates for the Next Biennium, based on the enacted budget, indicated 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 was before giving effect to a proposed constitutional amendment that was approved in the November 2006 election. This constitutional amendment will phase in dedication of the remaining 46 percent portion of motor vehicle sales taxes currently deposited in the General Fund to state transportation funds. This provision will reduce General Fund revenues for the Next Biennium by $172 million.

November 2005 Forecast

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

CURRENT BIENNIUM
GENERAL FUND
NOVEMBER 2005 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2005	$ 1,393
Non-dedicated Revenues	30,344
Dedicated Revenues, Transfers In and Other	936
Total Resources	$32,673
Expenditures	31,353
Projected Unreserved Balance at June 30, 2007	$ 1,320
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	317
Projected Unrestricted Balance at June 30, 2007	$ 0

The table reflects forecast changes in revenues and expenditures for the Current Biennium after the budget was adopted, as well as the automatic distribution of the forecast balance. See also Litigation section on page 13 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

Change in Beginning Balance:

Final revenue and expenditure data for the Previous Biennium produced an Unreserved General Fund Balance at June 30, 2005 of $1.393 billion, $337 million above prior estimates. General Fund resources totaled $29.153 billion, $323 million more than the February 2005 forecast.

Actual spending totaled $28.128 billion, $67 million below estimates at the end of the 2005 legislative sessions. While actual spending was lower, $53 million of unspent funds were authorized to carry forward to the Current Biennium, leaving a net expenditure reduction of $14 million.

These revenue and expenditure changes combined to yield an actual Unrestricted General Fund balance at June 30, 2005 of $337 million. Based on current law, the entire $337 million balance at the end of the Previous Biennium was deposited into the Tax Relief Account in the General Fund. Monies in the Tax Relief Account are reduced from $337 million in Fiscal Year 2005 to $317 million in Fiscal Year 2006. This decrease occurs from a $20 million transfer made in the 2005 legislative session as part of local aid funding for Fiscal Year 2006 that anticipated higher year-end revenues for the Previous Biennium. The Tax Relief Account is treated as a General Fund reserve and cannot be accessed without legislative action.

Forecast Resources:

The forecast of resources for the Current Biennium increased $694 million from end of 2005 sessions estimates. Forecast non-dedicated revenues are expected to total $30.344 billion for the Current Biennium, $661 million more than previously forecast. Dedicated revenues, transfers and other resources increased $33 million to $936 million. Income tax collections are forecast to be $188 million (1.4 percent) higher, sales tax collections $173 million (1.9 percent) higher, and corporate tax receipts $165 million (10.9 percent) higher than previously forecast. Motor vehicle sales taxes were forecast to be $8 million (1.5 percent) lower. All other General Fund revenues and transfers increased $176 million (2.9 percent) above end-of-session estimates.

The forecast included recognition of a Minnesota Supreme Court final ruling in the Hutchinson Technology case that allows some corporate taxpayers increased use of foreign operating corporation designations and Minnesota foreign royalty and fee subtractions. This ruling had the effect of reducing forecast corporate revenues $232 million in the Current Biennium and $150 million in the Next Biennium.

Forecast Spending:

Projected current law spending for the Current Biennium was largely unchanged from end-of-session estimates. Total expenditures, before giving effect to statutory provisions allocating forecast balances, is projected to be $30.652 billion, $78 million (0.3 percent) above prior estimates. Slightly higher spending in K-12 Education of $17 million and higher tax aid credit payments of $55 million were largely offset by other forecast changes. Savings in health and human services spending and debt service accounted for almost all of the forecast reductions.

Revenue and expenditure changes combined to yield a forecast General Fund balance of $701 million for the Current Biennium. Under current law, the entire balance was automatically allocated to reversing school aid accounting shifts enacted in 2002 and 2003 legislative sessions. The $701 million forecast balance was allocated as follows:

> $370 million to completely buy back the remaining portion of the school aid payment shift, returning school aids to a 90-10 payment schedule.
>
> $331 million for a partial buyback of the school property tax recognition shift, reducing the percentage from 48.6 to 10.8 percent.

The majority of monies allocated for this purpose will be paid to school districts in Fiscal Year 2006. Buying back the remaining portion of the property tax recognition shift would require an additional $94 million.

Reserves:

The Cash Flow Account remains unchanged at $350 million. The Budget Reserve Account is also unchanged at $653 million. Monies in the Tax Relief Account are reduced from $337 million in Fiscal Year 2005 to $317 million in Fiscal Year 2006. This decrease occurs from a $20 million transfer made in the 2005 legislative session as part of local aid funding for Fiscal Year 2006 that anticipated higher year-end revenues for the Previous Biennium.

February 2006 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2006. The February 2006 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2006 FORECAST
($ in Millions)

Resources	
Unreserved Balance at June 30, 2005	$ 1,393
Non-dedicated Revenues	30,451
Dedicated Revenues, Transfers In and Other	953
Total Resources	$32,797
Expenditures	31,389
Projected Unreserved Balance at June 30, 2007	$ 1,408
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	317
Projected Unrestricted Balance at June 30, 2007	$ 88

Forecast revenues were expected to total $32.797 billion for the Current Biennium, $124 million more than forecast in November. Changes in the five major revenues were generally small and offsetting. The net change was $14 million. Income tax collections were forecast to be $129 million lower, sales tax collections $2 million lower, and motor vehicle sales tax collections $20 million lower. Corporate tax receipts were $161 million higher than forecast in November, and the statewide property tax receipts were $4 million higher. The forecast for all other resources grew by $110 million. The largest changes in all other resources came in higher forecasts of receipts from mortgage taxes, the estate tax, investment income, fees, tobacco settlement payments, and all other non-dedicated revenues.

Projected current law spending for the Current Biennium was mainly unchanged from the November forecast. Total spending, before giving effect to statutory provisions allocating forecast balances, was projected to be $31.296 billion, $57 million less than projected in November. Lower K-12 education spending contributed $12 million of the savings, a reduction in health and human services estimates provided $19 million, while a $19 million reduction in debt service estimates and a $10 million reduction in projected tax aid and credit spending contributed the balance of the savings.

After allocating $93 million to complete the school shift buyback according to statutory provisions, revised spending totaled $31.389 billion, $36 million above November's forecast.

The Cash Flow Account remained at $350 million, the Budget Reserve Account at $653 million, and the Tax Relief Account at $317 million. There was a positive Unrestricted Balance of $88 million.

March 2006 Governor's Supplemental Budget Recommendations

In March 2006 the Governor submitted a proposed supplemental budget to the Legislature for the Current Biennium, which was based on the February 2006 forecast of General Fund revenues and expenditures that indicated available General Fund balances totaling $405 million by June 30, 2007. The $405 million consists of an Unrestricted General Fund balance of $88 million and the Tax Relief Account balance of $317 million.

The March 2006 Governor's recommendation is detailed below:

CURRENT BIENNIUM
GENERAL FUND
MARCH 2006 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2005	$ 1,393
Non-dedicated Revenues	30,410
Dedicated Revenues, Transfers In and Other	954
Total Resources	32,757
Expenditures	31,595
Projected Unreserved Balance at June 30, 2007	1,162
Cash Flow Account	350
Budget Reserve Account	812
Tax Relief Account	0
Projected Unrestricted Balance at June 30, 2007	$ 0

The Governor proposed General Fund budget changes that totaled $249 million, about 0.1 percent of total projected spending for the Current Biennium. The components of the Governor's plan included reducing State taxes $49 million while raising non-tax revenues $8 million. Tax changes were limited. The largest item provided $43.5 million to eliminate the marriage penalty for income tax filers, conforming to recent federal changes.

Proposed spending included $102 million in projected deficiency appropriations for the Current Biennium and $106 million in other spending. Nearly one-half of proposed spending related to budget adjustments required to cover operating shortfalls experienced in several areas. Primary among these were $64 million for Department of Human Services forensics reflecting a continuing growth of sex offender caseloads. Other recommendations included $17 million to cover Department of Human Services State operated services deficiencies, $13 million for Department of Corrections salary contracts and bed impacts, as well as a $6 million deficiency appropriation for Veterans Homes. Other recommendations provided for limited spending for new initiatives and the debt service cost of the Governor's 2006 capital budget.

The Governor's plan recommended directing the remaining $159 million of the available Unrestricted Balance to the Budget Reserve Account, increasing it from $653 million to $812 million. In part, the Governor's recommendation recognized the potential General Fund revenue loss from *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al* for which an adverse district court ruling was under appeal to the State Supreme Court. The Governor's March 2006 Recommendations included a potential revenue loss to the State from an adverse decision of $368 million for the Current Biennium. See Litigation section on page 11 and Note 22 to the financial statements shown in Appendix A, both in this Official Statement.

2006 Legislative Session

During the 2006 legislative session, the Legislature enacted revenue measures and appropriations utilizing projected balances in the General Fund budget for the Current Biennium. Prior to the end of the legislative session, the Minnesota Supreme Court issued a decision in favor of the State in *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al*. This ruling removed uncertainties surrounding a potential loss of revenues from the Health Impact fee during the Current Biennium. See Litigation section on page 11 and Note 22 to the financial statements shown in Appendix A, both in this Official Statement.

After giving effect to enacted legislative changes, General Fund total resources are now forecast to be $32.725 billion. Current Biennium revenues, excluding the balance brought forward from the Previous Biennium, are expected to be $31.332 billion (7.5 percent) greater than in the Previous Biennium. General Fund expenditures are forecast to be $31.612 billion, $3.484 billion (12.4 percent) greater than the Previous Biennium. Budgeted revenues and expenditures are expected to leave a projected Unreserved General Fund balance of $1.113 billion, including a Cash Flow Account of $350 million, a Budget Reserve Account of $653 million, and a Tax Relief Account of $110 million, resulting in a projected Unrestricted General Fund balance on June 30, 2007 of zero.

The end of 2006 legislative session estimates of resources, expenditures, and fund balances is detailed below.

CURRENT BIENNIUM
GENERAL FUND
END OF 2006 LEGISLATIVE SESSION
($ in Millions)

Resources	
Unreserved Balance at June 30, 2005	$ 1,393
Non-dedicated Revenues	30,374
Dedicated Revenues, Transfers In and Other	958
Total Resources	$32,725
Expenditures	31,612
Projected Unreserved Balance at June 30, 2007	$ 1,113
Cash Flow Account	350
Budget Reserve Account	653
Tax Relief Account	110
Projected Unrestricted Balance at June 30, 2007	$ 0

Resources:

The 2006 legislative session produced minor tax law changes expected to reduce General Fund revenues $92 million during the Current Biennium, while non-tax revenues were increased $19 million. The standard deduction for married couples was changed to conform to federal tax law changes in 2004, reducing expected revenues $28.7 million, while conforming to 2005 federal tax law changes is expected to reduce revenue $7 million. Other actions provided alternative minimum tax relief, a dairy investment tax credit, a citizenship tax credit, and tax exemptions for active duty military personnel. These were expected to yield a net $42 million reduction in revenue for the Current Biennium. The June sales tax acceleration changed, reducing the percentage retailers prepay from 85 to 78 percent, and reducing expected revenues $22.6 million for the Current Biennium.

Expenditures:

Authorized spending for the Current Biennium increased by $223 million, to $31.612 billion. The Legislature approved $100 million in deficiency appropriations recommended by the Governor in the Departments of Human Services and Corrections and the Veterans Homes Board to remedy operating budget shortfalls projected in those areas. This action addressed the continuing growth of sex offender caseloads, salary funding shortfalls in the corrections system, and operating budget shortfalls in the State's veterans' homes and related care programs. Other increases in spending were targeted to a limited number of specific initiatives including: $30 million for economic development programs; $15 million for cleaning up Minnesota surface waters programs; $5 million for preparing a public health response to bird flu; supplemental funding for early childhood and family education programs; expanded support programs for military personnel and veterans programs; and funding to improve State information technology security.

Other Actions

The Legislature approved partial State financing of a campus football stadium for the University of Minnesota. The State will make twenty-five annual General Fund payments of up to $10.3 million beginning in the Next Biennium to help cover the University's debt service cost for a stadium to cost $248 million.

The Legislature authorized Hennepin County to levy a county wide sales tax, the proceeds of which will be used to partially finance a publicly owned baseball stadium. The project will be financed by payments from the Minnesota Twins organization ($130 million) and Hennepin County revenues ($392 million) generated by a new 0.15 percent local, countywide sales tax.

Reserves:

No changes were made to the State's $653 million Budget Reserve Account or the $350 million Cash Flow Account. A total of $207 million in the Tax Relief Account was used for tax relief and spending in the Current Biennium, leaving $110 million in the Tax Relief Account for the Current Biennium. However, under current law the remaining balance will be released to the General Fund at the beginning of the Next Biennium. This action by the Legislature was related to funding the out-year costs of tax changes, enacted in the 2006 legislative session.

Next Biennium:

Planning estimates for the Next Biennium, based on the February 2006 forecast adjusted for legislative action, indicated that there would be a structural balance of $628 million, meaning that projected total revenues, excluding any balances carried forward, would exceed total expenditures based on current law.

The structural balance was before giving effect to a proposed constitutional amendment that was approved in November 2006. The amendment will phase in dedication of the remaining 46 percent of motor vehicle sales taxes currently deposited in the General Fund for transportation purposes. This provision will reduce General Fund revenue for the Next Biennium by $172 million.

While wage and price inflation is included in revenue planning estimates for the Next Biennium, State law prohibits including a general inflation adjustment for projected expenditures. A general inflation adjustment of 1.9 percent for Fiscal Year 2008 and 2.0 percent for Fiscal Year 2009, applied to total projected total spending, would add $954 million to expenditures for the Next Biennium.

November 2006 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of November 2006. The November 2006 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
NOVEMBER 2006 FORECAST
($ in Millions)

Resources		
Unreserved Balance at June 30, 2005		$ 1,393
Non-dedicated Revenues	31,305	
Dedicated Revenues, Transfers In and Other	940	
Total Revenues and Transfers		32,245
Total Resources		$33,638
Expenditures		31,487
Projected Unreserved Balance at June 30, 2007		$ 2,151
Cash Flow Account	350	
Budget Reserve Account	653	
Tax Relief Account	110	
Total for Statutory Mandated Accounts		1,113
Projected Unrestricted Balance at June 30, 2007		$ 1,038

CURRENT BIENNIUM
NOVEMBER 2006 FORECAST
CHANGES FROM END OF 2006 LEGISLATIVE SESSION
($ in Millions)

	End of Session	Nov 2006 Forecast	Change
Balance Forward From Prior Year	$ 1,393	$ 1,393	$ 0
Current Resources:			
Income tax receipts	13,553	14,056	503
Corporate tax receipts	1,839	2,169	330
Sales tax receipts	9,092	9,000	(92)
Motor vehicle sales tax receipts	504	487	(17)
Statewide property tax receipts	1,294	1,295	1
Other taxes	2,521	2,598	77
Miscellaneous non-tax revenues, transfers	2,529	2,640	111
Total Current Resources	31,332	32,245	913
Total Resources	32,725	33,638	913
Expenditures:			
K-12 Education	13,388	13,369	(19)
Higher Education	2,766	2,763	(3)
Property Tax Aids & Credits	3,034	3,025	(9)
Health & Human Services	8,316	8,256	(60)
Public Safety	1,710	1,710	0
All Other spending	2,398	2,364	(34)
Total Spending	31,612	31,487	(125)
Cash Flow Account	350	350	0
Budget Reserve	653	653	0
Tax Relief Account	110	110	0
Projected balance at June 30, 2007	$ 0	$ 1,038	$1,038

Forecast revenues for the Current Biennium were more than forecast at the end of the 2006 legislative session. Final income tax liability for tax year 2005 was increased reflecting higher final payments and lower than projected refunds. Corporate tax receipts were forecast to be higher due to corporate profits in 2005 being much higher than projected. Sales tax collections were lower, motor vehicle sales tax collections were lower, and the statewide property tax receipts were higher. The largest changes in all other resources came from higher forecasts of receipts from mortgage taxes, the estate tax, investment income and fees.

Projected spending for the Current Biennium was lower than projected at the end of the 2006 legislative session. K-12 education spending decreased with the savings being due to lower cost estimates and participation in selective categorical grant programs. A reduction in health and human services estimates was driven largely by lower caseloads and slightly lower costs in continuing care grant programs, long-term care and chemical dependency activities. All other changes were lower. Included in all other was a savings in debt service payments reflecting savings from recent bond sales. Also included was a reduction in tax penalty and interest costs.

January 2007 Governor's Budget Recommendations

The Governor's supplemental budget recommendations did not have a material impact on the financial outlook for the Current Biennium. Recommendations included conformity with 2006 federal tax changes that were expected to reduce forecast tax revenues by $24 million. Spending recommendations included $10 million in proposed deficiency appropriations for state agencies, as well as proposed law changes, expected to cost $7.5 million, that would permit state agencies to carry forward unspent operating appropriations at the end of the biennium for future technology investments.

As required by law, the Governor presented, but did not recommend, a plan to rebate the projected FY 2007 year-end balance to taxpayers.

February 2007 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2007. The February 2007 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2007 FORECAST
($ in Millions)

Resources		
Unreserved Balance at June 30, 2005		$ 1,393
Non-dedicated Revenues	31,272	
Dedicated Revenues, Transfers In and Other	939	
Total Revenues and Transfers		32,211
Total Resources		$33,604
Expenditures		31,478
Projected Unreserved Balance at June 30, 2007		$ 2,126
Cash Flow Account	350	
Budget Reserve Account	653	
Tax Relief Account	110	
Total for Statutorily Mandated Accounts		1,113
Projected Unrestricted Balance at June 30, 2007		$ 1,013

CURRENT BIENNIUM
FEBRUARY 2007 FORECAST
CHANGES FROM NOVEMBER 2006 FORECAST
($ in Millions)

	Nov 2006 Forecast	Feb 2007 Forecast	Change
Balance Forward From Prior Year	$ 1,393	$ 1,393	$ 0
Current Resources:			
Income tax receipts	14,056	13,957	(99)
Corporate tax receipts	2,169	2,239	70
Sales tax receipts	9,000	8,982	(18)
Motor vehicle sales tax receipts	487	491	4
Statewide property tax receipts	1,295	1,295	0
Other taxes	2,598	2,601	3
Miscellaneous non-tax revenues, transfers	2,640	2,646	6
Total Current Resources	32,245	32,211	(34)
Total Resources	33,638	33,604	(34)
Expenditures:			
K-12 Education	13,369	13,362	(7)
Higher Education	2,763	2,763	0
Property Tax Aids & Credits	3,025	3,028	3
Health & Human Services	8,256	8,242	(14)
Public Safety	1,710	1,710	0
All Other spending	2,364	2,373	9
Total Spending	31,487	31,478	(9)
Cash Flow Account	350	350	0
Budget Reserve	653	653	0
Tax Relief Account	110	110	0
Projected balance at June 30, 2007	$ 1,038	$ 1,013	$(25)

Forecast revenues for the Current Biennium were forecast to be less than forecast in November. Included in this current law forecast was a decrease due to legislation that had passed in the 2007 legislative session that conformed Minnesota tax law to changes in the federal code. Declines of less than one percent in the individual income tax and sales tax were almost completely offset by small increases in the corporate income tax, the motor vehicle sales tax, and other revenues.

Projected current law spending for the Current Biennium was mainly unchanged from the November forecast. Total spending was projected to be less than projected in November. Projected costs for K-12 education were reduced, and the forecast for human services spending was below November's estimates. The changes came from a small decline in pupil units and lower than expected medical spending for the elderly and disabled. Those savings were partially offset by a net increase in all other spending areas.

The $1.013 billion forecast balance was 3.15 percent of projected general fund revenues for the Current Biennium. Current law requires that forecast balances exceeding one-half of one percent be designated as available for rebate to taxpayers. A rebate, however, is not automatic and requires approval by the 2007 legislature.

March 2007 Governor's Supplemental Budget Recommendations

The Governor's supplemental budget recommendations did not have a material impact on the proposed general fund budget for the next biennium. Recommendations were updated to reflect changes in current law forecasts for E-12 education and human services. Limited new recommendations were directed to improving the long-term budget outlook. Proposed changes included a $44 million increase in transfers from the state's Health Care Access fund to better match expected enrollment growth in the respective funds and a $23 million gain from additional use of federal funds related to hospital payments. The Governor increased his recommendation for the budget reserve, raising the proposed level from $700 million to $800 million, 4.5 percent of annual expenditures.

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 the February 2007 forecast. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
FEBRUARY 2007 FORECAST
($ in Thousands)

	Fiscal Year 2006	Fiscal Year 2007	Current Biennium
Forecasted Resources			
Prior Year Ending Balance (1)	1,393,086	1,813,145	1,393,086
Net Non-dedicated Revenues	15,510,353	15,761,945	31,272,298
Dedicated Revenues	44,101	68,921	113,022
Transfers From Other Funds	384,715	392,718	777,433
Prior Year Adjustments	23,190	25,000	48,190
Subtotal Current Resources	15,962,359	16,248,584	32,210,943
Total Revenues Plus Prior Year Ending Balance	17,355,445	18,061,729	33,604,029
Authorized Expenditures & Transfers			
K-12 Education	6,872,273	6,490,030	13,362,303
Property Tax Aids & Credits	1,463,635	1,564,122	3,027,757
Higher Education	1,347,880	1,415,031	2,762,911
Health & Human Services	3,942,148	4,299,890	8,242,038
Environment & Agriculture	167,451	199,534	366,985
Economic Development	162,686	183,310	345,996
Transportation	102,201	105,569	207,770
Public Safety	811,562	898,588	1,710,150
Military & Veterans Affairs	19,259	27,191	46,450
State Government	262,121	307,426	569,547
Debt Service	352,447	399,651	752,098
Other	4,524	8,300	12,824
Cancellation Adjustment	0	(20,000)	(20,000)
Subtotal Expenditures & Transfers	15,508,187	15,878,642	31,386,829
Dedicated Revenue Expenditures	34,113	57,121	91,234
Total Expenditures and Transfers	15,542,300	15,935,763	31,478,063
Unreserved Balance	1,813,145	2,125,966	2,125,966
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Tax Relief Account	109,660	109,660	109,660
Appropriations Carried Forward	182,150	0	0
Unrestricted Balance	518,335	1,013,306	1,013,306

(1) Fiscal Year 2005 ended with an Unrestricted General Fund balance of zero and an Unreserved Accounting General Fund Balance of $1.393 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
FEBRUARY 2007 FORECAST
($ in Thousands)

	Fiscal Year 2006	Fiscal Year 2007	Current Biennium
Net Nondedicated Revenues:			
Income Tax — Individual	6,862,953	7,093,500	13,956,453
Income Tax — Corporate	1,061,627	1,177,900	2,239,527
Sales Tax	4,463,640	4,519,337	8,982,977
Motor Vehicle Sales Tax	249,640	241,286	490,926
Statewide Property Tax	631,279	663,372	1,294,651
Estate Tax	215,933	116,000	331,933
Liquor, Wine & Beer	72,020	72,916	144,936
Cigarette & Tobacco	211,128	192,412	403,540
Mining	6,783	6,155	12,938
Mortgage Registry Tax	174,179	137,500	311,679
Deed Transfer Tax	136,408	113,500	249,908
Gross Earnings Taxes	274,777	285,150	559,927
Lawful Gambling Taxes	55,794	55,481	111,275
Medical Assistance Surcharges	205,266	208,068	413,334
Income Tax Reciprocity	56,802	63,481	120,283
Tobacco Settlements	180,790	180,605	361,395
Investment Income	54,791	86,500	141,291
DHS SOS Collections	54,696	52,921	107,617
Lottery Revenue	55,631	51,384	107,015
Departmental Earnings	307,094	242,000	549,094
Fines & Surcharges	130,801	103,500	234,301
All Other Nondedicated Revenue	103,432	145,068	248,500
Tax and Non-Tax Refunds	(55,111)	(46,091)	(101,202)
Total Net Nondedicated Revenues	15,510,353	15,761,945	31,272,298

NEXT BIENNIUM

November 2006 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Next Biennium at the end of November 2006. The November 2006 Next Biennium forecast of resources, expenditures, and fund balances is detailed below:

NEXT BIENNIUM
GENERAL FUND
NOVEMBER 2006 FORECAST
($ in Millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,151
Non-dedicated Revenues	32,717	
Dedicated Revenues, Transfers In and Other	801	
Total Revenues and Transfers		33,518
Total Resources		$35,669
Expenditures		32,496
Projected Unreserved Balance at June 30, 2009		$ 3,173
Cash Flow Account	350	
Budget Reserve Account	653	
Tax Relief Account		
Total for Statutorily Mandated Accounts		1,003
Projected Unrestricted Balance at June 30, 2009		$ 2,170

NEXT BIENNIUM
NOVEMBER 2006 FORECAST
CHANGES FROM END OF 2006 LEGISLATIVE SESSION
($ in Millions)

	End of Session	Nov 2006 Forecast	Change
Balance Forward From Prior Year	$ 1,113	$ 2,151	$1,038
Current Resources:			
Income tax receipts	15,185	15,541	356
Corporate tax receipts	1,751	2,056	305
Sales tax receipts	9,639	9,485	(154)
Motor vehicle sales tax receipts	527	321	(206)
Statewide property tax receipts	1,403	1,402	(1)
Other taxes	2,392	2,400	8
Miscellaneous non-tax revenues, transfers	2,323	2,313	(10)
Total Current Resources	33,220	33,518	298
Total Resources	34,333	35,669	1,336
Expenditures:			
K-12 Education	12,942	12,981	39
Higher Education	2,802	2,802	0
Property Tax Aids & Credits	3,139	3,107	(32)
Health & Human Services	9,431	9,369	(62)
Public Safety	1,733	1,723	(10)
All Other spending	2,546	2,514	(32)
Total Spending	32,593	32,496	(97)
Cash Flow Account	350	350	0
Budget Reserve	653	653	0
Projected balance at June 30, 2007	$ 737	$ 2,170	$1,433

NEXT BIENNIUM
NOVEMBER 2006 FORECAST
COMPARISONS TO CURRENT BIENNIUM
($ in Millions)

	Nov 2006 Current	Nov 2006 Next	$ Change	% Change
Balance Forward From Prior Year	$ 1,393	$ 2,151	$ 758	54.4%
Current Resources:				
Income tax receipts	14,056	15,541	1,485	10.6%
Corporate tax receipts	2,169	2,056	(113)	(5.2)%
Sales tax receipts	9,000	9,485	485	5.4%
Motor vehicle sales tax receipts	487	321	(166)	(34.1)%
Statewide property tax receipts	1,295	1,402	107	8.3%
Other taxes	2,598	2,400	(198)	(7.6)%
Miscellaneous non-tax revenues, transfers	2,640	2,313	(327)	(12.4)%
Total Current Resources	32,245	33,518	1,273	3.9%
Total Resources	33,638	35,669	2,031	6.0%
Expenditures:				
K-12 Education	13,369	12,981	(388)	(2.9)%
Higher Education	2,763	2,802	39	1.4%
Property Tax Aids & Credits	3,025	3,107	82	2.7%
Health & Human Services	8,256	9,369	1,113	13.5%
Public Safety	1,710	1,723	13	0.8%
All Other spending	2,364	2,514	150	6.3%
Total Spending	31,487	32,496	1,009	3.2%
Cash Flow Account	350	350	0	
Budget Reserve	653	653	0	
Tax Relief Account	110	0	(110)	
Projected balance at June 30, 2009	$ 1,038	$ 2,170	$1,132	

This was the first forecast of revenues and expenditures for the Next Biennium. Forecast revenues for the Next Biennium, were expected to be more than forecast at the end of the 2006 legislative session and more than the Current Biennium. Tax revenues were projected to be greater than the Current Biennium, and other resources were projected to be lower than the Current Biennium. The balance brought forward from the Current Biennium was expected to be higher than the Current Biennium.

Individual income tax revenues were expected to show the most growth in the Next Biennium, from the Current Biennium. Sales tax revenues were forecast to grow over the Current Biennium, while statewide property tax receipts were expected to grow over the Current Biennium. Corporate income tax collections were forecast to decline from the Current Biennium. Motor vehicle sales tax collections were forecast to decline due primarily, but not entirely, to the phase-in of the constitutional dedication of the motor vehicle sales tax to transportation funds. All other tax revenues were forecast to be lower than in the Current Biennium, other non-dedicated revenues lower, and transfers in from other funds lower than the Current Biennium. All other resources were forecast to be higher than the Current Biennium.

Projected current law spending for the Next Biennium was expected to be greater than end of session estimates, and higher than spending in the Current Biennium. Health and human services spending estimates increased over the Current Biennium. Net spending in all other areas was nearly flat due to the fact that current law required FY 2007 legislative appropriations be the base for the Next Biennium budget planning.

The Cash Flow Account and the Budget Reserve Account remained the same. The Tax Relief Account was reduced to zero for the Next Biennium having been used for tax changes made in the 2006 legislative session effective in the Next Biennium.

February 2007 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Next Biennium at the end of February 2007. The February 2007 Next Biennium forecast of resources, expenditures, and fund balances is detailed below:

NEXT BIENNIUM
GENERAL FUND
FEBRUARY 2007 FORECAST
($ in Millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,126
Non-dedicated Revenues	32,849	
Dedicated Revenues, Transfers In and Other	829	
Total Revenues and Transfers		33,678
Total Resources		$35,804
Expenditures		32,638
Projected Unreserved Balance at June 30, 2009		$ 3,166
Cash Flow Account	350	
Budget Reserve Account	653	
Tax Relief Account	0	
Total for Statutorily Mandated Accounts		1,003
Projected Unrestricted Balance at June 30, 2009		$ 2,163

NEXT BIENNIUM
FEBRUARY 2007 FORECAST
CHANGES FROM NOVEMBER 2006 FORECAST
($ in Millions)

	Nov 2006 Forecast	Feb 2007 Forecast	Change
Balance Forward From Prior Year	$ 2,151	$ 2,126	$ (25)
Current Resources:			
Income tax receipts	15,541	15,567	26
Corporate tax receipts	2,056	2,209	153
Sales tax receipts	9,485	9,432	(53)
Motor vehicle sales tax receipts	321	317	(4)
Statewide property tax receipts	1,402	1,402	0
Other taxes	2,400	2,412	12
Miscellaneous non-tax revenues, transfers	2,313	2,339	26
Total Current Resources	33,518	33,678	160
Total Resources	35,669	35,804	135
Expenditures:			
K-12 Education	12,981	12,996	15
Higher Education	2,802	2,802	0
Property Tax Aids & Credits	3,107	3,108	1
Health & Human Services	9,369	9,460	91
Public Safety	1,723	1,723	0
All Other spending	2,514	2,549	35
Total Spending	32,496	32,638	142
Cash Flow Account	350	350	0
Budget Reserve	653	653	0
Projected balance at June 30, 2009	$ 2,170	$ 2,163	$ (7)

Forecast revenues for the Next Biennium were expected to be more than forecast in November. Projected individual income tax receipts were increased, and corporate income tax receipts were increased over November. The sales tax and motor vehicle sales tax forecasts were reduced from November's estimates. All other resources were higher than forecast in November.

Projected current law spending for the Next Biennium also showed little change from the November forecast. Total spending was projected to be more than projected in November. An increase in forecast human services costs accounted for nearly two-thirds of the change, reflecting projected increases in hospital costs. K-12 education estimates increased due to higher forecast spending for compensatory aid and levy equalization programs. Debt service projections increased reflecting the effect of slightly higher interest rate forecasts. All other spending increased.

NEXT 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 Next Biennium based on the February 2007 forecast. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

NEXT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
FEBRUARY 2007 FORECAST
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Next Biennium
Forecast Resources			
Prior Year Ending Balance (1)	2,125,966	2,533,237	2,125,966
Net Non-dedicated Revenues	16,139,738	16,709,750	32,849,488
Dedicated Revenues	74,385	82,613	156,998
Transfers From Other Funds	311,570	309,635	621,205
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	16,550,693	17,126,998	33,677,691
Total Revenues Plus Prior Year Ending Balance	18,676,659	19,660,235	35,803,657
Authorized Expenditures & Transfers			
K-12 Education	6,520,232	6,475,720	12,995,952
Property Tax Aids & Credits	1,549,666	1,558,076	3,107,742
Higher Education	1,400,345	1,401,675	2,802,020
Health & Human Services	4,572,970	4,886,684	9,459,654
Environment & Agriculture	191,314	191,760	383,074
Economic Development	150,063	149,979	300,042
Transportation	119,898	105,066	224,964
Public Safety	858,990	864,382	1,723,372
Military & Veterans Affairs	25,166	25,218	50,384
State Government	272,884	276,238	549,122
Debt Service	419,659	498,961	918,620
Capital Projects	10,250	10,250	20,500
Cancellation Adjustment	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	16,086,437	16,429,009	32,515,446
Dedicated Revenue Expenditures	56,985	65,213	122,198
Total Expenditures and Transfers	16,143,422	16,494,222	32,637,644
Unreserved Balance	2,533,237	3,166,013	3,166,013
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Unrestricted Balance	1,530,237	2,163,013	2,163,013

(1) Fiscal Year 2007 is forecast to end with an Unrestricted General Fund balance of $1.013 billion and an Unreserved Accounting General Fund Balance of $2.126 billion.

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

NEXT BIENNIUM
GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
FEBRUARY 2007 FORECAST
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Next Biennium
Net Nondedicated Revenues:			
Income Tax — Individual	7,550,700	8,016,700	15,567,400
Income Tax — Corporate	1,140,800	1,068,100	2,208,900
Sales Tax	4,615,751	4,816,517	9,432,268
Motor Vehicle Sales Tax	179,945	136,736	316,681
Statewide Property Tax	691,162	710,510	1,401,672
Estate Tax	110,000	117,000	227,000
Liquor, Wine & Beer	74,590	76,149	150,739
Cigarette & Tobacco	192,282	190,907	383,189
Mining	4,650	3,550	8,200
Mortgage Registry Tax	117,300	116,100	233,400
Deed Transfer Tax	105,600	106,700	212,300
Gross Earnings Taxes	288,350	293,950	582,300
Lawful Gambling Taxes	55,211	54,931	110,142
Medical Assistance Surcharges	209,697	214,597	424,294
Income Tax Reciprocity	68,339	71,816	140,155
Tobacco Settlements	181,415	181,927	363,342
Investment Income	53,200	37,600	90,800
DHS SOS Collections	63,614	64,064	127,678
Lottery Revenue	51,979	52,105	104,084
Departmental Earnings	230,000	230,000	460,000
Fines & Surcharges	102,000	102,000	204,000
All Other Nondedicated Revenue	97,740	92,631	190,371
Tax and Non-Tax Refunds	(44,587)	(44,840)	(89,427)
Total Net Nondedicated Revenues	16,139,738	16,709,750	32,849,488

March 2007 Governor's Budget Recommendations

In January 2007 the Governor submitted a proposed budget to the Legislature for the Next Biennium that was based on the November 2006 forecast of General Fund revenues and expenditures ("Current Law"). In March 2007 the Governor's budget recommendations were updated to reflect changes in forecast revenues and spending resulting from the February 2007 forecast. The Governor's final budget recommendations to the Legislature are detailed below:

NEXT BIENNIUM
GENERAL FUND
MARCH 2007 GOVERNOR'S RECOMMENDATION
($ in Millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,108
Non-dedicated Revenues	32,849	
Dedicated Revenues, Transfers In and Other	766	
Total Revenues and Transfers		33,615
Total Resources		$35,723
Expenditures		34,571
Projected Unreserved Balance at June 30, 2009		$ 1,152
Cash Flow Account	350	
Budget Reserve Account	800	
Tax Relief Account	0	
Total for Statutorily Mandated Accounts		1,150
Projected Unrestricted Balance at June 30, 2009		$ 2

Revenues Proposed in the Governor's Budget:

The March 2007 Governor's recommendation reflected a net decrease in General Fund revenues from the February 2007 forecast for the Next Biennium.

The Governor included no general tax increases in his January recommendations, and the proposed budget provided targeted income and business tax relief that would reduce forecast revenues. Additionally, the Governor proposed dedicating leased vehicle sales tax receipts for transportation purposes along with a sales tax exemption for transportation projects and operations. These changes were expected to reduce general fund tax revenues in the Next Biennium.

Expenditures Proposed in the Governor's Budget:

The March 2007 Governor's recommendation for the Next Biennium increased General Fund spending by $1.933 billion from the February 2007 projected forecast of current law. The total recommended spending increase is $3.076 billion (9.8 percent) over the forecast for the Current Biennium.

E-12 education accounts for 40 percent of total General Fund spending. More than one-half of the increases shown result from recommendations to increase the basic education formula by 2 percent per year and funding for a Successful Schools initiative that would provide one-time bonuses, equal to approximately an additional 2 percent on the basic education formula, to schools meeting achievement goals. One-time payments in the Current Biennium to repay school district payment shifts do not recur and act to reduce growth compared to the Current Biennium.

The budget funded forecast current law growth in human services attributable to largely growing costs in Medical Assistance, Minnesota's Medicaid program. Limited additional spending recommended by the Governor represented a combination of changes related to reforming the health care system, improving mental health services, providing rate increases to continuing care providers, and promoting health information technology.

The Governor's budget included significant increases both to the state's higher education systems as well as to student financial aid programs to offset possible tuition increases.

Property tax aids and credit payments to local governments and individuals included increases to local government aids as well as property tax refund payments to individuals.

A major portion of increased spending for public safety was directed to operations of the state's correctional facilities and funding increased operating costs in the state's court systems.

An average 2 percent per year increase from current appropriation levels was recommended for operating agencies compensation costs, as well as significant investments in technology and related operations.

Reserves:

Current law provided for a total of $1.003 billion in reserves including the Budget Reserve Account and a separate cash flow account. The Governor recommended increasing to Budget Reserve Account. The Governor also recommended statutory changes to index the budget reserve to growth in general fund spending. Those recommendations set a goal of 5 percent of annual spending and required that a portion of future forecast balances be automatically deposited in the reserve until the 5 percent goal is met.

2010-11 Biennium:

The planning estimates for the 2010-11 Biennium, based on the Governor's proposed budget, indicate that there would be a structural balance of $844 million, meaning that projected total revenues, excluding any balances carried forward, would exceed total expenditures. The planning estimates are based on projected current law revenues and expenditures as proposed by the Governor adjusted only for enrollments and caseloads in K-12 education and human services programs, as well as state prison populations. The expenditure estimates do not include adjustments for general inflationary increases.

The following table details revenue and expenditure changes proposed by the Governor compared to the February 2007 forecast for the Next Biennium. The information highlights increase and decreases from forecast current law levels for major revenue and expenditure categories.

NEXT BIENNIUM
GOVERNOR'S RECOMMENDATIONS
COMPARISON TO FEBRUARY 2007 FORECAST
($ in Millions)

	Feb 2007 Forecast	Gov's Rec	Change
Balance Forward From Prior Year	$ 2,126	$ 2,108	$ (18)
Current Resources:			
Income tax receipts	15,567	15,509	(58)
Corporate tax receipts	2,209	2,179	(30)
Sales tax receipts	9,432	9,335	(97)
Motor vehicle sales tax receipts	317	317	0
Statewide property tax receipts	1,402	1,402	0
Other taxes	2,412	2,463	51
Miscellaneous non-tax revenues, transfers	2,339	2,410	71
Total Current Resources	33,678	33,615	(63)
Total Resources	35,804	35,723	(81)
Expenditures:			
K-12 Education	12,996	13,756	760
Higher Education	2,802	3,202	400
Property Tax Aids & Credits	3,108	3,167	59
Health & Human Services	9,460	9,683	223
Public Safety	1,723	1,878	155
All Other spending	2,549	2,885	336
Total Spending	32,638	34,571	1,933
Cash Flow Account	350	350	0
Budget Reserve	653	800	147
Projected balance at June 30, 2009	$ 2,163	$ 2	$(2,161)

The following table displays the Governor's budget for the Next Biennium compared to the Current Biennium. The table highlights growth in major revenues and spending categories, identifying both amounts and percent change from current levels.

NEXT BIENNIUM
GOVERNOR'S RECOMMENDATIONS
COMPARISONS TO CURRENT BIENNIUM
($ in Millions)

	Current Biennium	Next Biennium	$ Change	% Change
Balance Forward From Prior Year	$ 1,393	$ 2,108	$ 715	51.3%
Current Resources:				
Income tax receipts	13,956	15,509	1,553	11.1%
Corporate tax receipts	2,240	2,179	(61)	(2.7)%
Sales tax receipts	8,983	9,335	352	3.9%
Motor vehicle sales tax receipts	491	317	(174)	(35.4)%
Statewide property tax receipts	1,295	1,402	107	8.3%
Other taxes	2,600	2,461	(139)	(5.3)%
Miscellaneous non-tax revenues, transfers	2,646	2,412	(234)	(8.8)%
Total Current Resources	32,211	33,615	1,404	4.4%
Total Resources	33,604	35,723	2,119	6.3%
Expenditures:				
K-12 Education	13,362	13,756	394	2.9%
Higher Education	2,763	3,202	439	15.9%
Property Tax Aids & Credits	3,028	3,167	139	4.6%
Health & Human Services	8,242	9,683	1,441	17.5%
Public Safety	1,712	1,878	166	9.7%
All Other spending	2,388	2,885	497	20.8%
Total Spending	31,495	34,571	3,076	9.8%
Cash Flow Account	350	350	0	
Budget Reserve	653	800	147	
Tax Relief Account	110	0	(110)	
Projected balance at June 30, 2009	$ 996	$ 2	$ (994)	

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 2007 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 $325. 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 $21,310	5.35 percent
on all over $21,310, but not over $69,990	7.05 percent
on all over $69,990	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $31,150	5.35 percent
on all over $31,150 but not over $123,750	7.05 percent
on all over $123,750	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 $26,230	5.35 percent
on all over $26,230 but not over $105,410	7.05 percent
on all over $105,410	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.

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 called 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.

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

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

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

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

1.875%	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 in Fiscal Year 2008, the 0.5% tax on fire premiums is repealed and replaced by a 0.65% tax on the premiums of homeowners insurance policies, commercial fire policies, and commercial nonliability insurance policies.

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. 53.75% of the collections are dedicated to transportation related funds.

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. See Litigation section on page 11 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

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. Beginning in tax year 2006, the rate of the tax was 2.45%. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

Health Care Provider 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 4, page 12 of this Official Statement. See also Litigation section on page 11 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

MINNESOTACARE® PROGRAM

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

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

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

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

Resources	
Unreserved Balance at June 30, 2005	$ 54
Revenues	967
Total Resources	1,021
Expenditures	768
Projected Unreserved Balance at June 30, 2007	$ 253
Transfer to General Fund	112
Projected Unrestricted Balance at June 30, 2007	$ 141

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

Resources	
Unreserved Balance at June 30, 2007	$ 141
Revenues	1,090
Total Resources	1,231
Expenditures	865
Projected Unreserved Balance at June 30, 2009	$ 366
Transfer to General Fund	96
Projected Unrestricted Balance at June 30, 2009	$ 270

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, 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 April 1, 2007, there were approximately $237 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 April 1, 2007 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 $10.4 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 Next Biennium the total amount of principal and interest outstanding as of April 1, 2007 is about $1.7 billion, with the maximum amount of principal and interest payable in any one month being $516 million.

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

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, bonds to which the general obligation of a county has been pledged under Minnesota Statutes, Section 469.034 and certain 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.

Bonds to which the general obligation of a county is pledged are supported by the levy of 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 general obligation bonds issued for the following purposes: jails, correctional facilities, law enforcement facilities, social services and human services facilities, solid waste facilities, and qualified housing development projects; and lease obligations for the purposes as specified above.

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

As of April 1, 2007, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately $214 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 Next Biennium the total amount of principal and interest outstanding as of April 1, 2007 is $27.1 million with the maximum amount of principal and interest payable in any one month being $9.6 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, 2006

(This page has been left blank intentionally.)

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, 2006, which collectively comprise the state's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is both a major proprietary fund and 73 percent, 67 percent, and 34 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, Minnesota Partnership for Action Against Tobacco, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA
Deputy Legislative Auditor

December 14, 2006

2006 Comprehensive Annual Financial Report
Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2006, 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 ten 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 seven 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
- Minnesota Partnership for Action Against Tobacco
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

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

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

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

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

The state maintains 28 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balance*s for the General 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 type 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 16 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 7 nonmajor enterprise funds and the 7 internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 19 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (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, 2006, by $11.4 billion (presented as *net assets*). Of this amount, $648 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 or the constitution.

- The state's total net assets increased by $2.257 billion (24.7 percent) during fiscal year 2006. Net assets of governmental activities increased by $1.878 billion (24.3 percent), while net assets of the business-type activities showed an increase of $379 million (27.0 percent).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $4.551 billion, an increase of $995 million compared to the prior year. This amount includes an unreserved fund balance of $1.517 billion.

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 a decrease in the claims payable of $426 million. This decrease is primarily the result of discounting the liability related to the supplementary and second injury workers' compensation injuries to present value during the current year. This decrease was offset by an increase in capital leases payable for two buildings leased from the St. Paul Port Authority in governmental activities of $180 million and issuance of general obligation bonds for the trunk highway projects and other various state purposes.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled $11.383 billion at the end of 2006, compared to $9.126 billion at the end of the previous year.

Net Assets
June 30, 2006 and 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current Assets	$ 8,953,370	$ 8,146,869	$ 1,233,116	$ 941,984	$ 10,186,486	$ 9,088,853
Noncurrent Assets:						
Capital Assets	9,171,111	8,413,867	1,186,102	1,110,287	10,357,213	9,524,154
Other Assets	738,563	718,969	89,839	52,664	828,402	771,633
Total Assets	$ 18,863,044	$ 17,279,705	$ 2,509,057	$ 2,104,935	$ 21,372,101	$ 19,384,640
Current Liabilities	$ 4,616,173	$ 4,833,877	$ 304,511	$ 342,004	$ 4,920,684	$ 5,175,881
Noncurrent Liabilities	4,646,661	4,723,597	421,395	358,796	5,068,056	5,082,393
Total Liabilities	$ 9,262,834	$ 9,557,474	$ 725,906	$ 700,800	$ 9,988,740	$ 10,258,274
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 6,468,103	$ 5,943,503	$ 931,297	$ 884,486	$ 7,399,400	$ 6,827,989
Restricted	2,482,626	2,452,423	852,943	520,745	3,335,569	2,973,168
Unrestricted	649,481	(673,695)	(1,089)	(1,096)	648,392	(674,791)
Total Net Assets	$ 9,600,210	$ 7,722,231	$ 1,783,151	$ 1,404,135	$ 11,383,361	$ 9,126,366

The largest portion, $7.4 billion of $11.4 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 $3.3 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 of $648 million represents primarily unrestricted net assets of the governmental activities that may be used to meet the state's ongoing obligations to citizens and creditors. As noted previously, within this balance, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors.

The state's combined net assets for governmental and business-type activities increased $2.257 billion (24.7 percent) over the course of this fiscal year. This resulted from a $1.878 million (24.3 percent) increase in net assets of governmental activities, and a $379 million (27.0 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2006 and 2005
(In Thousands)

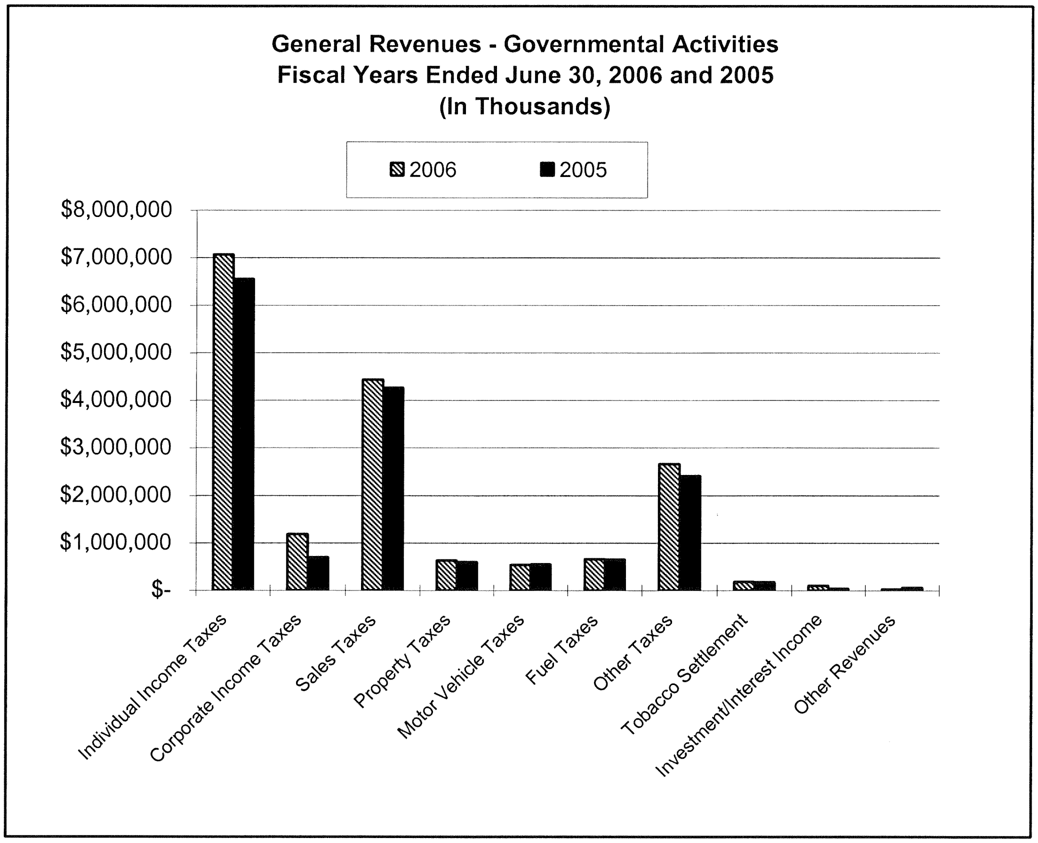
	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	$ 1,358,286	$ 1,144,454	$ 2,376,805	$ 2,136,827	$ 3,735,091	$ 3,281,281
Operating Grants and Contributions	5,694,003	5,556,221	176,023	198,217	5,870,026	5,754,438
Capital Grants	452,197	261,236	1,963	1,687	454,160	262,923
General Revenues:						
Individual Income Taxes	7,069,242	6,556,331	-	-	7,069,242	6,556,331
Corporate Income Taxes	1,189,328	702,839	-	-	1,189,328	702,839
Sales Taxes	4,439,667	4,269,837	-	-	4,439,667	4,269,837
Property Taxes	633,288	603,412	-	-	633,288	603,412
Motor Vehicle Taxes	539,468	552,856	-	-	539,468	552,856
Fuel Taxes	659,980	652,493	-	-	659,980	652,493
Other Taxes	2,663,939	2,417,175	-	-	2,663,939	2,417,175
Tobacco Settlement	184,139	178,177	-	-	184,139	178,177
Investment/Interest Income	101,803	42,753	18,300	9,264	120,103	52,017
Other Revenues	28,447	63,182	17,141	12,240	45,588	75,422
Total Revenues	$ 25,013,787	$ 23,000,966	$ 2,590,232	$ 2,358,235	$ 27,604,019	$ 25,359,201
Expenses:						
Public Safety and Corrections	$ 818,192	$ 764,307	$ -	$ -	$ 818,192	$ 764,307
Transportation	1,791,316	1,685,256	-	-	1,791,316	1,685,256
Agricultural and Environmental Resources	525,251	612,566	-	-	525,251	612,566
Economic and Workforce Development	273,510	505,901	-	-	273,510	505,901
General Education	7,336,455	6,820,389	-	-	7,336,455	6,820,389
Higher Education	786,563	762,092	-	-	786,563	762,092
Health and Human Services	8,823,115	8,466,865	-	-	8,823,115	8,466,865
General Government	718,996	654,758	-	-	718,996	654,758
Intergovernmental Aid	1,400,479	1,284,576	-	-	1,400,479	1,284,576
Interest	172,612	184,573	-	-	172,612	184,573
State Colleges and Universities	-	-	1,479,519	1,394,893	1,479,519	1,394,893
Unemployment Insurance	-	-	690,713	686,818	690,713	686,818
Lottery	-	-	332,031	302,575	332,031	302,575
Other	-	-	183,043	172,886	183,043	172,886
Total Expenses	$ 22,646,489	$ 21,741,283	$ 2,685,306	$ 2,557,172	$ 25,331,795	$ 24,298,455
Excess (Deficiency) Before Transfers	$ 2,367,298	$ 1,259,683	$ (95,074)	$ (198,937)	$ 2,272,224	$ 1,060,746
Transfers	(474,090)	(425,180)	474,090	425,180	-	-
Change in Net Assets	$ 1,893,208	$ 834,503	$ 379,016	$ 226,243	$ 2,272,224	$ 1,060,746
Net Assets, Beginning	$ 7,722,231	$ 6,925,577	$ 1,404,135	$ 1,177,892	$ 9,126,366	$ 8,103,469
Prior Period Adjustments	(15,229)	(37,849)	-	-	(15,229)	(37,849)
Net Assets, Ending	$ 9,600,210	$ 7,722,231	$ 1,783,151	$ 1,404,135	$ 11,383,361	$ 9,126,366

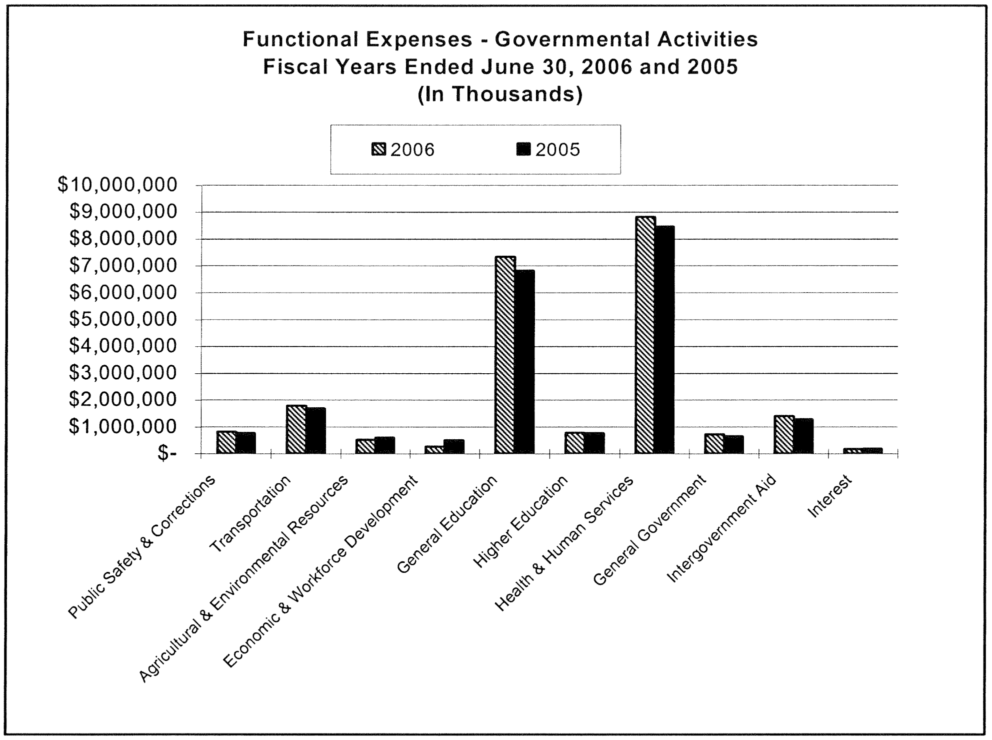
Approximately 62 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 23 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 14 percent of the total revenues. The remaining 1 percent came from other general revenues.

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

Governmental Activities

Governmental activities increased the state's net assets by $1.878 billion. The increase in revenues was primarily attributable to the continued strengthening economy resulting in increases in income and sales taxes as well as a new revenue stream in the Health Impact Fund for fees imposed on cigarette and tobacco products distributors that is transferred to the General Fund of approximately $200 million.

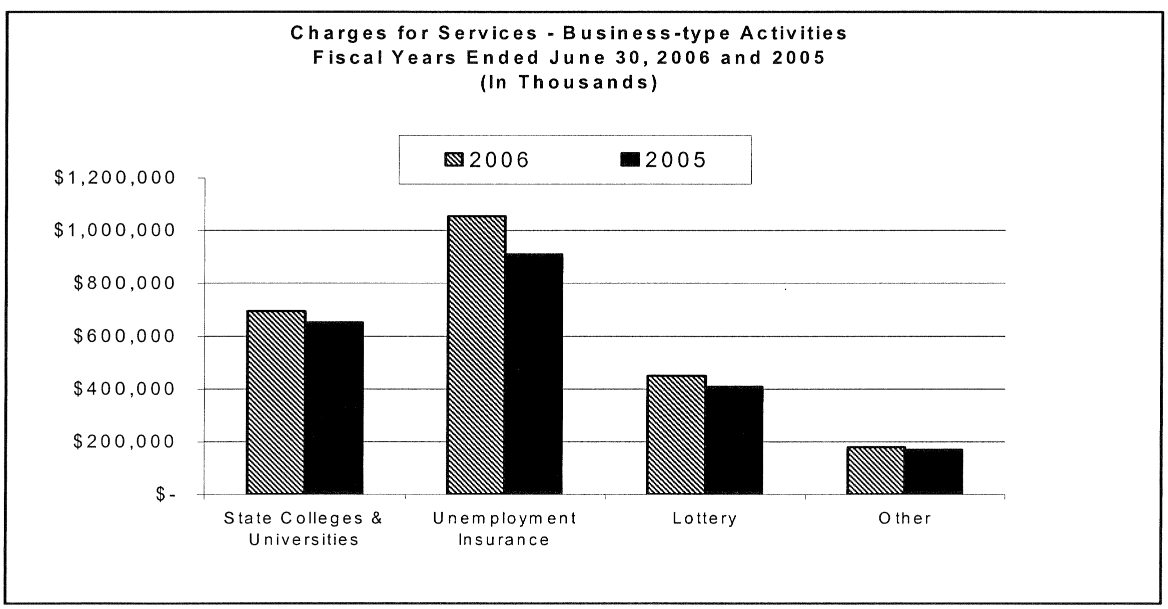




The increase in revenues was partially offset by an increase in General Education and Health and Human Services expenditures. General Education expenditures increased due to a 4 percent increase in per pupil general education formula and a one-time reversal of a prior year reduction in aid payments. Health and Human Services expenditures increased primarily due to growth in health care programs such as Medical Assistance and General Assistance Medical Care resulting from increased caseloads and increased average health care costs.

Business-type Activities

The state's proprietary funds net assets increased by $379 million during the current year. This primarily resulted from a $301 million increase in net assets in the Unemployment Insurance Fund due to an increase in insurance premiums. The remaining increase of $78 million resulted primarily from an increase in General Fund transfers to the State Colleges and Universities Fund as a result of funding additional construction activity.



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 $4.551 billion, an increase of $995 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 $610 million, an increase of $678 million in comparison with the prior year. This improvement primarily resulted from an increase in sales and income tax receipts due to a continued rebound of the economy through increased job growth. The increase in corporate income taxes included a revised reduction in the estimated liability from the prior year for the Hutchinson Technology Minnesota Supreme Court ruling liability. The increase is also attributable to a new revenue stream in the Health Impact Fund for fees imposed on cigarette and tobacco products distributors that is transferred to the General Fund of approximately $200 million. The increase in revenues was also partially offset by an increase in General Education for increased state general education aid formula expenditures and Health and Human Services expenditures for increased caseloads in health care programs.

Proprietary Funds

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

The state's proprietary funds net assets increased by $379 million during the current year. This resulted from a $301 million increase in net assets in the Unemployment Insurance Fund and an increase of $78 million in net assets of the State Colleges and Universities Fund.

General Fund Budgetary Highlights

Based on the November 2005 and February 2006 forecasts, the state's financial outlook has improved since the fiscal year 2006 budget was enacted during the 2005 legislative session. This improvement was primarily caused by a projected increase in income and corporate taxes as well as sales tax. The increase in revenues during fiscal year 2006 was used to restore budgetary reserves and buy back $338 million in the school aid shift, which increased General Education budgetary expenditures.

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, 2006, was $12.4 billion, less accumulated depreciation of $2.0 billion, resulting in a net book value of $10.4 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, 2006 and 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Capital Assets not Depreciated:						
Land	$ 1,680,456	$ 1,559,646	$ 76,365	$ 74,828	$ 1,756,821	$ 1,634,474
Buildings, Structures, Improvements	27,328	26,624	-	-	27,328	26,624
Construction in Progress	108,217	193,137	104,354	54,170	212,571	247,307
Infrastructure	5,965,253	5,519,129	-	-	5,965,253	5,519,129
Art and Historical Treasures	500	500	-	-	500	500
Total Capital Assets not Depreciated	$ 7,781,754	$ 7,299,036	$ 180,719	$ 128,998	$ 7,962,473	$ 7,428,034
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 1,871,213	$ 1,573,229	$ 1,779,350	$ 1,704,480	$ 3,650,563	$ 3,277,709
Infrastructure	49,250	49,201	-	-	49,250	49,201
Library Collections	-	-	48,505	48,059	48,505	48,059
Equipment, Furniture, Fixtures	388,834	374,985	275,915	280,248	664,749	655,233
Total Capital Assets Depreciated	$ 2,309,297	$ 1,997,415	$ 2,103,770	$ 2,032,787	$ 4,413,067	$ 4,030,202
Less: Accumulated Depreciation	919,940	882,584	1,098,387	1,051,498	2,018,327	1,934,082
Capital Assets Net of Depreciation	$ 1,389,357	$ 1,114,831	$ 1,005,383	$ 981,289	$ 2,394,740	$ 2,096,120
Total	$ 9,171,111	$ 8,413,867	$ 1,186,102	$ 1,110,287	$ 10,357,213	$ 9,524,154

The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 3,200 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 2005, indicated that the average PQI for principal arterial pavement was 3.4 and 3.2 for all other pavements. The state has maintained a stable condition of pavement over the past four years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2005, indicated that 96 percent of principal arterial system bridges and 95 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

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, 2006 and 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General Obligation	$ 3,414,239	$ 3,315,282	$ 156,896	$ 145,028	$ 3,571,135	$ 3,460,310
Revenue	-	-	95,780	52,475	95,780	52,475
Total	$ 3,414,239	$ 3,315,282	$ 252,676	$ 197,503	$ 3,666,915	$ 3,512,785

During fiscal year 2006, the state issued the following bonds:

- $285.4 million in general obligation state various purpose bonds
- $111.6 million in general obligation state trunk highway bonds
- $45.3 million in revenue bonds for Minnesota State Colleges and Universities

In addition to the general obligation bonds noted above, the state issued $161 million of refunding bonds in October 2005.

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, 2006
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,513,051	$ 730,097	$ 5,243,148	$ 1,327,135
Investments	1,193,163	26,025	1,219,188	1,096,391
Accounts Receivable	1,833,169	450,957	2,284,126	319,803
Due from Component Units	56,900	-	56,900	-
Due from Primary Government	-	-	-	156,098
Accrued Investment/Interest Income	56,625	18	56,643	38,343
Federal Aid Receivable	685,091	11,769	696,860	2,318
Inventories	19,595	18,336	37,931	35,028
Loans and Notes Receivable	69,531	7,820	77,351	88,544
Internal Balances	37,621	(37,621)	-	-
Securities Lending Collateral	487,003	21,954	508,957	209,453
Other Assets	1,621	3,761	5,382	62,062
Total Current Assets	$ 8,953,370	$ 1,233,116	$ 10,186,486	$ 3,335,175
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 62,767	$ 62,767	$ 365,092
Investments-Restricted	-	-	-	154,623
Accounts Receivable-Restricted	-	-	-	24,255
Due from Primary Government	-	-	-	22,940
Other Assets-Restricted	-	102	102	10,387
Due from Component Units	101,843	-	101,843	-
Investments	-	-	-	2,954,159
Accounts Receivable	310,183	-	310,183	427,018
Loans and Notes Receivable	272,565	26,970	299,535	3,798,853
Depreciable Capital Assets (Net)	1,389,357	1,005,383	2,394,740	3,745,478
Nondepreciable Capital Assets	1,816,501	180,719	1,997,220	465,435
Infrastructure (Not depreciated)	5,965,253	-	5,965,253	-
Other Assets	53,972	-	53,972	10,893
Total Noncurrent Assets	$ 9,909,674	$ 1,275,941	$ 11,185,615	$ 11,979,133
Total Assets	$ 18,863,044	$ 2,509,057	$ 21,372,101	$ 15,314,308
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 2,967,438	$ 190,889	$ 3,158,327	$ 206,408
Due to Component Units	114,745	-	114,745	-
Due to Primary Government	-	-	-	66,594
Unearned Revenue	503,854	45,288	549,142	174,396
Accrued Interest Payable	69,706	218	69,924	62,002
General Obligation Bonds Payable	301,856	11,468	313,324	215,787
Bond Premium Payable	13,448	-	13,448	-
Loans and Notes Payable	13,444	1,101	14,545	161,456
Revenue Bonds Payable	-	2,910	2,910	447,362
Claims Payable	97,102	-	97,102	108,888
Compensated Absences Payable	26,121	14,285	40,406	150,889
Workers' Compensation Liability	13,308	1,633	14,941	-
Capital Leases Payable	8,148	2,514	10,662	-
Securities Lending Liabilities	487,003	21,954	508,957	209,453
Other Liabilities	-	12,251	12,251	40,638
Total Current Liabilities	$ 4,616,173	$ 304,511	$ 4,920,684	$ 1,843,873
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 91,197
Unearned Revenue-Restricted	-	-	-	83,484
Accrued Interest Payable-Restricted	-	-	-	8,764
Due to Primary Government	-	-	-	101,843
Unearned Revenue	-	-	-	5,085
General Obligation Bonds Payable	3,112,383	145,428	3,257,811	1,253,833
Bond Premium Payable	187,694	7,735	195,429	-
Loans and Notes Payable	32,474	4,731	37,205	4,945
Revenue Bonds Payable	-	92,870	92,870	3,068,120
Claims Payable	795,511	-	795,511	563,830
Compensated Absences Payable	220,242	107,685	327,927	18,968
Workers' Compensation Liability	96,097	3,778	99,875	-
Capital Leases Payable	174,782	24,006	198,788	-
Funds Held in Trust	-	-	-	83,691
Due to Component Units	22,940	-	22,940	-
Other Liabilities	4,538	35,162	39,700	61,375
Total Noncurrent Liabilities	$ 4,646,661	$ 421,395	$ 5,068,056	$ 5,345,135
Total Liabilities	$ 9,262,834	$ 725,906	$ 9,988,740	$ 7,189,008

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2006
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	$ 6,468,103	$ 931,297	$ 7,399,400	$ 2,700,041
Restricted for:				
Capital Projects	$ 15,886	$ -	$ 15,886	$ -
Debt Service	385,870	-	385,870	-
Transportation	708,474	-	708,474	-
Environmental Resources	581,322	-	581,322	-
Economic and Workforce Development	59,334	3,999	63,333	-
School Aid-Nonexpendable	642,695	-	642,695	-
School Aid-Expendable	89,045	-	89,045	-
Health & Human Services	-	28,724	28,724	-
Unemployment Benefits	-	518,336	518,336	-
State Colleges and Universities	-	277,878	277,878	-
Other Purposes	-	24,006	24,006	
Component Units	-	-	-	4,761,535
Total Restricted	$ 2,482,626	$ 852,943	$ 3,335,569	$ 4,761,535
Unrestricted	$ 649,481	$ (1,089)	$ 648,392	$ 663,724
Total Net Assets	$ 9,600,210	$ 1,783,151	$ 11,383,361	$ 8,125,300

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBU-TIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 818,192	$ 174,807	$ 141,550	$ -
Transportation	1,791,316	19,226	237,994	452,197
Agricultural and Environmental Resources	525,251	218,376	72,039	-
Economic and Workforce Development	273,510	214,650	306,765	-
General Education	7,336,455	38,808	650,044	-
Higher Education	786,563	-	-	-
Health and Human Services	8,823,115	447,404	4,187,909	-
General Government	718,996	245,015	97,702	-
Intergovernment Aid	1,400,479	-	-	-
Interest	172,612	-	-	-
Total Governmental Activities	$ 22,646,489	$ 1,358,286	$ 5,694,003	$ 452,197
Business-type Activities:				
State Colleges and Universities	$ 1,479,519	$ 694,053	$ 176,023	$ 1,963
Unemployment Insurance	690,713	1,054,227	-	-
Lottery	332,031	449,761	-	-
Other	183,043	178,764	-	-
Total Business-type Activities	$ 2,685,306	$ 2,376,805	$ 176,023	$ 1,963
Total Primary Government	$ 25,331,795	$ 3,735,091	$ 5,870,026	$ 454,160
Component Units:				
University of Minnesota	$ 2,591,507	$ 1,139,917	$ 698,431	$ 112,766
Metropolitan Council	695,203	294,923	170,509	26,697
Housing Finance	330,846	146,680	170,318	-
Others	387,018	195,398	59,035	-
Total Component Units	$ 4,004,574	$ 1,776,918	$ 1,098,293	$ 139,463

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
$ (501,835)		$ (501,835)	
(1,081,899)		(1,081,899)	
(234,836)		(234,836)	
247,905		247,905	
(6,647,603)		(6,647,603)	
(786,563)		(786,563)	
(4,187,802)		(4,187,802)	
(376,279)		(376,279)	
(1,400,479)		(1,400,479)	
(172,612)		(172,612)	
$ (15,142,003)		$ (15,142,003)	
	$ (607,480)	$ (607,480)	
	363,514	363,514	
	117,730	117,730	
	(4,279)	(4,279)	
	$ (130,515)	$ (130,515)	
$ (15,142,003)	$ (130,515)	$ (15,272,518)	
			$ (640,393)
			(203,074)
			(13,848)
			(132,585)
			$ (989,900)
$ 7,069,242	$ -	$ 7,069,242	$ -
1,189,328	-	1,189,328	-
4,439,667	-	4,439,667	-
633,288	-	633,288	-
539,468	-	539,468	-
659,980	-	659,980	-
2,663,939	-	2,663,939	189,542
184,139	-	184,139	-
101,803	18,300	120,103	342,988
28,447	17,141	45,588	59,189
-	-	-	830,550
(474,090)	474,090	-	-
$ 17,035,211	$ 509,531	$ 17,544,742	$ 1,422,269
$ 1,893,208	$ 379,016	$ 2,272,224	$ 432,369
$ 7,722,231	$ 1,404,135	$ 9,126,366	$ 7,692,931
(15,229)	-	(15,229)	-
$ 7,707,002	$ 1,404,135	$ 9,111,137	$ 7,692,931
$ 9,600,210	$ 1,783,151	$ 11,383,361	$ 8,125,300

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,914,806	$ 2,125	$ 2,393,296	$ 4,310,227
Investments	11,229	-	1,161,921	1,173,150
Accounts Receivable	1,620,486	136,004	374,764	2,131,254
Interfund Receivables	258,056	5,161	159,576	422,793
Due from Component Units	38,218	-	120,525	158,743
Accrued Investment/Interest Income	45,662	-	10,554	56,216
Federal Aid Receivable	-	594,214	90,877	685,091
Inventories	-	-	18,723	18,723
Loans and Notes Receivable	47,419	65	294,612	342,096
Advances to Other Funds	3,500	-	-	3,500
Securities Lending Collateral	132,884	-	340,349	473,233
Investment in Land	-	-	15,448	15,448
Total Assets	$ 4,072,260	$ 737,569	$ 4,980,645	$ 9,790,474
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 1,822,923	$ 682,294	$ 404,561	$ 2,909,778
Interfund Payables	12,098	21,838	351,734	385,670
Due to Component Units	96,137	2,086	9,552	107,775
Deferred Revenue	1,146,611	24,648	169,153	1,340,412
Accrued Interest Payable	22,800	-	-	22,800
Securities Lending Liabilities	132,884	-	340,349	473,233
Total Liabilities	$ 3,233,453	$ 730,866	$ 1,275,349	$ 5,239,668
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 177,643	$ -	$ 184,028	$ 361,671
Reserved for Local Governments	-	-	410,179	410,179
Reserved for Trust Principal	-	-	1,041,547	1,041,547
Other Reserved Fund Balances	50,997	6,703	1,162,925	1,220,625
Total Reserved Fund Balances	$ 228,640	$ 6,703	$ 2,798,679	$ 3,034,022
Unreserved Fund Balances:				
Designated for:				
General Fund	$ 610,167	$ -	$ -	$ 610,167
Special Revenue Funds	-	-	715,202	715,202
Undesignated, reported in:				
Capital Project Funds	-	-	(48,184)	(48,184)
Special Revenue Funds	-	-	239,599	239,599
Total Unreserved Fund Balance	$ 610,167	$ -	$ 906,617	$ 1,516,784
Total Fund Balances	$ 838,807	$ 6,703	$ 3,705,296	$ 4,550,806
Total Liabilities and Fund Balances	$ 4,072,260	$ 737,569	$ 4,980,645	$ 9,790,474

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, 2006
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 4,550,806
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	$ 5,965,253	
Depreciable Capital Assets	2,223,124	
Nondepreciable Capital Assets	1,801,053	
Accumulated Depreciation	(861,228)	
Total Capital Assets		9,128,202
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		841,749
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		53,750
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		178,284
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	$ (3,414,239)	
Bond Premium Payable	(201,142)	
Accrued Interest Payable on Bonds	(46,906)	
Loans and Notes Payable	(29,378)	
Claims Payable	(892,613)	
Workers' Compensation Liability	(109,405)	
Capital Leases Payable	(182,930)	
Compensated Absences Payable	(241,520)	
Net Pension Obligation	(4,538)	
Due to Component Units	(29,910)	
Total Liabilities		(5,152,581)
Net Assets of Governmental Activities		$ 9,600,210

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 7,068,712	$ -	$ -	$ 7,068,712
Corporate Income Taxes	1,189,915	-	-	1,189,915
Sales Taxes	4,471,993	-	1,282	4,473,275
Property Taxes	631,279	-	-	631,279
Motor Vehicle Taxes	372,880	-	664,713	1,037,593
Fuel Taxes	-	-	659,647	659,647
Other Taxes	1,294,442	-	646,228	1,940,670
Tobacco Settlement	180,790	-	-	180,790
Federal Revenues	8,842	5,376,554	478,977	5,864,373
Licenses and Fees	255,244	-	474,472	729,716
Departmental Services	42,729	18,030	224,916	285,675
Investment/Interest Income	55,867	685	150,217	206,769
Securities Lending Income	5,612	-	12,944	18,556
Other Revenues	324,919	143,288	250,135	718,342
Net Revenues	$ 15,903,224	$ 5,538,557	$ 3,563,531	$ 25,005,312
Expenditures:				
Current:				
Public Safety and Corrections	$ 492,538	$ 116,400	$ 184,264	$ 793,202
Transportation	226,107	194,436	1,356,437	1,776,980
Agricultural and Environmental Resources	153,154	36,661	347,405	537,220
Economic and Workforce Development	126,891	310,371	265,846	703,108
General Education	6,675,827	609,603	52,458	7,337,888
Higher Education	722,870	-	63,736	786,606
Health and Human Services	4,047,550	4,198,327	574,266	8,820,143
General Government	588,897	14,361	87,495	690,753
Intergovernment Aid	1,400,265	-	214	1,400,479
Securities Lending Rebates and Fees	5,543	-	12,506	18,049
Total Current Expenditures	$ 14,439,642	$ 5,480,159	$ 2,944,627	$ 22,864,428
Capital Outlay	192,094	31,726	630,792	854,612
Debt Service	18,873	397	452,902	472,172
Total Expenditures	$ 14,650,609	$ 5,512,282	$ 4,028,321	$ 24,191,212
Excess of Revenues Over (Under) Expenditures	$ 1,252,615	$ 26,275	$ (464,790)	$ 814,100
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 377,949	$ 377,949
Loan Proceeds	-	-	24,388	24,388
Proceeds from Refunding Bonds	-	-	160,960	160,960
Payment to Refunded Bonds Escrow Agent	-	-	(160,960)	(160,960)
Bond Issue Premium	-	-	45,141	45,141
Transfers-In	488,874	1,127	2,128,912	2,618,913
Transfers-Out	(1,175,652)	(26,979)	(1,865,528)	(3,068,159)
Capital Leases	180,005	-	-	180,005
Net Other Financing Sources (Uses)	$ (506,773)	$ (25,852)	$ 710,862	$ 178,237
Net Change in Fund Balances	$ 745,842	$ 423	$ 246,072	$ 992,337
Fund Balances, Beginning, as Reported	$ 92,965	$ 6,280	$ 3,457,011	$ 3,556,256
Change in Inventory	-	-	2,213	2,213
Fund Balances, Ending	$ 838,807	$ 6,703	$ 3,705,296	$ 4,550,806

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, 2006
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$	992,337
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		777,650
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		(20,264)
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		47,732
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		2,213
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		(776)
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		(584,050)
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		(180,005)
Repayment of bonds is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets		439,952
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		418,419
Change in Net Assets of Governmental Activities	$	1,893,208

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS
YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 6,565,529	$ 6,604,170	$ 6,862,953
Corporate Income Taxes	767,515	955,940	1,061,626
Sales Taxes	4,394,489	4,468,362	4,463,834
Property Taxes	634,683	629,977	631,278
Motor Vehicle Taxes	389,484	374,472	373,668
Other Taxes	993,873	1,163,917	1,203,897
Departmental Earnings	271,569	314,442	314,442
Investment/Interest Income	15,000	40,000	54,809
Tobacco Settlement	171,657	179,060	180,790
Other Revenues	545,863	553,893	580,702
Net Revenues	$ 14,749,662	$ 15,284,233	$ 15,727,999
Expenditures:			
Public Safety and Corrections	$ 518,175	$ 519,033	$ 503,239
Transportation	227,670	223,301	223,199
Agricultural and Environmental Resources	170,992	168,564	156,198
Economic and Workforce Development	96,385	100,540	92,730
General Education	6,267,433	6,996,590	6,988,191
Higher Education	762,197	761,587	747,186
Health and Human Services	3,823,819	3,937,290	3,856,238
General Government	653,874	630,174	589,463
Intergovernment Aid	1,428,931	1,401,842	1,401,842
Total Expenditures	$ 13,949,476	$ 14,738,921	$ 14,558,286
Excess of Revenues Over (Under) Expenditures	$ 800,186	$ 545,312	$ 1,169,713
Other Financing Sources (Uses):			
Transfers-In	$ 369,122	$ 374,408	$ 384,716
Transfers-Out	(1,217,495)	(1,187,021)	(1,156,509)
Net Other Financing Sources (Uses)	$ (848,373)	$ (812,613)	$ (771,793)
Net Change in Fund Balances	$ (48,187)	$ (267,301)	$ 397,920
Fund Balances, Beginning, as Reported	$ 1,464,852	$ 1,464,852	$ 1,464,852
Prior Period Adjustments	-	-	21,337
Fund Balances, Beginning, as Restated	$ 1,464,852	$ 1,464,852	$ 1,486,189
Budgetary Fund Balances, Ending	$ 1,416,665	$ 1,197,551	$ 1,884,109
Less: Appropriation Carryover	-	-	190,094
Less: Reserved for Long-Term Receivables	-	-	47,751
Less: Budgetary Reserve	-	-	1,112,660
Undesignated Fund Balances, Ending	$ 1,416,665	$ 1,197,551	$ 533,604

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 456,371	$ 211,548	$ 62,178	$ 730,097	$ 202,824
Investments	26,025	-	-	26,025	20,013
Accounts Receivable	34,887	388,564	27,506	450,957	24,367
Interfund Receivables	15,847	-	1,086	16,933	767
Accrued Investment/Interest Income	-	-	18	18	409
Federal Aid Receivable	11,769	-	-	11,769	-
Inventories	9,662	-	8,674	18,336	872
Deferred Costs	-	-	382	382	1,621
Loans and Notes Receivable	7,820	-	-	7,820	-
Securities Lending Collateral	21,954	-	-	21,954	13,770
Other Assets	-	-	3,379	3,379	-
Total Current Assets	$ 584,335	$ 600,112	$ 103,223	$ 1,287,670	$ 264,643
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 60,697	$ -	$ 2,070	$ 62,767	$ -
Other Assets-Restricted	102	-	-	102	-
Deferred Costs	-	-	-	-	222
Loans and Notes Receivable	26,970	-	-	26,970	-
Depreciable Capital Assets (Net)	972,161	-	33,222	1,005,383	27,461
Nondepreciable Capital Assets	179,040	-	1,679	180,719	-
Total Noncurrent Assets	$ 1,238,970	$ -	$ 36,971	$ 1,275,941	$ 27,683
Total Assets	$ 1,823,305	$ 600,112	$ 140,194	$ 2,563,611	$ 292,326
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 140,851	$ 28,434	$ 21,604	$ 190,889	$ 69,929
Interfund Payables	-	43,785	10,769	54,554	269
Unearned Revenue	31,699	9,557	4,032	45,288	5,191
Accrued Bond Interest Payable	-	-	218	218	-
General Obligation Bonds Payable	11,221	-	247	11,468	-
Loans and Notes Payable	1,101	-	-	1,101	7,404
Revenue Bonds Payable	2,245	-	665	2,910	-
Workers' Compensation Liability	1,633	-	-	1,633	-
Capital Leases	2,341	-	173	2,514	-
Compensated Absences Payable	12,644	-	1,641	14,285	434
Securities Lending Liabilities	21,954	-	-	21,954	13,770
Other Liabilities	12,229	-	22	12,251	-
Total Current Liabilities	$ 237,918	$ 81,776	$ 39,371	$ 359,065	$ 96,997
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 142,278	$ -	$ 3,150	$ 145,428	$ -
Loans and Notes Payable	4,731	-	-	4,731	9,136
Revenue Bonds Payable	79,280	-	13,590	92,870	-
Workers' Compensation Liability	3,778	-	-	3,778	-
Capital Leases	23,130	-	876	24,006	-
Compensated Absences Payable	98,287	-	9,398	107,685	4,409
Advances from Other Funds	-	-	-	-	3,500
Other Liabilities	42,897	-	-	42,897	-
Total Noncurrent Liabilities	$ 394,381	$ -	$ 27,014	$ 421,395	$ 17,045
Total Liabilities	$ 632,299	$ 81,776	$ 66,385	$ 780,460	$ 114,042
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 913,128	$ -	$ 18,169	$ 931,297	$ 10,947
Restricted for:					
Bond Covenants	$ 27,141	$ -	$ -	$ 27,141	$ -
Debt Service	15,847	-	-	15,847	-
Capital Projects	13,292	-	-	13,292	-
Economic and Workforce Development	-	-	3,999	3,999	-
Health and Human Services	-	-	28,724	28,724	-
Other Purposes	13,326	-	24,006	37,332	-
Total Restricted	$ 69,606	$ -	$ 56,729	$ 126,335	$ -
Unrestricted	$ 208,272	$ 518,336	$ (1,089)	$ 725,519	$ 167,337
Total Net Assets	$ 1,191,006	$ 518,336	$ 73,809	$ 1,783,151	$ 178,284

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, 2006
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 610,612	$ -	$ -	$ 610,612	$ -
Net Sales	-	-	497,638	497,638	16,533
Rental and Service Fees	-	-	112,910	112,910	142,475
Insurance Premiums	-	975,186	14,511	989,697	544,547
Federal Revenues	162,933	-	-	162,933	-
State Grants	67,587	-	-	67,587	-
Other Income	15,854	79,041	3,466	98,361	8,970
Total Operating Revenues	$ 856,986	$ 1,054,227	$ 628,525	$ 2,539,738	$ 712,525
Less: Cost of Goods Sold	-	-	334,033	334,033	5,042
Gross Margin	$ 856,986	$ 1,054,227	$ 294,492	$ 2,205,705	$ 707,483
Operating Expenses:					
Purchased Services	$ 179,801	$ -	$ 30,873	$ 210,674	$ 143,772
Salaries and Fringe Benefits	1,031,148	-	109,588	1,140,736	44,701
Student Financial Aid	22,341	-	-	22,341	-
Unemployment Benefits	-	690,713	-	690,713	-
Claims	-	-	10,899	10,899	431,091
Depreciation	71,008	-	4,040	75,048	8,157
Amortization	-	-	71	71	167
Supplies and Materials	81,027	-	7,202	88,229	7,705
Repairs and Maintenance	35,898	-	-	35,898	-
Indirect Costs	-	-	7,581	7,581	1,969
Other Expenses	37,358	-	6,023	43,381	3,150
Total Operating Expenses	$ 1,458,581	$ 690,713	$ 176,277	$ 2,325,571	$ 640,712
Operating Income (Loss)	$ (601,595)	$ 363,514	$ 118,215	$ (119,866)	$ 66,771
Nonoperating Revenues (Expenses):					
Investment Income	$ 14,802	$ 333	$ 3,152	$ 18,287	$ 8,873
Private Grants	13,090	-	-	13,090	-
Grants and Subsidies	1,963	-	-	1,963	-
Securities Lending Income	1,018	-	-	1,018	613
Other Nonoperating Revenues	-	17,929	10	17,939	86
Interest and Financing Costs	(12,347)	-	(1,348)	(13,695)	(909)
Grants, Aids and Subsidies	(8,591)	-	-	(8,591)	-
Securities Lending Rebates and Fees	(1,005)	-	-	(1,005)	(605)
Other Nonoperating Expenses	-	-	(3,416)	(3,416)	(2,361)
Gain (Loss) on Disposal of Capital Assets	(702)	-	(96)	(798)	108
Total Nonoperating Revenues (Expenses)	$ 8,228	$ 18,262	$ (1,698)	$ 24,792	$ 5,805
Income (Loss) Before Transfers & Contributions	$ (593,367)	$ 381,776	$ 116,517	$ (95,074)	$ 72,576
Capital Contributions	71,249	-	-	71,249	-
Transfers-In	600,694	1,747	2,032	604,473	-
Transfers-Out	-	(82,535)	(119,097)	(201,632)	(24,844)
Change in Net Assets	$ 78,576	$ 300,988	$ (548)	$ 379,016	$ 47,732
Net Assets, Beginning, as Reported	$ 1,112,430	$ 217,348	$ 74,357	$ 1,404,135	$ 130,552
Net Assets, Ending	$ 1,191,006	$ 518,336	$ 73,809	$ 1,783,151	$ 178,284

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 680,998	$ 994,665	$ 622,135	$ 2,297,798	$ 696,045
Receipts from Grants	229,731	-	-	229,731	-
Receipts from Other Revenues	-	-	2,908	2,908	9,401
Receipts from Repayment of Program Loans	7,175	-	-	7,175	-
Financial Aid Disbursements	(21,874)	-	-	(21,874)	-
Payments to Claimants	-	(671,626)	(279,228)	(950,854)	(431,059)
Payments to Suppliers	(388,498)	-	(89,757)	(478,255)	(157,905)
Payments to Employees	(1,013,963)	-	(109,169)	(1,123,132)	(43,910)
Payments to Others	-	-	(28,055)	(28,055)	(2,310)
Payments of Program Loans	(7,096)	-	-	(7,096)	-
Net Cash Flows from Operating Activities	$ (513,527)	$ 323,039	$ 118,834	$ (71,654)	$ 70,262
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 13,090	$ -	$ -	$ 13,090	$ -
Transfers-In	600,694	1,747	2,032	604,473	-
Transfers-Out	-	(54,658)	(119,832)	(174,490)	(25,612)
Advances to Other Funds	-	-	(70)	(70)	-
Advances from Other Funds	-	47,387	-	47,387	4,500
Repayments of Advances to Other Funds	-	-	70	70	-
Repayments of Advances from Other Funds	-	(122,956)	-	(122,956)	(5,104)
Interest Paid	-	(4,182)	-	(4,182)	-
Other Nonoperating Expenses	(10,774)	-	(3,527)	(14,301)	(2,299)
Other Nonoperating Revenues	-	16,110	-	16,110	-
Net Cash Flows from Noncapital Financing Activities	$ 603,010	$ (116,552)	$ (121,327)	$ 365,131	$ (28,515)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 71,249	$ -	$ -	$ 71,249	$ -
Investment in Capital Assets	(137,312)	-	(2,827)	(140,139)	(9,582)
Proceeds from Disposal of Capital Assets	1,656	-	61	1,717	2,144
Proceeds from Capital Debt	71,260	-	-	71,260	-
Proceeds from Loans	-	-	-	-	7,102
Capital Lease Payments	(2,457)	-	(165)	(2,622)	-
Repayment of Loan Principal	(1,107)	-	-	(1,107)	(8,315)
Repayment of Bond Principal	(12,090)	-	(850)	(12,940)	-
Interest Paid	(11,947)	-	(1,229)	(13,176)	(1,085)
Net Cash Flows from Capital and Related Financing Activities	$ (20,748)	$ -	$ (5,010)	$ (25,758)	$ (9,736)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 1,182	$ -	$ -	$ 1,182	$ 7,669
Purchase of Investments	(3,767)	-	-	(3,767)	(7,687)
Investment Earnings	15,520	333	3,153	19,006	9,286
Net Cash Flows from Investing Activities	$ 12,935	$ 333	$ 3,153	$ 16,421	$ 9,268
Net Increase (Decrease) in Cash and Cash Equivalents	$ 81,670	$ 206,820	$ (4,350)	$ 284,140	$ 41,279
Cash and Cash Equivalents, Beginning, as Reported	$ 435,398	$ 4,728	$ 68,598	$ 508,724	$ 161,545
Cash and Cash Equivalents, Ending	$ 517,068	$ 211,548	$ 64,248	$ 792,864	$ 202,824

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006
(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)	$ (601,595)	$ 363,514	$ 118,215	$ (119,866)	$ 66,771
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 71,008	$ -	$ 4,040	$ 75,048	$ 8,157
Amortization	-	-	71	71	167
Loan Principal Repayments	7,175	-	-	7,175	-
Loans Issued	(7,096)	-	-	(7,096)	-
Loans Forgiven	1,031	-	-	1,031	-
Change in Assets and Liabilities:					
Accounts Receivable	(1,186)	(59,584)	(5,087)	(65,857)	(7,342)
Inventories	(1,046)	-	1,587	541	(147)
Other Assets	1,963	2,699	(834)	3,828	911
Accounts Payable	2,116	13,161	(851)	14,426	1,287
Compensated Absences Payable	4,046	-	149	4,195	320
Unearned Revenues	3,435	3,249	2,787	9,471	209
Other Liabilities	6,622	-	(1,243)	5,379	(71)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 88,068	$ (40,475)	$ 619	$ 48,212	$ 3,491
Net Cash Flows from Operating Activities	$ (513,527)	$ 323,039	$ 118,834	$ (71,654)	$ 70,262
Noncash Investing, Capital and Financing Activities:					
Change in Fair Value of Investments	$ 117	$ -	$ -	$ 117	$ -
Capital Assets Acquired Through Leases	2,646	-	808	3,454	-
Capital Assets Purchased on Account	16,565	-	-	16,565	-
Disposal of Capital Assets	(702)	-	-	(702)	136
Buildings Capitalized under Notes Payable	973	-	-	973	-
Investment Earning on Account	95	-	-	95	715
Bond Premium Amortization	572	-	-	572	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 35,315	$ -	$ 69,569
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,485,177	$ 15,508	$ -
Investments:			
Commercial Paper	$ 88,455	$ 847	$ -
Debt Securities	10,988,084	111,988	-
Equity Securities	32,476,088	227,752	-
Mutual Funds	3,350,965	-	-
Total Investments	$ 46,903,592	$ 340,587	$ -
Accrued Interest and Dividends	$ 137,478	$ 1,311	$ -
Securities Trades Receivables (Payables)	(1,202,723)	(11,666)	-
Total Investment Pool Participation	$ 48,323,524	$ 345,740	$ -
Receivables:			
Employer Contributions	$ 20,009	$ -	$ -
Member Contributions	9,377	-	-
Accounts Receivable	-	-	11,705
Interfund Receivables	8,278	-	-
Other Receivables	46,080	-	-
Accrued Interest and Dividends	229	-	-
Total Receivables	$ 83,973	$ -	$ 11,705
Securities Lending Collateral	$ 5,259,265	$ 48,082	$ -
Depreciable Capital Assets (Net)	27,901	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 53,730,407	$ 393,822	$ 81,274
LIABILITIES			
Accounts Payable	$ 38,894	$ 75	$ 45,478
Interfund Payables	8,278	-	-
Accrued Expense	47	-	-
Revenue Bonds Payable	26,625	-	-
Bond Interest	77	-	-
Compensated Absences Payable	1,968	-	-
Securities Lending Liabilities	5,259,265	48,082	-
Funds Held in Trust	-	-	35,796
Total Liabilities	$ 5,335,154	$ 48,157	$ 81,274
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 48,395,253	$ 345,665	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 657,990	$ -
Member	864,811	-
Contributions From Other Sources	9,396	-
Participating Plans	-	36,940
Total Contributions	$ 1,532,197	$ 36,940
Net Investment Income:		
Investment Income	$ 5,295,488	$ 29,124
Less: Investment Expense	(65,442)	(307)
Net Investment Income	$ 5,230,046	$ 28,817
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 231,965	$ 2,654
Borrower Rebates	(211,500)	(2,476)
Management Fees	(4,762)	-
Net Securities Lending Revenue	$ 15,703	$ 178
Total Investment Income	$ 5,245,749	$ 28,995
Transfers From Other Funds	$ 12,303	$ -
Other Additions	41,126	-
Total Additions	$ 6,831,375	$ 65,935
Deductions:		
Benefits	$ 2,778,192	$ -
Refunds/Withdrawals	185,983	65,575
Administrative Expenses	47,189	-
Transfers to Other Funds	12,303	-
Total Deductions	$ 3,023,667	$ 65,575
Net Increase (Decrease)	$ 3,807,708	$ 360
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 43,719,316	$ 468,319
Change in Reporting Entity	745,215	-
Change in Fund Structure	123,014	(123,014)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 44,587,545	$ 345,305
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 48,395,253	$ 345,665

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2005 and JUNE 30, 2006
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 643,257	$ 63,664	$ 153,735	$ 466,479	$ 1,327,135
Investments	234,016	239,304	116,673	506,398	1,096,391
Accounts Receivable	1,508	15,431	235,342	67,522	319,803
Due from Other Governmental Units	-	13,079	-	-	13,079
Due from Primary Government	-	42,639	106,450	7,009	156,098
Accrued Investment/Interest Income	12,065	865	5,926	19,487	38,343
Federal Aid Receivable	2,211	-	-	107	2,318
Inventories	-	16,186	18,792	50	35,028
Deferred Costs	13,794	-	-	7,831	21,625
Loans and Notes Receivable	-	-	13,696	74,848	88,544
Securities Lending Collateral	-	-	161,911	47,542	209,453
Other Assets	1,414	877	24,383	684	27,358
Total Current Assets	$ 908,265	$ 392,045	$ 836,908	$ 1,197,957	$ 3,335,175
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 204,981	$ 130,942	$ 23,055	$ 6,114	$ 365,092
Investments-Restricted	20,878	-	114,662	19,083	154,623
Accounts Receivable-Restricted	-	20,775	-	3,480	24,255
Due from Primary Government-Restricted	-	-	-	22,940	22,940
Other Assets-Restricted	-	10,387	-	-	10,387
Investments	-	-	2,806,897	147,262	2,954,159
Accounts Receivable	-	-	86,476	340,542	427,018
Loans and Notes Receivable	1,805,094	26,557	56,646	1,910,556	3,798,853
Depreciable Capital Assets (Net)	3,685	1,910,119	1,831,280	394	3,745,478
Nondepreciable Capital Assets	-	332,643	129,958	2,834	465,435
Other Assets	-	-	5,492	5,401	10,893
Total Noncurrent Assets	$ 2,034,638	$ 2,431,423	$ 5,054,466	$ 2,458,606	$ 11,979,133
Total Assets	$ 2,942,903	$ 2,823,468	$ 5,891,374	$ 3,656,563	$ 15,314,308
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 16,905	$ 62,952	$ 105,476	$ 16,369	$ 201,702
Payable to Other Governmental Units	-	1,529	-	-	1,529
Due to Primary Government	35,235	-	5,449	25,910	66,594
Unearned Revenue	-	5,576	111,520	57,300	174,396
Accrued Bond Interest Payable	38,086	4,971	2,920	16,025	62,002
General Obligation Bonds Payable	-	90,820	124,967	-	215,787
Loans and Notes Payable	-	-	160,532	924	161,456
Revenue Bonds Payable	398,030	845	1,302	47,185	447,362
Grants Payable	-	-	-	3,177	3,177
Claims Payable	-	8,756	19,815	80,317	108,888
Compensated Absences Payable	159	2,389	148,277	64	150,889
Securities Lending Liabilities	-	-	161,911	47,542	209,453
Other Liabilities	-	121	38,623	1,894	40,638
Total Current Liabilities	$ 488,415	$ 177,959	$ 880,792	$ 296,707	$ 1,843,873
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 22,554	$ 68,643	$ -	$ 91,197
Unearned Revenue-Restricted	-	83,484	-	-	83,484
Accrued Bond Interest Payable-Restricted	-	8,764	-	-	8,764
Due to Primary Government	-	-	57,759	44,084	101,843
Unearned Revenue	-	-	5,085	-	5,085
General Obligation Bonds Payable	-	979,763	274,070	-	1,253,833
Loans and Notes Payable	-	1,405	1,489	2,051	4,945
Revenue Bonds Payable	1,548,061	9,800	73,301	1,436,958	3,068,120
Claims Payable	-	8,385	9,762	545,683	563,830
Compensated Absences Payable	1,485	5,544	11,232	707	18,968
Funds Held in Trust	82,368	-	1,323	-	83,691
Other Liabilities	-	18,545	37,212	5,618	61,375
Total Noncurrent Liabilities	$ 1,631,914	$ 1,138,244	$ 539,876	$ 2,035,101	$ 5,345,135
Total Liabilities	$ 2,120,329	$ 1,316,203	$ 1,420,668	$ 2,331,808	$ 7,189,008
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 3,685	$ 1,399,163	$ 1,296,432	$ 761	$ 2,700,041
Restricted-Expendable	818,889	144,383	1,850,248	1,110,365	3,923,885
Restricted-Nonexpendable	-	-	837,650	-	837,650
Unrestricted	-	(36,281)	486,376	213,629	663,724
Total Net Assets	$ 822,574	$ 1,507,265	$ 4,470,706	$ 1,324,755	$ 8,125,300

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND JUNE 30, 2006
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 330,846	$ 695,203	$ 2,591,507	$ 387,018	$ 4,004,574
Program Revenues:					
Charges for Services	$ 146,680	$ 294,923	$ 1,139,917	$ 195,398	$ 1,776,918
Operating Grants and Contributions	170,318	170,509	698,431	59,035	1,098,293
Capital Grants and Contributions	-	26,697	112,766	-	139,463
Net (Expense) Revenue	$ (13,848)	$ (203,074)	$ (640,393)	$ (132,585)	$ (989,900)
General Revenues:					
Taxes	$ -	$ 189,542	$ -	$ -	$ 189,542
Investment Income	-	11,190	311,310	20,488	342,988
Other Revenues	832	-	55,803	2,554	59,189
Total General Revenues before Grants	$ 832	$ 200,732	$ 367,113	$ 23,042	$ 591,719
State Grants Not Restricted	35,235	-	616,445	178,870	830,550
Total General Revenues	$ 36,067	$ 200,732	$ 983,558	$ 201,912	$ 1,422,269
Change in Net Assets	$ 22,219	$ (2,342)	$ 343,165	$ 69,327	$ 432,369
Net Assets, Beginning, as Reported	$ 800,355	$ 1,509,607	$ 4,127,541	$ 1,255,428	$ 7,692,931
Net Assets, Ending	$ 822,574	$ 1,507,265	$ 4,470,706	$ 1,324,755	$ 8,125,300

The notes are an integral part of the financial statements.

2006 Comprehensive Annual Financial Report

Index of Notes to the Financial Statements

Page

Notes to the Financial Statements

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

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

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

GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section" was issued in May 2004. The statement establishes and modifies requirements related to the supplementary information presented in the statistical section of this report. The objectives of statistical section information are to provide financial statement users with additional historical perspectives, context, and detail to assist in using the information in the financial statements. The state implemented this statement for the fiscal year ended June 30, 2006.

GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" was issued in December 2004. The statement amends a previous standard by clarifying the meaning of the phrase "legally enforceable" as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. The state implemented this statement for the fiscal year ended June 30, 2006.

GASB Statement No. 47, "Accounting for Termination Benefits" was issued in June 2005. The statement establishes accounting standards for voluntary and involuntary termination benefits paid by the state to its employees. The state implemented this statement for the fiscal year ended June 30, 2006. See Note 9 – Termination and Postretirement Benefits, for information on the liability amounts accrued.

Financial Reporting Entity of the State of Minnesota

This report includes the state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota legislature or its constitutional officers. The state of Minnesota, as a primary government, consists of all organizations that make up its legal entity. This report also includes other legally separate organizations as component units. GASB has established criteria for determining which organizations should be included as component units. Legally separate organizations are reported as component units if either the state is financially accountable for the organization or the nature and significance of the organization's relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. These criteria include the state's ability to appoint a voting majority of an organization's governing body, and either the state's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the state.

Component units may be blended or discretely presented. All of the state's component units are discretely presented, or shown separately from the primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the state's discretely presented component units. They are also identified separately in the note disclosures because of their separate legal status. All component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting. The state does not have any blended component units.

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

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

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

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

- Agricultural and Economic Development Board (AEDB) – AEDB 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.

- Office of Higher Education (OHE) – OHE makes and guarantees loans to qualified post-secondary students. To fund the loan program, revenue bonds are issued in OHE's name with limitations set by the legislature. OHE also administers the state grant program. The state provides administrative funding for these programs. The governor appoints all voting members of the board and the OHE director. As of July 2005, the name of this component unit changed from the Higher Education Services Office to the Minnesota Office of Higher Education.

- Minnesota Partnership for Action Against Tobacco (MPAAT) – MPAAT issues grants to health, community, and academic organizations throughout Minnesota to support 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 believes that excluding MPAAT from the reporting entity would fail to provide a complete overview of tobacco settlement funds. As of July 2006, the name of this component unit changed from the Minnesota Partnership for Action Against Tobacco to ClearWay Minnesota.

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

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

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

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

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

Metropolitan Council
390 North Robert Street
St. Paul, Minnesota 55101

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

University of Minnesota
Office of the Controller
205 West Bank Office Building
1300 South Second Street
Minneapolis, Minnesota 55454

ClearWay Minnesota (Formerly MPAAT)
Two Appletree Square, Suite 400
8011 34th Avenue South
Minneapolis, Minnesota 55425

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

Public Facilities Authority
Department of Employment & Economic Development
1st National Bank Bldg., 332 Minnesota St., Suite E200
St. Paul, Minnesota 55101-1351

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

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

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

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

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

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

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

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

Minnesota State Lottery 2645 Long Lake Road Roseville, Minnesota 55113	Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, Minnesota 55103
Public Employees Retirement Association 60 Empire Drive, Suite 200 St. Paul, Minnesota 55103	Teachers Retirement Association 60 Empire Drive, Suite 400 St. Paul, Minnesota 55103
State Board of Investment 60 Empire Drive, Suite 355 St. Paul, Minnesota 55103	Minnesota State Colleges and Universities Financial Reporting Unit 500 Wells Fargo Place, 30 East 7th Street St. Paul, Minnesota 55101

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

Financial Reporting Structure of the State of Minnesota

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements report on the state as a whole, while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize activities as either governmental or business-type.

Government-wide Financial Statements

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

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

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

The government-wide Statement of Activities reports how much of the cost of each functional category (public safety and corrections, transportation, etc.) is supported by general government revenues (sales 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.

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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

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

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

Classification of Funds

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

Governmental Fund Types – These funds account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Most state operations are accounted for in this fund category. 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 followed in accounting for these funds. The fund types included in this category are the enterprise and internal service funds.

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

- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include motor pool, central stores, employee insurance, technology services, plant management, and risk management.

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, or other governmental units. 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.

- Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.

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

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

All governmental funds focus on the flow of current financial resources and use the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August to be available, and recognizes these receivables as current year revenues in governmental funds. Individual income taxes, property taxes, sales taxes, and federal grants are the major revenue sources susceptible to accrual. Revenues collected in advance, 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. Expenditures and related liabilities are recognized when fund obligations are incurred as a result of the receipt of the goods and services, except for debt service, compensated absences, and claims and judgments, which are recorded when due. The following provides further detail on specific items regarding the modified accrual basis of accounting.

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

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

Federal Revenues – Federal revenues, earned by incurring allowable obligations, are recognized at the same time the related obligation is recognized, with one exception. Trunk Highway Fund (a special revenue fund) expenditures incurred by June 30, but not converted to Federal funding by the close of the federal fiscal year, are not recognized as federal revenues.

Proprietary, pension, and investment trust funds are accounted for using the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. The accrual basis of accounting is also used for contributions, benefits, and refunds paid for defined benefit and defined contribution pension plans. Agency funds use the accrual basis of accounting, but do not have a measurement focus because agency funds do not recognize revenues and expenditures.

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.

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.

Cash Equivalents and Investments

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

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

Securities Lending

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

Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted assets. In the enterprise funds, the excess of restricted assets over liabilities payable from restricted assets will first be used for bonds payable.

Income Tax Credits

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

Grant Expenditures and Liabilities Recognition

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

Capital Assets

Capital assets, which include land, buildings, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. 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 of at least three years.

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions.

Capital assets are depreciated using the straight-line method 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. Transportation infrastructure assets using the modified approach, land, construction in progress, and works of art and historical treasures, such as the state capitol, are not being depreciated.

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.

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

Current and Noncurrent Assets

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

Noncurrent Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. Long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, postretirement benefits, and arbitrage rebate requirements. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

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

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

Deferred Compensation Plan

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

Net Assets/Fund Balances

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

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

Restricted Net Assets represent the portion of net assets that are constrained either externally by parties such as creditors or grantors, or legally through constitution provisions or enabling legislation. Restricted net assets are determined at the fund level. For a fund with more than one revenue stream, restricted net assets 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.

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.

Unencumbered appropriation balances generally cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. 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 government-wide Statement of Net Assets, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

New Funds

Laws of Minnesota 2005 imposed a health impact fee on the sale of cigarettes in the state. The Health Impact Fund (special revenue fund) was created to account for proceeds from the fee.

Laws of Minnesota 2005 gave certain county boards permission to enter into agreements with the State Board of Investment to invest county environmental trust funds on behalf of the county. The Miscellaneous Investment Trust Fund (investment trust fund) was created to account for this investment activity.

Change in Fund Structure

Laws of Minnesota 2005 moved the accounting and administration of the Hennepin County Supplemental Retirement Plan to the Minnesota State Retirement System. The Hennepin County Supplemental Plan net assets were moved from the Supplemental Retirement Fund (investment trust fund) to the Hennepin County Supplemental Fund (pension trust fund), which was created to account for this activity.

Note 2 – Cash and Investments

Primary Government

Cash and Cash Equivalents

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

Deposits

Minnesota Statutes, Section 9.031, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. The statute further requires that the insurance and collateral shall be in an amount sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amounts and the fair value of the collateral.

Investments

The State Board of Investment (SBI) manages the majority of the state's investments. All investments undertaken by SBI are governed by the standards codified in Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments of the primary government to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds.

Generally, when applicable, the statutes limit investments to those rated within the top four quality ratings categories by a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

SBI is authorized to establish, and has established, combined investment funds used by participating public retirement and nonretirement funds. Retirement and nonretirement funds may not be commingled. Each investment fund has its own characteristics, including investment objective and risk characteristics. Within statutory requirements and based on detailed analyses of each fund, SBI has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Lehman Aggregate Bond Index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

Credit Risk of Debt Security Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit investments in debt securities to the top four quality ratings categories by a nationally recognized rating agency. The state does not have a credit risk policy that is more stringent than the statutory requirements. The contracts between SBI and investment managers contain any guidelines or limitations regarding credit risk.

The primary government's investments, excluding pension trust and investment trust funds, as of June 30, 2006, are presented below using the Standard & Poor's (S & P) rating scale.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
As of June 30, 2006 (In Thousands)

			Lower of S & P or Moody S & P Equivalent Rating			
	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 203,585	5.35	100%	-	-	-
U.S. Agencies	359,365	7.47	94%	-	-	6%
Mortgage-backed Securities	108,879	20.66	89%	11%	-	-
State or Local Government Bonds	359,638	1.13	99%	1%	-	-
Corporate Bonds	1,934,542	3.33	81%	10%	1%	8%
Commercial Paper	2,264,208	0.12	100%	-	-	-
Repurchase Agreements	414,520	0.08	-	-	-	100%
Short-term Securities	57,436	2.11	64%	28%	-	8%
Total Debt Securities	$ 5,702,173					
Equity Investments:						
Corporate Stock	$ 672,780					
Alternative Equities	6,436					
Total Equity Investments	$ 679,216					
Other Investments:						
Escheat Property	$ 5,870					
Money Market Accounts	11,890					
Total Other Investments	$ 17,760					
Total Investments	$ 6,399,149 (1)					

(1)Total investments are less than the amount shown on the face of the financial statements as amounts do not include cash on hand.

Investments of the pension trust and investment trust funds are presented below:

Primary Government
Pension Trust and Investment Trust Funds Investments
As of June 30, 2006
(In Thousands)

	Fair Value	Weighted Average Maturity (Years)	Lower of S & P or Moody S & P Equivalent Rating: AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 1,691,168	7.55	100%	-	-	-
U.S. Agencies	1,221,163	3.83	98%	-	-	2%
Mortgage-backed Securities	5,396,768	24.78	99%	-	-	1%
State or Local Government Bonds	188,351	7.38	77%	20%	3%	-
Corporate Bonds	2,485,687	6.59	17%	69%	13%	1%
Commercial Paper	89,302	0.46	100%	-	-	-
Asset-backed Securities	838,881	16.24	91%	6%	-	3%
Short-term Securities	1,814,054	0.12	-	-	-	100%
Total Debt Securities	$ 13,725,374					
Equity Investments:						
Corporate Stock	$ 27,915,466					
Stock Options	37,443					
Alternative Equities	4,750,931					
Mutual Funds	3,350,965					
Total Equity Investments	$ 36,054,805					
Total Investments	$ 49,780,179					

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations:

- Aggregate value may not exceed 5 percent of the market or book value, whichever is less, of the fund being invested.
- SBI's participation is limited to 50 percent of a single offering.
- SBI's participation is limited to 25 percent of the issuer's unrated obligations.

Corporate Stock:

- Aggregate value of corporate stock may not exceed 85 percent of the market or book value, whichever is less, of a fund.
- Generally, investment in corporate stock may not exceed five percent of the total outstanding shares of any one corporation.

The state had concentration of credit risk over 5 percent as of June 30, 2006, in the Federal National Mortgage Association (FNMA). FNMA represented 16.7 percent of the primary government's debt securities investments and 5.8 percent of the state's total investments. The pension trust and investment trust funds included in the primary government had 22.8 percent of the debt securities investments and 6.3 percent of the total investments in FNMA.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SBI has established guidelines to be used by investment managers for international investing. Under these guidelines, countries are categorized based on a country's legal structures and standings regarding worker and human rights issues. Managers may invest in countries with legal structures that generally respect the rights of workers and human rights without additional notification of SBI. Investment managers who wish to invest in other countries must either notify SBI in writing or appear before SBI, depending on the country involved. Managers with authority to invest in foreign securities are given authority to hedge foreign currency through forward contracts to avoid currency losses.

The primary government, excluding pension trust and investment trust funds, had no exposure to foreign currency risk as of June 30, 2006.

The following table presents foreign currency risk for pension trust and investment trust funds:

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value (In Thousands)
As of June 30, 2006

Currency	Cash	Debt	Equity
Australian Dollar	$ 5,127	$ 6,361	$ 224,799
Canadian Dollar	8,534	4,077	315,371
Euro Currency	25,856	-	1,885,252
Hong Kong Dollar	496	-	189,292
Indian Rupee	3,504	-	53,306
Japanese Yen	22,702	-	1,314,565
New Taiwan Dollar	6,317	-	96,386
Norwegian Krone	770	-	62,522
Pound Sterling	2,423	-	1,257,201
Singapore Dollar	899	-	55,241
South African Rand	425	-	89,927
South Korean Won	-	-	125,037
Swedish Krona	1,473	-	118,324
Swiss Franc	938	-	415,171
Other	513	-	223,845
Total	$ 79,977	$ 10,438	$ 6,426,239

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counter party, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are held in the state's name and collateral for repurchase agreements is held in the state's name by third party agents. The primary government does not have a formal policy for custodial credit risk.

Securities Lending

Minnesota statutes do not prohibit the state from participating in securities lending transactions. The state has, by 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 100 percent 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, 2006
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 335,128	$ 5,785,269
Collateral Held	$ 341,892	$ 5,905,061
Average Duration	87 days	N/A
Average Weighted Maturity	87 days	463 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, 2006, 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.

Component Units

University of Minnesota and 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.

University of Minnesota

University of Minnesota (U of M) does not have a policy for custodial risk of deposits. As of June 30, 2006, $4,983,000 of the U of M's bank balance of $5,083,000 was uninsured and uncollateralized.

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes the U of M investment policies and objectives. U of M uses internal investment pools designed to maximize investment return within consistent risk parameters for each pool.

U of M has established policies to address the various types of investment risks. As of June 30, 2006, U of M, including its discretely presented component units, had $176,790,000 of cash and cash equivalents and $3,038,232,000 of investments. The U of M's discretely presented component units do not classify investments according to risk because these entities prepare their financial statements under standards set by the Financial Accounting Standards Board. Excluding discretely presented component units, U of M reported cash and cash equivalents of $119,783,000 and investments of $1,440,084,000.

U of M uses Standard & Poor's ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2006, $647,640,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $559,346,000 was rated AAA
- $19,147,000 was rated A or AA
- $68,092,000 was rated BB or BBB
- $1,055,000 was not rated

The securities subject to interest rate risk were comprised of:

- $342,035,000 in government agencies with a duration of 2.20 years
- $48,213,000 in corporate bonds with a duration of 0.82 years
- $66,559,000 in mortgage backed securities with a duration of 4.27 years
- $132,760,000 in cash and cash equivalents with a duration of .003 year
- $58,073,000 in other types of securities (primarily mutual funds) with a duration of 4.90 years

As of June 30, 2006, U of M had $126,824,000 of equity investments subject to foreign currency risk. The three largest components of this amount are as follows:

Euro	$ 45,587,000
Japanese Yen	$ 35,723,000
Pound Sterling	$ 30,194,000

Metropolitan Council

Metropolitan Council (MC) has investment policies to address the various types of investment risks. As of December 31, 2005, MC had a cash and investment portfolio of $433,910,000. Of this amount, $382,061,000 was subject to rating. $218,952,000 of these investments were rated Aaa using the Moody's rating scale. $158,277,000 was commercial paper rated at A-1 or P-1, while $4,832,000 was not rated.

Several MC investment holdings of specific issuers represent more than five percent of combined cash and investments. These holdings include: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

MC has adopted the simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2005. The investment portfolio has an average yield of 4.77 percent, modified duration of 3.72 years, effective duration of 1.97 years, and convexity of -.53.

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

	Estimated Fair Value
December 31, 2005	$ 415,446,000
Fair Value of Portfolio After Basis Point Increase of:	
50 Points	$ 413,994,000
100 Points	$ 409,016,000
150 Points	$ 403,916,000
200 Points	$ 398,877,000

Housing Finance Agency

Housing Finance Agency (HFA) investments had an estimated fair market value of $254,894,000 as of June 30, 2006. All investment agreement providers have a Standard & Poor's long-term credit rating of 'AA-' or higher and a Moody's Investors Service long-term credit rating of 'Aa3' or higher. The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

As of June 30, 2006, HFA had $1,103,132,000 of cash, cash equivalents, and investments. Of this amount, 77 percent had maturities of less than 30 days, 21.3 percent (U.S. Agencies) having maturities of 0.7 – 13 years and 2 percent (U.S. Treasuries) having maturities of 10 – 15 years.

HFA investments in any single issuer that exceeded five percent of total investments amounted to $693,268,000. These investments involved Bayerische Landesbank, AIG Matched Funding, MBIA, and FSA Capital Management Services investment agreements.

As of June 30, 2006, $202,111,000 of deposits and $89,255,000 of investment securities were subject to custodial risk.

Nonmajor Component Units

The following table presents the cash, cash equivalents, and investments by nonmajor component unit.

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 10,664,000	$ 19,083,000
Minnesota Partnership for Action Against Tobacco	26,000	162,839,000
National Sports Center Foundation	511,000	-
Office of Higher Education	192,270,000	5,676,000
Public Facilities Authority	250,812,000	26,841,000
Rural Finance Authority	9,894,000	-
Workers' Compensation Assigned Risk Plan	8,416,000	311,042,000
Total	$ 472,593,000	$ 525,481,000

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, 2006:

Components of Net Receivables
As of June 30, 2006
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 518,768	$ -	$ -	$ 518,768
Sales and Use	295,852	-	-	295,852
Property	321,146	-	-	321,146
Health Care Provider	168,600	-	74,099	242,699
Highway Users	-	-	85,195	85,195
Child Support	92,721	93,494	-	186,215
Workers' Compensation	-	-	101,497	101,497
Other	223,399	42,510	126,071	391,980
Net Receivables	$ 1,620,486	$ 136,004	$ 386,862	$ 2,143,352

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 388,564	$ -	$ 388,564
Tuition and Fees	34,887	-	-	34,887
Other	-	-	27,506	27,506
Net Receivables	$ 34,887	$ 388,564	$ 27,506	$ 450,957
Total Government-wide Net Receivables				$ 2,594,309

[1]Includes $12,098 Internal Service Funds.

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

- Corporate and Individual Taxes $180,806,000
- Sales and Use Taxes $45,451,000
- Child Support $371,263,000
- Other Receivables $55,317,000

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

- Corporate and Individual Taxes $75,074,000
- Sales and Use Taxes $16,622,000
- Child Support $130,095,000
- Health Care Provider $66,513,000
- Other Receivables $21,913,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2006, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2006
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 34,790
Economic Development	47,299	-	56,816	36,850	-
School Districts	-	-	112,829	-	-
Energy	-	-	-	1,345	-
Agricultural	120	-	48,655	-	-
Transportation	-	-	20,554	-	-
Resources	-	-	16,407	-	-
Other	-	65	1,145	11	-
Total	$ 47,419	$ 65	$ 256,406	$ 38,206	$ 34,790

Component Units
Loans and Notes Receivable
As of June 30, 2006
(In Thousands)

Housing Finance Authority	$ 1,805,094
Metropolitan Council	26,557
University of Minnesota	70,342
Agricultural and Economic Development Board	17,300
Office of Higher Education	603,480
Public Facilities Authority	1,314,153
Rural Finance Authority	50,471
Total	$ 3,887,397

Note 5 – Interfund Transactions

Primary Government

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

In the fund financial statements, these transactions are generally recorded as transfers in/transfers out and 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, 2006 (In Thousands)

Due to the General Fund From:		
Federal Fund	$	20,981
Nonmajor Governmental Funds		227,458
Nonmajor Enterprise Funds		9,348
Internal Service Funds		269
Total Due to General Fund From Other Funds	$	258,056
Due to the Federal Fund From:		
Nonmajor Governmental Funds	$	5,161
Total Due to Federal Fund From Other Funds	$	5,161
Due to the State Colleges and Universities Fund From:		
Nonmajor Governmental Funds	$	15,847
Total Due to State Colleges and Universities From Other Funds	$	15,847
Due to the Nonmajor Enterprise Funds From:		
General Fund	$	1,086
Total Due to Nonmajor Enterprise Funds	$	1,086
Due to the Internal Service Funds From:		
General Fund	$	545
Nonmajor Governmental Funds		222
Total Due to Nonmajor Enterprise Funds	$	767
Due to Fiduciary Funds From:		
Fiduciary Funds	$	8,278
Total Due to Fiduciary Funds From Other Fiduciary Funds	$	8,278
Due to the Nonmajor Governmental Funds From:		
General Fund	$	10,467
Federal Fund		857
Unemployment Insurance Fund		43,785
Nonmajor Governmental Funds		103,046
Nonmajor Enterprise Funds		1,421
Total Due to Nonmajor Governmental Funds From Other Funds	$	159,576

The Central Motor Pool Fund had an outstanding advance of $3,500,000 from the General Fund as of June 30, 2006. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2006
(In Thousands)

Transfers to the General Fund From:		
Federal Fund	$	18,188
Nonmajor Governmental Funds		389,332
Nonmajor Enterprise Funds		65,092
Internal Service Funds		16,262
Total Transfers to General Fund From Other Funds	$	488,874
Transfers to the Federal Fund From:		
Unemployment Insurance Fund	$	1,127
Total Transfers to Federal Fund From Other Funds	$	1,127
Transfers to the State Colleges and Universities Fund From:		
General Fund	$	600,694
Nonmajor Governmental Funds – Capital Contributions		71,249
Total Transfers to State Colleges and Universities From Other Funds	$	671,943
Transfers to the Unemployment Insurance Fund From:		
Nonmajor Governmental Funds	$	1,747
Total Transfers to Unemployment Insurance Fund From Other Funds	$	1,747
Transfers to Fiduciary Funds From:		
Fiduciary Funds	$	12,303
Total Transfers to Fiduciary Funds From Other Fiduciary Funds	$	12,303
Transfers to the Nonmajor Governmental Funds From:		
General Fund	$	574,958
Federal Fund		8,791
Unemployment Insurance Fund		81,408
Nonmajor Governmental Funds		1,401,168
Nonmajor Enterprise Funds		54,005
Internal Service Funds		8,582
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	2,128,912
Transfers to the Nonmajor Enterprise Funds From:		
Nonmajor Governmental Funds	$	2,032
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$	2,032

Component Units

Receivables and payables as of June 30, 2006, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2006
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Housing Finance Agency	$ -	$ 35,235
Metropolitan Council	42,639	-
University of Minnesota	106,450	63,208
Total Major Component Units	$ 149,089	$ 98,443
Nonmajor Component Units	$ 29,949	$ 69,994
Total Component Units	$ 179,038	$ 168,437

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ 38,218	$ 96,137
Federal Fund	-	2,086
Total Major Governmental Funds	$ 38,218	$ 98,223
Nonmajor Governmental Funds	$ 120,525	$ 9,552
Total Primary Government	$ 158,743	$ 107,775[1]

[1]Due to component units on the Government-wide Statement of Net Assets totals $137,685, including $29,910 of loans payable to the Public Facilities Authority, a component unit, that are not fund level liabilities.

Due to primary government exceeds due from component units by $9,694,000 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 $41,353,000.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity
Year Ended June 30, 2006 (In Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 1,559,646	$ 122,214	$ (1,404)	$ 1,680,456
Buildings, Structures, Improvements	26,624	704	-	27,328
Construction in Progress	193,137	40,393	(125,313)	108,217
Infrastructure	5,519,129	451,935	(5,811)	5,965,253
Art and Historical Treasures	500	-	-	500
Total Capital Assets not Depreciated	$ 7,299,036	$ 615,246	$ (132,528)	$ 7,781,754
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,573,229	$ 343,749	$ (45,765)	$ 1,871,213
Infrastructure	49,201	49	-	49,250
Equipment, Furniture, Fixtures	374,985	49,882	(36,033)	388,834
Total Capital Assets Depreciated	$ 1,997,415	$ 393,680	$ (81,798)	$ 2,309,297
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (642,832)	$ (67,467)	$ 34,655	$ (675,644)
Infrastructure	(4,589)	(1,401)	-	(5,990)
Equipment, Furniture, Fixtures	(235,163)	(35,730)	32,587	(238,306)
Total Accumulated Depreciation	$ (882,584)	$ (104,598)	$ 67,242	$ (919,940)
Total Capital Assets Depreciated, Net	$ 1,114,831	$ 289,082	$ (14,556)	$ 1,389,357
Governmental Act. Capital Assets, Net	$ 8,413,867	$ 904,328	$ (147,084)	$ 9,171,111
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 74,828	$ 1,537	$ -	$ 76,365
Construction in Progress	54,170	124,660	(74,476)	104,354
Total Capital Assets not Depreciated	$ 128,998	$ 126,197	$ (74,476)	$ 180,719
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,704,480	$ 75,031	$ (161)	$ 1,779,350
Library Collections	48,059	7,022	(6,576)	48,505
Equipment, Furniture, Fixtures	280,248	19,966	(24,299)	275,915
Total Capital Assets Depreciated	$ 2,032,787	$ 102,019	$ (31,036)	$ 2,103,770
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (827,407)	$ (47,042)	$ -	$ (874,449)
Library Collections	(27,377)	(6,970)	6,575	(27,772)
Equipment, Furniture, Fixtures	(196,714)	(21,036)	21,584	(196,166)
Total Accumulated Depreciation	$ (1,051,498)	$ (75,048)	$ 28,159	$ (1,098,387)
Total Capital Assets Depreciated, Net	$ 981,289	$ 26,971	$ (2,877)	$ 1,005,383
Business-type Act. Capital Assets, Net	$ 1,110,287	$ 153,168	$ (77,353)	$ 1,186,102
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,547	$ -	$ -	$ 29,547
Equipment, Furniture, Fixtures(1)	7,028	449	(1,410)	6,067
Total Capital Assets Depreciated	$ 36,575	$ 449	$ (1,410)	$ 35,614
Accumulated Depreciation for:				
Buildings	$ (2,949)	$ (738)	$ -	$ (3,687)
Equipment, Furniture, Fixtures(1)	(4,828)	(608)	1,410	(4,026)
Total Accumulated Depreciation	$ (7,777)	$ (1,346)	$ 1,410	$ (7,713)
Total Capital Assets Depreciated, Net	$ 28,798	$ (897)	$ -	$ 27,901
Fiduciary Funds, Capital Assets, Net	$ 29,227	$ (897)	$ -	$ 28,330

(1) Beginning balance reflects addition of Minneapolis Teachers Retirement Fund Association.

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, 2006
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 18,847
Transportation	18,659
Agricultural and Environmental Resources	6,381
Economic and Workforce Development	1,130
General Education	3,123
Health and Human Services	16,570
General Government	12,252
Internal Service Funds	8,324
Total Governmental Activities	$ 85,286
Business-type Activities:	
State Colleges and Universities	$ 71,008
Lottery	368
Other	3,672
Total Business-type Activities	$ 75,048

During fiscal year 2006, buildings cost and accumulated depreciation increased by $19,312,000 as a result of capitalizing buildings not previously reported. This has no impact to the statement of activities as these buildings were fully depreciated.

Capital outlay expenditures in the governmental funds totaled $854,612,000 for fiscal year 2006. Donations of general capital assets received during fiscal year 2006 were valued at $21,000. Transfers from construction in progress to completed construction were $124,703,000. Additions in internal service funds were $10,278,000.

General capital assets purchased with resources provided by outstanding capital lease agreements as of June 30, 2006, consisted of equipment with a cost of $10,299,000 and buildings with a cost of $180,005,000.

Authorizations and commitments as of June 30, 2006, for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Military Affairs	Transportation	Zoological Board
Authorization	$ 124,901	$ 6,444	$ 7,000	$ 23,640
Expended through June 30, 2006	21,736	4,712	611	1,306
Unexpended Commitment	1,774	-	4,956	3,267
Available Authorization	$ 101,391	$ 1,732	$ 1,433	$ 19,067

Land in the Permanent School Fund totaling 2,516,284 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, 2005, or June 30, 2006, as applicable:

Capital Assets
As of December 31, 2005 or June 30, 2006
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 74,337	$ 57,955	$ 2,834	$ 135,126
Construction in Progress	-	258,306	33,576	-	291,882
Museums and Collections	-	-	38,427	-	38,427
Buildings and Improvements	-	2,440,876	2,404,051	710	4,845,637
Equipment	5,769	535,611	665,951	1,648	1,208,979
Infrastructure	-	-	326,814	-	326,814
Total	$ 5,769	$ 3,309,130	$ 3,526,774	$ 5,192	$ 6,846,865
Less: Accumulated Depreciation	2,084	1,066,368	1,620,411	1,964	2,690,827
Net Total	$ 3,685	$ 2,242,762	$ 1,906,363 (1)	$ 3,228	$ 4,156,038

(1) In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $54,875 as of June 30, 2006.

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, 2006:

Components of Accounts Payable
As of June 30, 2006
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
School Aid Programs	$ 659,099	$ 144,263	$ -	$ 803,362
Tax Refunds	506,615	-	-	506,615
Medical Assistance	345,242	356,829	-	702,071
Grants	197,122	131,952	216,183	545,257
Salaries and Benefits	59,534	10,517	45,719	115,770
Vendors/Service Providers	43,070	37,826	177,799	258,695
Other	12,241	907	22,520	35,668
Net Payables	$ 1,822,923	$ 682,294	$ 462,221	$ 2,967,438

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 96,512	$ -	$ 5,926	$ 102,438
Vendors/Service Providers	36,611	-	2,490	39,101
Other	7,728	28,434	13,188	49,350
Net Payables	$ 140,851	$ 28,434	$ 21,604	$ 190,889
Total Government-wide Net Payables				$ 3,158,327

[1]Includes $57,660 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
	Correctional Employees Retirement Fund
	Elective State Officers Fund
	Judicial Retirement Fund
	Legislative Retirement Fund
	State Patrol Retirement Fund
	Unclassified Employees Retirement Fund
	Postretirement Health Care Benefits Fund
	State Deferred Compensation Fund
	Hennepin County Supplemental Retirement
Teachers Retirement Association (TRA)	Teachers Retirement Fund
Public Employees Retirement Association (PERA)	Public Employees Retirement Fund
	Police and Fire Fund
	Public Employees Correctional Fund
	Defined Contribution Retirement Fund

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 in the period in which they are earned and become measurable. Expenses are recognized 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.

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing "units" in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund's pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2006, this presentation resulted in a negative asset within the funds' investments.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

  The State Employees Retirement Fund (SERF) covers those employees of the state, University of Minnesota, and certain other entities not covered by other pension funds. Thirty-three 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 seventy three (573) 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 for service rendered before July 1, 2006, and 1.4 and 1.9 percent for service rendered on or after July 1, 2006. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  The Public Employees Retirement Fund (PERF) covers employees of various governmental subdivisions; including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: basic and coordinated 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 some members of the state's house of representatives and senate. Legislators newly elected since January 1997 are covered by the Unclassified Employee Retirement Fund. 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	2006	$ 85,379	$ 177,085
	2005	$ 83,101	$ 160,982
	2004	$ 82,103	$ 159,140
Employer[1]	2006	$ 82,645	$ 179,022
	2005	$ 80,312	$ 157,693
	2004	$ 78,622	$ 151,029

[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]	$ 25,835	$ 9,624	$ 3,260	$ 10,793
Interest on Net Pension Obligation (NPO)[1]	(15)	(691)	(673)	(2,752)
Amort Adj to ARC[1]	16	706	599	1,743
Annual Pension Cost	$ 25,836	$ 9,639	$ 3,186	$ 9,784
Contributions	(21,116)	(10,202)	(5,948)	(11,774)
Increase (Decrease) in NPO	$ 4,720	$ (563)	$ (2,762)	$ (1,990)
NPO, Beginning Balance	$ (182)	$ (8,135)	$ (7,920)	$ (32,381)
NPO, Ending (Asset)	$ 4,538	$ (8,698)	$ (10,682)	$ (34,371)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2006	$ 25,836	$ 9,639	$ 3,186	$ 9,784
	2005	$ 24,115	$ 10,347	$ 3,101	$ 8,677
	2004	$ 20,846	$ 9,222	$ 2,281	$ 8,344
Percentage of APC Contributed	2006	82%	106%	187%	120%
	2005	79%	96%	71%	129%
	2004	88%	106%	34%	132%
NPO (End of Year)	2006	$ 4,538	$ (8,698)	$ (10,682)	$ (34,371)
	2005	$ (182)	$ (8,135)	$ (7,920)	$ (32,381)
	2004	$ (5,338)	$ (8,595)	$ (8,816)	$ (29,871)

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, 2005.
- 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 as of June 30, 2005, less: 80 percent UAR for fiscal year 2005; 60 percent UAR for fiscal year 2004; 40 percent UAR for fiscal year 2003; and 20 percent UAR for fiscal year 2002.
- 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 and 6.0 percent, respectively, 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 or solely with employee contributions, depending on the fund. 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 various statutorily designated entities. 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 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. As of June 30, 2006, there were approximately 6,700 members in the plan.

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

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively, for both member groups. 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 14,400.

Wells Fargo Bank, N.A. is the administrative agent for the State Colleges and Universities Retirement Fund. Separately issued financial statements can be obtained from Wells Fargo, Institutional Investments Group, Retirement Plan Services, Suite 300, 2700 Snelling Avenue North, Roseville, Minnesota, 55113.

The Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employee and employer contribution rate is 1.0 percent of the employee’s salary. As of June 30, 2006, there were approximately 2,300 members in the plan.

Defined Contribution Plans
Contributions Made for Fiscal Year 2006
(In Thousands)

	UERF	DCF	PHCBF	CURF	HCSRF
Employee Contributions	$ 4,368	$ 1,282	$ 52,562	$ 28,438	$ 426
Employer Contributions	$ 5,932	$ 1,392	N/A	$ 31,070	$ 426

The Minnesota State Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457 of the Internal Revenue Code and Minnesota Statutes, Section 352.96. The plan is composed of employee pre-tax contributions. Employers do not contribute to this plan. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan. The plan has approximately 77,000 participants from approximately 500 employers.

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
- Housing Finance Agency
- Metropolitan Council
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- University of Minnesota

Merger of Minneapolis Teachers Retirement Fund Association and Teachers Retirement Association

Laws of Minnesota 2006, Chapter 277, Article 3, Section 9, codified as Minnesota Statutes, Section 354.70, authorized the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Fund (TRF). All assets and liabilities for the 13,783 active, inactive, and retired MTRFA members were transferred to TRF as of June 30, 2006. All MTRFA assets of approximately $712 million were transferred to TRF on behalf of former MTRFA retirees. The unfunded liability for former MTRFA members was assumed by TRF. The resulting TRF unfunded liability is being funded from multiple sources, including redirection of existing MTRFA direct state and local aids, a higher employee contribution rate, and an increased employer contribution rate beginning July 1, 2007. The TRF unfunded liability will be amortized over a closed period ending July 1, 2037.

Under new legislation, all TRF coordinated members received improved formula multipliers from 1.2 to 1.4 percent and from 1.7 to 1.9 percent per year for years of service beginning on or after July 1, 2006. Beginning, July 1, 2006, TRF coordinated employee contribution rates increased .5 percent.

All TRF members hired on or after July 1, 2006, are eligible for a reduced deferred annuity augmentation of 2.5 percent per year between the date of termination and effective date of retirement. TRF members hired prior to July 1, 2006, are eligible for a deferred annuity augmentation of 3 percent per year prior to age 55 and 5 percent per year from age 55 until the date of retirement.

Note 9 – Termination and Postretirement Benefits

Primary Government – Termination Benefits

Effective July 1, 2005, the state implemented Governmental Accounting Standards Board (GASB) Statement No. 47, "Accounting for Termination Benefits". Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Under this statement, a liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated.

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Approximately 200 former facility members currently receive this benefit. The cost of the benefits was $4,700,000 during fiscal year 2006. The implementation of Statement No. 47 resulted in a current undiscounted liability of $3,062,000 and a non-current liability of $2,870,000 being added to State Colleges and Universities Fund (enterprise fund) statement of net assets.

Primary Government – Postemployment Benefits Other Than Pensions

Postemployment benefits other than pensions are available to certain employees of the state, under terms of their employment contract. Through fiscal year 2006, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, and highway patrol officers. If these employees elect to retire at age 55, the state pays for the employer's share of health insurance benefits until the employees reach age 65. GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", required to be implemented for fiscal year 2008, establishes standards for the measurement, recognition, and display of these postemployment benefits. The impact of the implementation of Statement No. 45 will be determined by an actuarial calculation and has not yet been estimated. Pending implementation of Statement No. 45, the state will continue to recognize the cost of these benefits as eligible employees retire. Approximately 900 former employees currently receive this benefit. The cost of the benefits was $7,637,000 during fiscal year 2006.

See Note 12 – Long-Term Liabilities – Primary Government for the related liability amount accrued at the government-wide level.

Component Unit

Metropolitan Council (MC) provides certain health care, life insurance, and other non-pension benefits for some employees as negotiated in labor contracts. MC paid $7,252,000 for the year ended December 31, 2005, for health care and life insurance benefits for 1,100 former employees who met specific eligibility requirements. MC also earmarked approximately $44,187,000 to pay future retiree health care benefits.

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, 2006, were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2006
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 698,735
Capital Projects Funds:	
General Projects Fund	1,558
Transportation Fund	71,453
Building Fund	481,529
Enterprise Funds:	
State Colleges and Universities	85,604
Total Primary Government	$ 1,338,879

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 2006, the Petrofund has reimbursed eligible applicants approximately $375 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2012, are between $425 and $465 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 after fiscal year 2020.

Component Units

University of Minnesota (U of M) has construction projects in progress with an estimated cost of $173,667,000 to complete. These costs will be funded from plant fund assets and state appropriations.

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 five years and commenced on May 17, 2004. Under the agreement, 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 as of June 30, 2006, were as follows:

University of Minnesota
Required Steam Plant Payments
(In Thousands)

Fiscal Year Ending June 30	Total
2007	$ 791
2008	742
2009	650
Total Commitments	$ 2,183

Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2005, unpaid commitments for Metro Transit Bus services were approximately $30.1 million. Future commitments for Metro Transit Light Rail were approximately $8.5 million. Future commitments for Regional Transit services were approximately $164.3 million. Finally, future commitments for Environmental Services were approximately $28 million.

As of June 30, 2006, Public Facilities Authority (PFA) had committed approximately $123 million for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed, $5.9 million for disbursement of non point-source pollution control awards and $11.3 million for other programs.

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, 2006, totaled approximately $75,552,000 and $14,638,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2005, totaled approximately $2,291,000 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
2007	$ 73,063	2007	$ 10,320	2006	$ 1,092
2008	59,930	2008	9,839	2007	301
2009	42,262	2009	8,855	2008	280
2010	32,665	2010	4,757	2009	263
2011	28,810	2011	4,213	2010	157
2012-2016	88,559	2012-2016	11,431	2011-2015	263
2017-2021	2,235	Total	$ 49,415	Total	$ 2,356
2022-2026	3,847				
2027-2031	866				
Total	$ 332,237				

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2006, and the changes during fiscal year 2006:

Long-Term Liabilities
Year Ended June 30, 2006
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 3,315,282	$ 538,909	$ 439,952	$ 3,414,239	$ 301,856
Bond Premium	168,574	45,141	12,573	201,142	13,448
Loans	17,130	36,480 (1)	7,692	45,918	13,444
Due to Component Unit	23,610	9,687	3,387	29,910	6,970
Claims	1,318,434	3,174	428,995	892,613	97,102
Compensated Absences	244,479	200,032	198,148	246,363	26,121
Workers' Compensation	111,017	10,457	12,069	109,405	13,308
Capital Leases	11,037	180,005	8,112	182,930	8,148
Total	$ 5,209,563	$ 1,023,885	$ 1,110,928	$ 5,122,520	$ 480,397
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 145,028	$ 22,051	$ 10,183	$ 156,896	$ 11,468
Bond Premium	4,420	3,887	572	7,735	-
Loans	87,376	973	82,517	5,832	1,101
Revenue Bonds	52,475	45,320	2,015	95,780	2,910
Compensated Absences	117,739	38,472	34,241	121,970	14,285
Workers' Compensation	5,148	2,139	1,876	5,411	1,633
Capital Leases	26,497	2,826	2,803	26,520	2,514
Total	$ 438,683	$ 115,668	$ 134,207	$ 420,144	$ 33,911

(1) $14,677 reported as a prior period adjustment. See Note 21.

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	$ 2,784,654	$ 629,585	$ 156,896	$ 3,571,135
Bond Premium	201,142	-	7,735	208,877
Loans	-	45,918	5,832	51,750
Due to Component Unit	-	29,910	-	29,910
Revenue Bonds	-	-	95,780	95,780
Claims	87,772	804,841	-	892,613
Compensated Absences	118,128	128,235	121,970	368,333
Workers' Compensation	82,999	26,406	5,411	114,816
Capital Leases	177,213	5,717	26,520	209,450
Total	$ 3,451,908	$ 1,670,612	$ 420,144	$ 5,542,664

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, due to component unit, 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
2007	$ 301,856	$ 165,294	$ 11,468	$ 7,687	$ 313,324	$ 172,981
2008	279,881	150,916	11,205	7,122	291,086	158,038
2009	277,593	136,506	11,222	6,559	288,815	143,065
2010	268,274	122,772	11,246	5,991	279,520	128,763
2011	237,050	109,956	10,750	5,433	247,800	115,389
2012-2016	1,065,734	380,143	49,121	19,410	1,114,855	399,553
2017-2021	687,984	156,331	36,336	8,328	724,320	164,659
2022-2026	295,867	27,277	15,548	1,419	311,415	28,696
Total	$ 3,414,239	$ 1,249,195	$ 156,896	$ 61,949	$ 3,571,135	$ 1,311,144

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

Fiscal Year(s)	Business-type Activities Principal	Business-type Activities Interest
2007	$ 2,910	$ 5,063
2008	2,785	4,904
2009	3,745	4,742
2010	3,930	4,555
2011	4,080	4,355
2012-2016	21,155	18,690
2017-2021	22,235	12,783
2022-2026	21,020	6,194
2027-2031	9,455	2,343
2032-2036	4,465	226
Total	$ 95,780	$ 63,855

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 20,414	$ 1,264	$ 1,101	$ 294	$ 21,515	$ 1,558
2008	17,068	2,156	892	237	17,960	2,393
2009	16,442	770	570	191	17,012	961
2010	8,780	2,156	600	159	9,380	2,315
2011	2,354	395	620	126	2,974	521
2012-2016	9,058	1,081	1,728	241	10,786	1,322
2017-2021	1,712	51	321	25	2,033	76
Total	$ 75,828	$ 7,873	$ 5,832	$ 1,273	$ 81,660	$ 9,146

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 8,148	$ 8,850	$ 2,514	$ 1,307	$ 10,662	$ 10,157
2008	7,184	8,367	2,576	1,199	9,760	9,566
2009	7,228	8,149	2,007	1,090	9,235	9,239
2010	5,752	7,913	1,884	980	7,636	8,893
2011	5,960	7,688	1,673	914	7,633	8,602
2012-2016	33,783	34,251	5,941	3,604	39,724	37,855
2017-2021	42,728	24,806	6,780	2,057	49,508	26,863
2022-2026	54,298	12,849	1,898	566	56,196	13,415
2027-2031	17,849	1,097	1,137	187	18,986	1,284
2032-2036	-	-	110	3	110	3
Total	$ 182,930	$ 113,970	$ 26,520	$ 11,907	$ 209,450	$ 125,877

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 2006, the Department of Finance made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2006
(In Thousands)

General Fund	$ 352,447
Special Revenue Funds:	
Game and Fish Fund	$ 8
Trunk Highway Fund	36,347
Natural Resources Funds	11
Maximum Effort School Loan Fund	1,900
Miscellaneous Special Revenue Fund	1,548
Total Special Revenue Funds	$ 39,814
Capital Projects Funds:	
Building Fund	$ 3,224
Total Operating Transfers to Debt Service Fund	$ 395,485

General Obligation Bond Issues

On October 1, 2005, $285,400,000 in general obligation state various purpose bonds, $111,600,000 in general obligation state trunk highway bonds and $160,960,000 general obligation advance refunding bonds were issued at a true interest rate of 3.82 percent. On February 1, 2006, $3,000,000 in general obligation Rural Finance Authority bonds was issued at a true interest rate of 4.87 percent. During fiscal year 2006, $450,135,000 in general obligation bond principal was repaid or defeased.

As a result of the advance refunding, the state reduced its total debt service requirements by $17,477,000, which resulted in an economic gain of $15,357,000. The balance outstanding for all extinguished debt as of June 30, 2006, was $82,750,000, 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	June 30, 2006 Outstanding Amount	Refunded Bond Call Date
October 1, 2005	$ 81,415	$ 82,750	$ 82,750	November 1, 2006

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2006. 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
As of June 30, 2006
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 2,271	$ 747,083	3.00 – 6.00
State Operated Community Services	-	3,397	3.75 – 7.56
State Transportation	-	123,094	3.00 – 6.38
Waste Management	-	3,235	4.00 – 6.00
Water Pollution Control	-	53,335	3.00 – 6.00
Maximum Effort School Loan	-	72,970	4.00 – 6.00
Reinvest in Minnesota	-	565	4.00 – 6.00
Rural Finance Administration	12,500	67,600	3.50 – 7.05
Refunding Bonds	-	674,064	1.50 – 5.40
Municipal Energy Building	-	1,440	3.00 – 6.00
Game and Fish Building	-	16	1.50 – 5.00
Trunk Highway	148,525	433,505	1.50 – 5.50
Airport Facilities	-	36,850	5.30 – 7.95
Landfill	-	11,045	4.25 – 6.00
Various Purpose	1,876,069	1,342,936	3.00 – 5.62
Total	$ 2,039,365	$ 3,571,135	

Capital Leases

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

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of $29,378,000 were from local government entities to finance certain trunk highway projects. In addition, $29,910,000 in loans from the Public Facilities Authority component unit (Due to Component Unit) were outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

Business-type activities loans are primarily loans for the Department of Administration to purchase equipment and college and university building energy efficiency improvements financed by the energy provider.

Revenue Bonds Payable

Minnesota State Colleges and Universities is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $150,000,000 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 state colleges and 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 in 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. Beginning with 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	June 30, 2006 Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 2,960	October 1, 2012

Claims

Municipal solid waste landfill liability of $193,993,000 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 $50,026,000 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 $80,394,000 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 2006.

The remaining claim amount of $568,200,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00%) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. For 2005 and earlier years, the estimated cost was not discounted. A decrease of $318,400,000 is attributable to application of the discounting method in fiscal year 2006. Without alteration by settlements, the liability is expected to extend to approximately the year 2049 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $246,363,000 and $121,970,000, respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental activities and business-type activities liability for workers' compensation of $109,405,000 and $5,411,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2006, 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 2006, 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
2007	$ 550	$ 1,539
2008	575	1,509
2009	600	1,479
2010	625	1,446
2011	675	1,413
2012-2016	3,925	6,472
2017-2021	5,225	5,227
2022-2026	7,050	3,501
2027-2031	7,400	1,142
Total	$ 26,625	$ 23,728

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $3,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of bonds outstanding on June 30, 2006, was $1,946,091,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had $1,070,583,000 in general obligation bonds outstanding, net of unamortized premium, and $10,645,000 of revenue bonds outstanding on December 31, 2005.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2006, the principal amount of revenue bonds outstanding was $74,603,000 and the principal amount of general obligation bonds outstanding was $399,037,000. The University Gateway Corporation, component unit of U of M, issued revenue bonds. As of June 30, 2006, the outstanding principal amount on these bonds was $67,103,000. This amount is not included in the debt repayment schedule.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2006, the principal amount of revenue bonds outstanding was $24,215,000.

Office of Higher Education (OHE) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2006, the outstanding principal of revenue bonds was $487,000,000.

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 $1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2006, was $972,928,000.

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

	U of M		MC[1]	
Fiscal Year(s)	Principal	Interest	Principal	Interest
2007	$ 124,967	$ 26,262	$ 90,820	$ 41,081
2008	114,846	20,643	86,207	35,679
2009	86,467	8,697	93,054	32,516
2010	5,125	3,196	68,903	29,287
2011	5,715	2,948	62,327	26,558
2012-2016	9,600	12,584	282,217	97,705
2017-2021	11,900	10,268	246,990	47,439
2022-2026	15,400	7,347	120,489	9,542
2027-2031	19,500	3,633	-	-
2032-2036	4,500	197	-	-
	$ 398,020	$ 95,775	$ 1,051,007	$ 319,807
Unamortized Discounts/Premiums				
and Issuance Costs	1,017	-	19,576	-
Total	$ 399,037	$ 95,775	$ 1,070,583	$ 319,807

[1]MC fiscal year ends December 31.

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

Fiscal Year(s)	U of M Principal[1]	U of M Interest	HFA Principal	HFA Interest	MC[2] Principal	MC[2] Interest
2007	$ 955	$ 448	$ 398,030	$ 81,901	$ 845	$ 535
2008	1,015	389	40,865	73,034	890	494
2009	1,080	327	37,060	71,532	935	449
2010	1,140	261	44,370	69,898	985	402
2011	1,095	191	42,260	68,105	1,035	351
2012-2016	2,215	260	240,605	308,798	6,070	861
2017-2021	-	-	246,850	251,159	-	-
2022-2026	-	-	276,885	188,082	-	-
2027-2031	-	-	324,555	113,349	-	-
2032-2036	-	-	261,555	39,018	-	-
2037-2041	-	-	26,785	2,486	-	-
2042-2046	-	-	4,135	660	-	-
2047-2052	-	-	530	25	-	-
	$ 7,500	$ 1,876	$ 1,944,485	$ 1,268,047	$ 10,760	$ 3,092
Unamortized Discounts/Premiums and Issuance Costs	-	-	1,606	-	(115)	-
Total	$ 7,500	$ 1,876	$ 1,946,091	$ 1,268,047	$ 10,645	$ 3,092

[1]Does not include foundation issued bonds.

[2]MC fiscal year ends December 31.

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

	OHE		PFA		AEDB	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ -	$ 22,248	$ 41,690	$ 46,218	$ 5,495	$ 1,316
2008	-	22,248	46,250	44,175	1,810	1,097
2009	-	22,248	49,440	41,957	1,825	997
2010	-	22,248	49,255	39,553	1,910	891
2011	-	22,247	55,720	37,361	1,780	779
2012-2016	-	111,239	313,565	143,889	6,340	2,702
2017-2021	28,160	111,027	280,045	67,397	5,055	847
2022-2026	127,580	94,741	110,500	10,521	-	-
2027-2031	139,500	65,985	-	-	-	-
2032-2036	131,340	37,820	-	-	-	-
2037-2041	60,420	8,156	-	-	-	-
	$ 487,000	$ 540,207	$ 946,465	$ 431,071	$ 24,215	$ 8,629
Unamortized Discounts/Premiums and Issuance Costs	-	-	26,463	-	-	-
Total	$ 487,000	$ 540,207	$ 972,928	$ 431,071	$ 24,215	$ 8,629

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on the U of M general obligation bonds and for budgeting purposes, U of M has entered into eight separate interest rate swaps. All of these are pay-fixed and receive variable interest rate swaps, which effectively changes the U of M variable interest rate bonds to synthetic fixed-rate bonds.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, tax-exempt Series 2002B bonds, taxable Series 2003A bonds, tax-exempt Series 2003B bonds, taxable Series 2004A bonds, tax-exempt Series 2004B bonds, taxable Series 2005A bonds, and tax-exempt Series 2005B bonds reset every 7, 7, 7, 28, 35, 28, 35, 28, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rate as of June 30, 2006, for the Series 1999A bonds was 5.19 percent. The interest rates as of June 30, 2006, for the Series 2002A and 2002B bonds were 5.15 percent and 3.62 percent, respectively. The interest rates as of June 30, 2006, for the Series 2003A and 2003B bonds were 5.00 percent, and 3.62 percent, respectively. The interest rates as of June 30, 2006, for the Series 2004A and 2004B bonds were 5.00 percent and 3.97 percent, respectively. The interest rate as of June 30, 2006, for the Series 2005A and 2005B bonds was 5.35 percent and 3.58 percent, respectively.

Bond Defeasances

In prior years, U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $185,570,000 outstanding as of June 30, 2006. 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, 2005, Metropolitan Council issued $38,205,000 in general obligation bonds which refunded the remaining maturities of the Series 1996B, 1999B and 2000A general obligation bonds. The transactions resulted in an economic gain of $2,444,000 and a reduction of $3,144,000 in future debt service payments.

Public Facilities Authority had $349,790,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2006.

Note 14 – Landfill Closure and Postclosure

Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. There are currently 109 closed sites in the program. Up to three 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 revenue from the sale of state general obligation bonds is used for design and construction work at the publicly-owned landfills in the program. As of June 30, 2006, cumulative expenditures of about $245 million have been disbursed by the Remediation Fund and the issuance of bonds. Estimates show that the total of all payments for the program may reach $557 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 administrative costs. 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

Primary Government
Segment Information Financial Data
Year Ended June 30, 2006
(In Thousands)

	Giants Ridge	MnSCU Revenue Fund	MnSCU Vermilion Residence Halls	MnSCU Vermilion Modular Housing	MnSCU Itasca Residence Halls
Condensed Statement of Net Assets					
Assets:					
Current Assets	$ 4,674	$ 48,089	$ 65	$ 48	$ (114)
Restricted Assets	2,070	61,666	457	142	373
Capital Assets	21,643	126,897	1,313	779	3,986
Total Assets	$ 28,387	$ 236,652	$ 1,835	$ 969	$ 4,245
Liabilities:					
Current Liabilities	$ 1,328	$ 16,320	$ 361	$ 106	$ 158
Noncurrent Liabilities	13,883	87,505	-	414	2,311
Total Liabilities	$ 15,211	$ 103,825	$ 361	$ 520	$ 2,469
Net Assets:					
Invested in Capital Assets, Net of Related Debt	$ 9,177	$ 92,223	$ 1,313	$ 364	$ 1,601
Restricted	-	40,604	206	73	314
Unrestricted	3,999	-	(45)	12	(139)
Total Net Assets	$ 13,176	$ 132,827	$ 1,474	$ 449	$ 1,776
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets					
Operating Revenues - Customer Charges	$ 4,562	$ 72,828	$ 434	$ 217	$ 318
Depreciation Expense	(1,162)	(7,835)	(64)	(28)	(71)
Other Operating Expenses	(5,139)	(57,496)	(330)	(136)	(194)
Operating Income (Loss)	$ (1,739)	$ 7,497	$ 40	$ 53	$ 53
Nonoperating Revenues (Expenses):					
Interest Income	$ 131	$ 4,073	$ 12	$ 4	$ 25
Interest Expense	(1,045)	(3,496)	(26)	(29)	(134)
Other	(5)	3	10	-	657
Transfers-In (Out)	2,032	-	-	-	-
Change in Net Assets	$ (626)	$ 8,077	$ 36	$ 28	$ 601
Beginning Net Assets	13,802	124,750	1,438	421	1,175
Ending Net Assets	$ 13,176	$ 132,827	$ 1,474	$ 449	$ 1,776
Condensed Statement of Cash Flows					
Net Cash Provided (Used) By:					
Operating Activities	$ (312)	$ 14,737	$ 212	$ 123	$ 130
Noncapital Financing Activities	2,032	-	-	-	-
Capital and Related Financing Activities	(2,082)	30,930	(126)	(87)	(1,770)
Investing Activities	131	4,055	13	5	25
Net Increase (Decrease)	$ (231)	$ 49,722	$ 99	$ 41	$ (1,615)
Beginning Cash and Cash Equivalents	$ 4,923	$ 45,639	$ 419	$ 141	$ 1,848
Ending Cash and Cash Equivalents	$ 4,692	$ 95,361	$ 518	$ 182	$ 233

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.

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.

- MnSCU Vermilion segment accounts for the construction and operation of student housing at Vermilion Community College.

- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.

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

The Minnesota Supreme Court issued a final ruling in the *Hutchinson Technology* case in June 2005 that allows some corporations increased use of both the Minnesota foreign operating corporation designation and the Minnesota foreign royalty and fee subtractions. This ruling results in additional tax deductions and subtractions in the calculation of Minnesota corporate franchise tax for those corporations resulting in lower Minnesota corporate franchise tax collection (or higher refunds). The ruling affects both past and future tax years. Financial impacts on future tax years will be recognized in the state's forecast and budget process. At June 30, 2005, there was uncertainty about exactly which corporations and past tax years are impacted and to what extent; therefore, an estimated liability of $265 million was recognized. The remaining liability as of June 30, 2006, of $60 million, plus accrued interest of $23 million was recorded in the General Fund. This estimated liability was reduced in the current year as actual amended returns processed were significantly less than originally projected.

In addition to the pension trust funds included in the reporting entity (see Note 8 – Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The state is not liable for any additional portion of the unfunded liability without legislative action. The pension trust funds involved, the year-end for which the most current data is available, and the unfunded liabilities are described below (in thousands):

Fund	Liability As Of	Unfunded Liability
Minneapolis Employee Retirement Fund	June 30, 2006	$ 127,373
St. Paul Teachers Retirement Fund	June 30, 2005	$ 394,539
Local Police and Fire Fund [1]	December 31, 2005	$ 150,016

[1]The Local Police and Fire Fund consists of four local plans.

Component Units

Housing Finance Agency (HFA) is engaged in a continuing dialog with HUD regarding the use of contracts for deed to convey HOME-assisted single-family homes to families that would not qualify for market rate mortgage financing. Effective March 15, 2006, HUD rescinded its prior approval of contracts for deed as an acceptable alternative form of homeownership in the Federal-HOME program. HFA believes it has been and remains in compliance with the HOME program's regulations and requirements but has notified its grantees to not sell any properties approved by the MHFA after March 15, 2006, via contracts for deed until further notice.

Since January 18, 2000, Metropolitan Council (MC) has been contingently liable for Carver County Housing and Redevelopment Authority Revenue Bonds. The bond issue was for $2,696,000, 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.

On December 31, 1996, University of Minnesota Hospital and Clinic operations and certain assets and liabilities were transferred to University of Minnesota Medical Center, Fairview (Fairview). Fairview and the University also agreed to affiliate with each other in support of research, education, and patient care missions of the University's Academic Health Center. Under this affiliation agreement, the University shares equally with Fairview in any unfunded education costs at the teaching hospital.

Workers' Compensation Assigned Risk Plan (WCARP) contracts with six 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, 2005, was approximately $3.9 million.

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, 2006, $36,850,000 of the revenue bonds remained outstanding. Of this amount, $21,225,000 is payable primarily from lease payments of NWA, and $15,625,000 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.

NWA filed for Chapter 11 bankruptcy in the Southern District of New York on September 14, 2005. NWA has not filed a schedule with the bankruptcy court regarding the lease for the Duluth Aircraft Maintenance Facility.

NWA is required under the terms of the agreements for the maintenance facility to pledge to the state collateral with a value of at least 125 percent of the principal amount of bonds outstanding. The collateral pledged to the state as of June 30, 2006, consisted of: 1) the maintenance facility that was valued at $14,546,000 on May 3, 2004, and 2) a $39,000,000 Promissory Note issued to NWA by Champion Air in June 2003, which had value of $38,000,000 on March 8, 2005.

Note 18 – Equity

Restricted Net Assets – Government-wide Statement of Net Assts

The following table identifies the primary government's restricted net assets in greater detail than is presented on the face of the financial statements:

Primary Government Restricted Net Asset Balances
As of June 30, 2006
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Capital Projects	$ 15,886	$ -	$ -	$ 15,886
Debt Service	385,870	-	-	385,870
Transportation	291,516	416,958	-	708,474
Environmental Resources	-	574,619	6,703	581,322
Economic and Workforce Development	-	59,334	3,999	63,333
School Aid - Nonexpendable	642,695	-	-	642,695
School Aid - Expendable	11,443	77,602	-	89,045
Health & Human Services	-	-	28,724	28,724
Unemployment Benefits	-	-	518,336	518,336
State Colleges and Universities	-	-	277,878	277,878
Other Purposes	-	-	24,006	24,006
Total Restricted Net Assets	$ 1,347,410	$ 1,128,513	$ 859,646	$ 3,335,569

Fund Balances – Primary Government

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

Primary Government Fund Balances
As of June 30, 2006
(In Thousands)

	General	Federal	Nonmajor Governmental
Fund Balances:			
Reserved for Encumbrances	$ 177,643	$ -	$ 184,028
Reserved for Inventory	-	-	18,723
Reserved for Long-Term Receivables	50,997	65	259,385
Reserved for Long-Term Commitments	-	-	269,857
Reserved for Local Governments	-	-	410,179
Reserved for Trust Principal	-	-	1,041,547
Reserved for Debt Requirements	-	-	614,960
Reserved for Other	-	6,638	-
Total Reserved Fund Balances	$ 228,640	$ 6,703	$ 2,798,679
Unreserved Fund Balances: Designated for Appropriation Carryover	$ 190,094	$ -	$ 246,521
Budgetary Reserve	420,073	-	-
Designated for Fund Purposes	-	-	468,681
Total Designated Fund Balance	$ 610,167	$ -	$ 715,202
Undesignated	-	-	191,415
Total Unreserved Fund Balance	$ 610,167	$ -	$ 906,617
Total Fund Balance	$ 838,807	$ 6,703	$ 3,705,296

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 $6,638,000 in the 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.

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, 2006
(In Thousands)

	Special Revenue Funds
Public Safety and Corrections	$ 27,226
Transportation	122,731
Environmental Resources	50,931
Economic and Workforce Development	85,452
General Education	6,610
Higher Education	5,086
Health and Human Services	115,501
General Government	51,620
Intergovernmental Aids	3,524
Total	$ 468,681

Deficit Fund Balance

A $11,072,000 deficit total fund balance in the Transportation Fund (nonmajor capital projects fund) is a result of a delayed bond sale. The bond sale occurred after the end of the fiscal year.

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 $1,000,000,000. 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 casualty reinsurance program provides $10,000,000 excess of the tort cap to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state 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. 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 $1,560,000. 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 2006, 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, 2006, was 1,700 members and their dependents. The members of the pool include 15 school districts, 55 cities/townships, 3 counties, and 16 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, 2006, and 2005:

Self-Insured Claim Liabilities
As of June 30, 2006 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/05	$ 8,141	$ 6,959	$ 5,027	$ 10,073
Fiscal Year Ended 6/30/06	$ 10,073	$ 3,237	$ 3,643	$ 9,667
Tort Claims [1]				
Fiscal Year Ended 6/30/05	$ -	$ 1,164	$ 1,164	$ -
Fiscal Year Ended 6/30/06	$ -	$ 890	$ 890	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/05	$ 116,738	$ 15,723	$ 16,304	$ 116,157
Fiscal Year Ended 6/30/06	$ 116,157	$ 12,694	$ 14,035	$ 114,816
State Employee Insurance Plans				
Fiscal Year Ended 6/30/05	$ 36,683	$ 399,753	$ 398,133	$ 38,303
Fiscal Year Ended 6/30/06	$ 38,303	$ 427,447	$ 427,818	$ 37,932

[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 2006	2005
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 1,695	$ 1,810
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	12,551	16,499
Increases (Decreases) in Provision for Insured Events of Prior Years	(455)	283
Total Incurred Claims and Claim Adjustment Expenses	$ 12,096	$ 16,782
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 11,437	$ 14,822
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,229	2,075
Total Payments	$ 12,666	$ 16,897
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 1,125	$ 1,695

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. MC has not had any settlements in excess of commercial 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 6 percent. The self-insurance retention limit for workers' compensation is $1,560,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and 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.

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, 2004, and 2005 or June 30, 2005, and 2006, 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 12/31/04	$ 21,795	$ 3,606	$ 6,892	$ 18,509
Fiscal Year Ended 12/31/05	$ 18,509	$ 5,436	$ 6,804	$ 17,141
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/05	$ 7,459	$ 1,906	$ 3,059	$ 6,306
Fiscal Year Ended 6/30/06	$ 6,306	$ 2,556	$ 2,133	$ 6,729
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/05	$ 11,000	$ 1,229	$ 3,229	$ 9,000
Fiscal Year Ended 6/30/06	$ 9,000	$ 676	$ 2,676	$ 7,000
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/05	$ 18,419	$ 144,138	$ 148,104	$ 14,453
Fiscal Year Ended 6/30/06	$ 14,453	$ 166,635	$ 165,240	$ 15,848

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, 2006
(In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ 838,807
Less: Reserved Fund Balance	228,640
Less: Designated Fund Balance	610,167
Undesignated Fund Balance	$ -
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (444,760)
Tax Refunds Payable	508,538
Human Services Receivable	(11,638)
Other Receivables	(36,674)
Permanent School Fund Reimbursement	(1,800)
Investments at Market	(1,211)
Expenditure Accruals/Adjustments:	
Medical Assistance	336,666
Human Services Grants Payable	58,657
Education Aids	656,284
Police and Fire Aid	80,625
Other Payables	21,852
Fund Structure Differences:	
Terminally Funded Pension Plans	8,655
Designated for Appropriation Carryover and Budgetary Reserve	(692,587)
Perspective Differences:	
Reserve for Long-Term Receivable	50,997
Budgetary Basis:	
Undesignated Fund Balance	$ 533,604

Note 21 – Prior Period Adjustments

Prior Period Adjustments

Primary Government

The government-wide loan payable and accrued interest payable balances include prior period adjustments of $14,677,000 and $552,000 respectively. These adjustments represent loans received prior to the current year from local governmental entities to finance Trunk Highway projects that will be repaid in future years.

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 appropriations for the fiscal year ended June 30, 2005, were $761,000 and for the fiscal year ending June 30, 2006, are also $761,000. The maximum limits of liability for tort claims arising in Minnesota 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. *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 May 16, 2005, the Minnesota Supreme Court affirmed the lower court's decision. Final judgment was entered on June 15, 2006. On September 14, 2006, plaintiffs filed a petition for writ of certiorari in the U.S. Supreme Court. The fee is expected to generate an estimated $11.4 million over the 06/07 biennium.

   c. *McLane Minnesota, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff challenges the Minnesota tobacco tax (tax on tobacco products other than cigarettes) imposed by Minn. Stat. § 297F.05, subd. 3. Plaintiff requests nullification of an assessment for $178,327 and seeks a $5.6 million refund of tax previously paid. Plaintiff asserts that the tax violates the Commerce Clause of the United States Constitution and federal and state equal protections principles. Plaintiff also contends that the tax should be computed on the price tobacco manufacturers charge their own sales companies (rather than the price the sales companies charge to distributors like McLane), and should be computed on the price after applicable discounts. The Department of Revenue estimates that a decision favorable to Plaintiff would have an impact in excess of $10 million. Trial is currently scheduled for June 2007.

d. *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. Department of Human Services 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 would lose federal financial participation of approximately $11 million per year. In the disapproval litigation, the parties have conducted discovery and submitted the matter on the 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. The federal hearing officer in the disapproval litigation issued a decision and order on May 12, 2006, upholding CMS's disapproval of the State plan amendment. DHS filed exception to the decision. On July 10, 2006, the CMS Administrator affirmed the disapproval of the State plan amendment. A petition for review was filed to the Eighth Circuit Court of Appeals on September 8, 2006.

e. *Merrill Lynch Pierce Fenner & Smith, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff engages in securities transactions sometimes on a commission basis and sometimes as a principal. Plaintiff's principal contention is that the Department of Revenue erred in using net rather than gross receipts in the apportionment formula sales factor for principal transactions. Plaintiff also alleges that the Department erred in the method used to "source" receipts from principal and commission transactions involving Minnesota customers and in excluding certain intangibles from the apportionment formula property factor denominator. Finally, Plaintiff alleges, on various grounds, that the Department's approach violates the Equal Protection, Uniformity and Due Process clauses of the Minnesota or Federal Constitutions and the Commerce Clause of the Federal Constitution. The Department of Revenue estimates that a decision favorable to Plaintiff would have an industry-wide impact in excess of $10 million. Trial is currently scheduled for October 2007.

f. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* and related case *Liggett Group v. State* (both in Ramsey County District Court). Cigarette manufacturers and the State executed settlement agreements under which the manufacturers agreed to make annual payments in perpetuity to the State, and the State released the manufacturers 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. The manufacturers have moved to enforce their settlement agreements alleging that imposition of the fee violates the agreements' release of claims provisions. The Department of Revenue estimates that decisions favorable to the manufacturers would have an estimated $340 million impact on the Health Impact Fund for the current biennium. The Minnesota Supreme Court issued a decision in the *Philip Morris* case upholding the health impact fee, and plaintiffs filed a petition for writ of certiorari in the U.S. Supreme Court. *See* Note 1b. above. Although the *Liggett* case involves a separate settlement agreement and is still pending in state district court, it appears that the Minnesota Supreme Court's reasoning in *Philip Morris* will apply equally to defeat Liggett's challenge to imposition of the health impact fee on its products. On November 6, 2006, Plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court.

g. *Stewart Title Guaranty Company v. Commissioner of Revenue* (Minnesota Tax Court). The Commissioner assessed Plaintiff for additional insurance premium tax and interest. The issue is whether title insurance premium receipts retained by Plaintiff's agents (rather than transmitted to Plaintiff) are subject to the premium tax. The Department of Revenue estimates that a decision favorable to Plaintiff would have an industry-wide impact in excess of $10 million. Trial is currently scheduled for February 2007.

h. *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. A decision is expected from the district court in early 2006. On August 22, 2006, the United States District Court filed a decision rejecting Plaintiffs' challenges and upholding enforcement and collection of the tax. On September 19, 2006, Plaintiffs filed an appeal in the United States Court of Appeal for the Eighth Circuit. A decision is expected during the summer of 2007.

Note 23 – Subsequent Events

Primary Government

On July 20, 2006, the state sold $3,500,000 of general obligation bonds at a true interest rate of 5.46 percent. These bonds will be used to finance the cost of state Rural Finance Authority programs and are backed by the full faith and credit and taxing power of the state.

On July 18, 2006, the state sold $289,450,000 of general obligation various purpose bonds and $55,550,000 general obligation state trunk highway bonds at a true interest rate of 4.35 percent. The State Colleges and Universities (enterprise fund) will pay one-third of the debt service on $42,000,000 of the general obligation various purpose bonds. These bonds are backed by the full faith and credit and taxing power of the state.

On July 26, 2006, the state sold $15,145,000 of Educational Facilities Iron Range Resources and Rehabilitation revenue bonds at a true interest rate of 4.47 percent. These bonds will provide grants to school districts located in the Taconite Assistance Area to pay for health, safety, and maintenance improvements. These bonds are payable with specific appropriations from the annual distribution of taconite production tax revenues to Iron Range Resources and Rehabilitation and the Douglas J. Johnson Economic Protection Trust funds (special revenue funds).

On October 24, 2006, the state sold $327,000,000 of general obligation various purpose bonds and $73,000,000 of general obligation state trunk highway bonds at a true interest rate of 4.11 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On November 14, 2006, the state sold $35,000,000 in revenue bonds at a true interest rate of 3.76 percent. These bonds will provide funding for implementation of statewide 911 emergency response communication system. The revenue bonds are secured by a monthly statewide 911 surcharge applied to subscribers of any basic telephone service capable to originating a 911 call.

Component Units

The University of Minnesota signed the contract and finalized the official statement to issue $137,250,000 in bonds. The bonds will be sold in December 2006. The proceeds of the bonds are to be used to finance a portion of the cost of a football stadium on the Twin Cities campus and to pay costs of issuance. The state will provide up to $10,250,000 per year for no more than 25 years to reimburse the University for the annual debt service on these bonds.

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,200 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
2005	3.37	3.22
2004	3.30	3.14
2003	3.40	3.24
2002	3.39	3.30

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 3,234 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	2005	2004	2003
Fair to Good	96.3%	96.1%	96.0%

All Other Systems	2005	2004	2003
Fair to Good	95.2%	94.8%	96.6%

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, 2006, 2005, 2004, 2003, and 2002 (in thousands):

		Costs to be Capitalized	Maintenance of System	Total Construction Program
Budget	2006	$ 773,735	$ 301,852	$ 1,075,587
	2005[1]	393,467	200,765	594,232
	2004	260,900	426,000	686,900
	2003	719,300	316,400	1,035,700
	2002	296,500	417,400	713,900
Actual	2006	$ 451,935	$ 360,835	$ 812,770
	2005	465,960	223,809	689,769
	2004	504,288	227,996	732,284
	2003	333,605	304,029	637,634
	2002	258,803	357,823	616,626

[1]Reflects change in budgeting project costs.

Mn/DOT projects may span several years. Project costs through fiscal year 2004 were budgeted in the first year, but spent throughout the life of the project. This process did 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.

During fiscal year 2005, the state implemented a new system, Cash Forecasting Information Tool (CFIT), to capture the estimated budget for projects during a specific year. This system allows for a comparison of the annual budget with the actual amounts spent. Comparisons can be made between budget and actual expenditures to maintain and improve the system. For multiyear projects, only the portion to be spent in the fiscal year is shown in the budgeted amount for the year. Future expenditures on the project will be budgeted in the year they are to be spent. This reporting change will be used in future reports.

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)

		CERF	JRF	LRF[2]	SPRF
Actuarial Valuation Date	2005[1]	7/1/2005	7/1/2005	7/1/2005	7/1/2005
	2004	7/1/2004	7/1/2004	7/1/2004	7/1/2004
	2003	7/1/2003	7/1/2003	-	7/1/2003
	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
Actuarial Value of Plan Assets	2005	$ 503,573	$ 144,465	$ 45,523	$ 601,220
	2004	$ 486,617	$ 138,948	$ 46,155	$ 594,785
	2003	$ 470,716	$ 134,142	-	$ 591,521
	2002	$ 457,416	$ 131,379	$ 45,501	$ 591,383
Actuarial Accrued Liability	2005	$ 546,118	$ 191,414	$ 81,836	$ 566,764
	2004	$ 524,215	$ 190,338	$ 83,197	$ 545,244
	2003	$ 484,974	$ 176,291	-	$ 538,980
	2002	$ 446,426	$ 171,921	$ 78,070	$ 510,344
Total Unfunded Actuarial Liability (Asset)	2005	$ 42,544	$ 46,949	$ 36,314	$ (34,456)
	2004	$ 37,598	$ 51,390	$ 37,042	$ (49,541)
	2003	$ 14,258	$ 42,149	-	$ (52,541)
	2002	$ (10,990)	$ 40,542	$ 32,569	$ (81,039)
Funded Ratio[3]	2005	92%	75%	56%	106%
	2004	93%	73%	55%	109%
	2003	97%	76%	-	110%
	2002	102%	76%	58%	116%
Annual Covered Payroll	2005	$ 132,335	$ 35,941	$ 3,014	$ 55,142
	2004	$ 133,172	$ 34,683	$ 3,815	$ 51,619
	2003	$ 131,328	$ 33,771	-	$ 54,175
	2002	$ 124,373	$ 31,078	$ 5,089	$ 49,278
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2005	32%	131%	1204%	(62%)
	2004	28%	148%	971%	(96%)
	2003	11%	125%	-	(97%)
	2002	(9%)	130%	640%	(164%)

[1]The July 1, 2005, Annual Valuation Report is the most recently issued report available.

[2]Annual Valuation Report not available for the LRF in 2003.

[3]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 eight years.

	Fiscal and Policy Year Ended (In Thousands)								
	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Required Contribution and Investment Revenue:									
Earned	$ 2,564	$ 7,713	$ 10,995	$ 18,005	$ 22,149	$ 23,458	$ 22,764	$ 19,177	$ 14,942
Ceded	195	624	1,031	1,972	2,243	2,321	2,231	1,736	1,491
Net Earned	$ 2,369	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137	$ 20,533	$ 17,441	$ 13,451
2. Unallocated Expenses	$ 538	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528	$ 2,296	$ 1,904	$ 1,638
3. Estimated Claims and Expenses End of Policy Year:									
Incurred	$ 2,002	$ 5,800	$ 9,972	$ 16,550	$ 21,055	$ 19,715	$ 19,466	$ 16,499	$ 12,551
Ceded	91	171	772	760	2,513	1,570	1,980	1,913	1,382
Net Incurred	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169
4. Net Paid (Cumulative) as of:									
End of Policy Year	$ 1,376	$ 4,678	$ 7,944	$ 13,228	$ 15,824	$ 15,848	$ 15,699	$ 12,909	$ 10,055
One Year Later	1,849	5,817	9,240	15,908	18,091	17,572	17,367	14,141	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764		
Three Years Later	1,850	5,818	9,243	15,963	18,034	17,579			
Four Years Later	1,850	5,818	9,243	15,963	18,034				
Five Years Later	1,850	5,818	9,243	15,963					
Six Years Later	1,850	5,818	9,243						
Seven Years Later	1,850	5,818							
Eight Years Later	1,850								
5. Re-estimated Ceded Claims and Expenses	$ 91	$ 171	$ 772	$ 760	$ 2,513	$ 1,570	$ 1,980	$ 1,913	$ 1,382
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	$ 14,586	$ 11,169
One Year Later	1,854	5,828	9,253	15,935	18,114	17,595	17,385	14,152	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764		
Three Years Later	1,850	5,818	9,243	15,963	18,034	17,579			
Four Years Later	1,850	5,818	9,243	15,963	18,034				
Five Years Later	1,850	5,818	9,243	15,963					
Six Years Later	1,850	5,818	9,243						
Seven Years Later	1,850	5,818							
Eight Years Later	1,850								
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ (61)	$ 189	$ 43	$ 173	$ (508)	$ (566)	$ 278	$ (434)	$ -

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 April 25, 2007

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of April 25, 2007.

GENERAL OBLIGATION BONDS OUTSTANDING AS OF APRIL 25, 2007
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$ 573,105	
	Transportation	159,004	
	Pollution Control	49,935	
	Waste Management	2,905	
	Refunding Bonds	590,837	
	Reinvest in Minnesota	520	
	Landfill	10,240	
	Infrastructure Development Bonds	332,776	
	Various Purpose	1,592,995	
	Total Category 1		$3,312,317
2	School Loan	$ 49,055	
	School Loan Refunding	24,145	
	Municipal Energy Building	890	
	Rural Farm Authority	75,600	
	Game and Fish Building	8	
	Total Category 2		$ 149,698
3	Trunk Highway	$ 537,575	
	Trunk Highway Refunding	185	
	Total Category 3		$ 537,760
4	State Sports & Health Club Tax Bonds Refunding Bonds	730	
	Total Category 4		$ 730
	Total Outstanding April 25, 2007 — Previous Issues[1]		$4,000,505
	Plus April 25, 2007 Refunding Bond Issue		264,050
	Less Bonds Refunded by April, 2007 Issue		(273,770)
	Total Outstanding April 25, 2007 — Including This Issue		$3,990,785

(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

April 1, 2007
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Authorizations Dated April 1, 2007	Remaining Authorization
Building	1990, Ch. 610	$ 270,129.1	$ 270,126.0	$0.0	$ 3.1
Building	1994, Ch. 643	523,874.5	523,849.0	0.0	$ 25.5
Building	1996, Ch. 463	478,672.9	478,525.0	0.0	$ 147.9
Building	X1997, Ch. 2	37,544.5	37,335.0	0.0	$ 209.5
Building	1999, Ch. 240	439,530.1	438,865.0	0.0	$ 665.1
Trunk Highway	2000, Ch. 479	100,100.0	99,695.0	0.0	$ 405.0
Various Purpose	2000, Ch. 492	528,426.3	514,630.0	0.0	$ 13,796.3
Various Purpose	X2001, Ch. 12	117,205.0	115,125.0	0.0	$ 2,080.0
Various Purpose	2002, Ch. 374	75,120.0	71,935.0	0.0	$ 3,185.0
Various Purpose	2002, Ch. 393	624,712.0	591,605.0	0.0	$ 33,107.0
Trunk Highway	X2002, Ch. 1	10,115.0	10,105.0	0.0	$ 10.0
Various Purpose	X2002, Ch. 1	16,315.0	13,930.0	0.0	$ 2,385.0
Trunk Highway	X2003, Ch. 19, Art.3	400,400.0	385,250.0	0.0	$ 15,150.0
Trunk Highway	X2003, Ch. 19, Art.4	110,110.0	105,700.0	0.0	$ 4,410.0
Various Purpose	X2003, Ch. 20	236,915.0	201,310.0	0.0	$ 35,605.0
Various Purpose	2005, Ch. 20	944,980.0	605,279.0	0.0	$ 339,701.0
Rural Finance Authority	X2005, Ch. 3	18,000.0	18,000.0	0.0	$ 0.0
Various Purpose	2006, Ch. 258	1,006,780.0	166,800.0	0.0	$ 839,980.0
Totals		$5,938,929.6	$4,648,064.0	$0.0	$1,290,865.5

X indicates Special Session Laws.

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

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

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	2.06%	1.8%	2.99%
June 30, 2007 (est.)	2.35%	1.9%	2.99%

Of the State's general obligation bonds outstanding on June 30, 2006, 40.0 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
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
2006	352,337	76,913	429,250
2007	399,651	96,448	496,099

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.

(This page has been left blank intentionally.)

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2007	2008	2009	2010	2011	2012	2013
GENERAL FUND								
STATE BUILDING CAPITAL IMPROVEMENT								
	'87.400	**55**	**5**	**5**	**5**	**5**	**5**	**5**
		15	3	2	2	2	2	1
	'89.300	**845**	**75**	**75**	**75**	**75**	**75**	**75**
		235	39	36	32	29	25	21
	'90.610	**1,345**	**115**	**115**	**115**	**115**	**115**	**115**
		419	66	60	55	49	43	38
	'92.558	**690**	**65**	**55**	**55**	**55**	**55**	**55**
		227	35	32	29	26	23	20
	'93.373	**120**	**10**	**10**	**10**	**10**	**10**	**10**
		37	6	5	5	4	4	3
	'94.643	**65,845**	**5,625**	**5,525**	**5,520**	**5,520**	**5,520**	**5,510**
		20,325	3,185	2,913	2,641	2,368	2,093	1,818
	X'95.002	**65**	**15**	**5**	**5**	**5**	**5**	**5**
		15	3	2	2	2	2	1
	'96.463	**131,650**	**11,530**	**11,090**	**11,090**	**11,090**	**11,085**	**10,635**
		41,134	6,441	5,869	5,316	4,760	4,203	3,646
	'97.246	**39,560**	**4,255**	**3,755**	**3,755**	**3,755**	**3,755**	**3,355**
		10,879	1,902	1,696	1,514	1,332	1,148	963
	X'97.002	**21,880**	**1,925**	**1,925**	**1,925**	**1,925**	**1,925**	**1,930**
		7,049	1,100	1,002	905	807	709	612
	'98.404	**24,295**	**1,990**	**1,985**	**1,985**	**1,985**	**1,985**	**1,985**
		8,432	1,269	1,165	1,061	957	853	749
	'99.240	**274,210**	**20,640**	**20,575**	**20,575**	**18,590**	**18,590**	**18,590**
		101,551	13,693	12,645	11,578	10,542	9,574	8,611
STATE MUNICIPAL ENERGY BUILDING BONDS								
	'83.323	**300**	**125**	**55**	**55**	**25**	**25**	**15**
		29	12	8	5	3	1	0
	'90.610	**25**	**5**	**5**	**5**	**5**	**5**	**0**
		3	1	1	1	0	0	0
	'94.643	**135**	**95**	**20**	**20**	**0**	**0**	**0**
		6	4	2	1	0	0	0
	'96.463	**415**	**345**	**60**	**10**	**0**	**0**	**0**
		15	12	2	1	0	0	0
REFUNDING BONDS								
	'16A.66	**588,832**	**89,922**	**92,773**	**91,408**	**69,450**	**68,815**	**51,515**
		106,801	26,786	22,177	17,572	13,551	10,226	7,397
REINVESTMENT IN MINNESOTA (RIM)								
	'91.354	**510**	**45**	**45**	**45**	**45**	**45**	**45**
		146	24	22	20	18	16	13
RURAL FINANCE AUTHORITY (RFA)								
	'96.463	**28,100**	**18,000**	**4,500**	**3,100**	**2,500**	**0**	**0**
		2,062	1,343	414	236	69	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
5	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	1	1	0	0	0	0	0	0	0	0	0	0	0
75	**75**	**75**	**75**	**75**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
18	14	10	7	3	1	0	0	0	0	0	0	0	0
115	**115**	**115**	**115**	**115**	**30**	**30**	**10**	**10**	**0**	**0**	**0**	**0**	**0**
32	26	20	14	8	4	2	1	0	0	0	0	0	0
55	**55**	**55**	**55**	**55**	**55**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
17	15	12	9	6	3	1	0	0	0	0	0	0	0
10	**10**	**10**	**10**	**10**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	2	2	1	1	0	0	0	0	0	0	0	0	0
5,510	**5,505**	**5,505**	**5,505**	**5,505**	**2,570**	**1,295**	**645**	**445**	**120**	**20**	**0**	**0**	**0**
1,542	1,265	987	709	431	202	102	46	19	4	1	0	0	0
5	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	1	1	0	0	0	0	0	0	0	0	0	0	0
10,735	**10,730**	**10,730**	**10,730**	**10,730**	**6,580**	**2,760**	**1,025**	**780**	**190**	**140**	**0**	**0**	**0**
3,109	2,567	2,023	1,479	936	447	205	81	36	12	4	0	0	0
3,355	**3,355**	**3,355**	**3,355**	**3,355**	**155**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
798	632	465	297	129	4	0	0	0	0	0	0	0	0
1,685	**1,685**	**1,685**	**1,685**	**1,685**	**535**	**535**	**430**	**180**	**85**	**85**	**50**	**0**	**0**
514	427	341	256	171	86	58	31	16	9	5	1	0	0
1,985	**1,985**	**1,985**	**1,985**	**1,985**	**1,335**	**990**	**45**	**45**	**20**	**20**	**0**	**0**	**0**
645	541	437	333	229	125	61	5	3	2	1	0	0	0
18,590	**18,590**	**18,590**	**18,590**	**18,590**	**18,590**	**18,590**	**13,205**	**8,860**	**2,760**	**925**	**625**	**85**	**60**
7,643	6,670	5,697	4,732	3,777	2,821	1,862	1,007	451	156	62	23	5	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**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
49,130	**39,650**	**27,895**	**8,275**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4,973	2,800	1,111	207	0	0	0	0	0	0	0	0	0	0
45	**45**	**45**	**45**	**45**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	9	7	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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2007	2008	2009	2010	2011	2012	2013
GENERAL FUND (CONT)								
RURAL FINANCE AUTHORITY (RFA) (CONT)								
	'00.492	**5,000**	**0**	**500**	**0**	**0**	**0**	**4,500**
		1,337	261	249	236	236	236	118
	'02.393	**15,000**	**0**	**10,500**	**4,500**	**0**	**0**	**0**
		1,283	705	465	113	0	0	0
	X'05.003	**18,000**	**0**	**0**	**0**	**4,500**	**0**	**7,000**
		5,051	918	918	918	805	693	630
LANDFILL								
	'94.639	**9,690**	**820**	**820**	**820**	**810**	**810**	**810**
		3,197	495	453	411	369	328	286
POLLUTION CONTROL								
	'90.610	**165**	**15**	**15**	**15**	**15**	**15**	**15**
		45	8	7	6	6	5	4
	'92.558	**15**	**15**	**0**	**0**	**0**	**0**	**0**
		1	1	0	0	0	0	0
	'94.643	**5,125**	**475**	**465**	**465**	**465**	**465**	**465**
		1,397	238	216	195	173	151	128
	X'95.002	**330**	**30**	**30**	**30**	**30**	**30**	**30**
		89	15	14	12	11	10	8
	'96.463	**11,430**	**975**	**975**	**975**	**975**	**975**	**975**
		3,407	540	493	447	400	352	304
	'97.246	**2,310**	**190**	**190**	**190**	**190**	**190**	**190**
		789	119	109	99	89	80	70
	'98.404	**2,485**	**185**	**185**	**185**	**185**	**180**	**180**
		885	126	116	106	96	87	77
	'99.240	**27,110**	**2,020**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**
		10,087	1,398	1,294	1,189	1,085	980	876
VARIOUS PURPOSE								
	'00.492	**246,589**	**17,475**	**18,275**	**20,280**	**18,280**	**24,785**	**21,165**
		89,365	12,170	11,263	10,276	9,286	8,183	7,012
	X'01.012	**68,510**	**4,675**	**4,350**	**4,350**	**4,350**	**4,350**	**4,330**
		27,212	3,346	3,119	2,899	2,679	2,459	2,240
	'02.374	**61,275**	**4,195**	**4,075**	**4,075**	**4,075**	**4,075**	**4,060**
		24,398	3,016	2,808	2,600	2,393	2,185	1,978
	'02.393	**341,117**	**21,795**	**21,520**	**19,520**	**20,220**	**20,220**	**19,975**
		147,340	16,620	15,534	14,503	13,504	12,488	11,471
	X'02.001	**8,670**	**480**	**480**	**480**	**480**	**480**	**480**
		3,948	423	399	375	351	327	303
	X'03.020	**181,810**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**
		84,057	8,874	8,379	7,883	7,388	6,892	6,397
	'05.020	**527,699**	**34,730**	**34,734**	**34,735**	**34,730**	**32,770**	**27,370**
		237,668	25,760	24,024	22,287	20,551	18,863	17,297

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,500	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
171	0	0	0	0	0	0	0	0	0	0	0	0	0
810	**810**	**810**	**810**	**810**	**375**	**375**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
244	202	160	118	76	37	16	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	3	2	1	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
465	**465**	**465**	**465**	**465**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
105	82	59	36	13	0	0	0	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
7	5	4	2	1	0	0	0	0	0	0	0	0	0
975	**975**	**975**	**975**	**975**	**320**	**135**	**50**	**50**	**50**	**50**	**50**	**0**	**0**
256	208	159	110	61	28	17	11	9	6	4	1	0	0
185	**185**	**185**	**185**	**185**	**135**	**85**	**10**	**10**	**5**	**0**	**0**	**0**	**0**
60	50	41	31	21	12	6	1	1	0	0	0	0	0
180	**180**	**180**	**180**	**180**	**180**	**180**	**125**	**0**	**0**	**0**	**0**	**0**	**0**
68	58	48	39	29	20	11	3	0	0	0	0	0	0
1,970	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**950**	**500**	**0**	**0**	**0**	**0**	**0**
771	666	561	457	353	250	146	49	13	0	0	0	0	0
13,460	**13,460**	**13,464**	**13,465**	**13,465**	**13,465**	**13,475**	**12,410**	**8,830**	**4,405**	**3,580**	**2,230**	**430**	**190**
6,126	5,427	4,729	4,037	3,354	2,669	1,983	1,300	767	434	234	88	22	5
4,330	**4,330**	**4,330**	**4,330**	**4,330**	**4,330**	**4,330**	**4,330**	**4,330**	**1,880**	**875**	**310**	**35**	**35**
2,021	1,802	1,583	1,364	1,145	926	707	488	269	111	41	11	3	1
3,695	**3,700**	**3,700**	**3,700**	**3,710**	**3,710**	**3,715**	**3,715**	**3,715**	**2,060**	**560**	**560**	**140**	**40**
1,780	1,591	1,403	1,214	1,025	836	646	457	267	119	52	24	6	1
18,925	**19,175**	**19,185**	**19,067**	**19,070**	**19,075**	**19,085**	**19,085**	**19,085**	**17,795**	**15,610**	**10,885**	**1,825**	**0**
10,493	9,535	8,571	7,606	6,647	5,688	4,729	3,769	2,809	1,882	1,044	382	64	0
480	**480**	**480**	**480**	**480**	**480**	**480**	**480**	**480**	**480**	**455**	**360**	**100**	**75**
279	255	231	207	182	158	134	110	86	62	39	18	7	2
9,910	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**9,910**	**3,050**	**380**
5,901	5,406	4,910	4,415	3,919	3,424	2,928	2,433	1,937	1,442	946	451	127	10
27,370	**27,370**	**27,370**	**25,100**	**23,630**	**23,630**	**23,630**	**23,630**	**23,630**	**23,630**	**23,630**	**23,625**	**23,625**	**8,760**
15,929	14,560	13,192	11,848	10,630	9,449	8,267	7,086	5,904	4,723	3,541	2,360	1,178	219

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2007	2008	2009	2010	2011	2012	2013
GENERAL FUND (CONT)								
VARIOUS PURPOSE (CONT)								
	'06.258	**143,220**	**9,790**	**9,790**	**9,790**	**9,790**	**9,790**	**7,340**
		64,283	7,039	6,549	6,060	5,570	5,081	4,620
STATE TRANSPORTATION								
	'84.597	**1,300**	**700**	**300**	**300**	**0**	**0**	**0**
		92	55	27	11	0	0	0
	'89.300	**5**	**5**	**0**	**0**	**0**	**0**	**0**
		0	0	0	0	0	0	0
	'90.610	**760**	**70**	**65**	**65**	**65**	**65**	**65**
		224	36	33	30	27	23	20
	'92.558	**2,938**	**245**	**245**	**245**	**245**	**245**	**245**
		933	145	133	121	108	96	84
	'93.373	**1,570**	**140**	**120**	**120**	**120**	**120**	**120**
		561	80	74	67	61	55	49
	'94.643	**16,085**	**1,325**	**1,320**	**1,320**	**1,320**	**1,320**	**1,320**
		5,295	805	739	672	606	539	471
	X'95.002	**1,210**	**110**	**110**	**110**	**110**	**110**	**110**
		326	56	51	46	41	35	30
	'96.463	**3,400**	**305**	**305**	**305**	**305**	**305**	**305**
		985	164	149	134	119	104	89
	'97.246	**1,730**	**150**	**145**	**145**	**145**	**145**	**140**
		562	87	79	72	65	57	50
	X'97.002	**840**	**70**	**70**	**70**	**70**	**70**	**70**
		252	40	37	33	30	26	23
	'98.404	**2,575**	**225**	**225**	**225**	**225**	**225**	**225**
		808	130	118	107	96	84	73
	'99.240	**19,541**	**1,470**	**1,466**	**1,465**	**1,465**	**1,430**	**1,425**
		7,286	1,019	942	864	785	708	632
	'00.479	**5,885**	**385**	**380**	**380**	**380**	**380**	**380**
		2,315	285	266	247	228	209	190
	X'01.012	**4,285**	**350**	**350**	**350**	**350**	**355**	**205**
		1,651	209	191	174	156	139	121
	'02.374	**4,200**	**270**	**265**	**265**	**265**	**260**	**245**
		1,812	211	198	184	170	157	143
	'02.393	**33,360**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**
		14,927	1,634	1,539	1,444	1,349	1,253	1,158
	X'02.001	**4,050**	**250**	**250**	**250**	**250**	**250**	**250**
		1,705	204	191	178	165	152	139
	X'03.020	**1,130**	**65**	**65**	**65**	**70**	**70**	**65**
		486	55	52	48	45	42	38
	'05.020	**31,750**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**
		15,519	1,559	1,476	1,394	1,311	1,229	1,146

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
7,340	**7,340**	**7,340**	**6,690**	**6,115**	**6,115**	**6,115**	**6,115**	**6,115**	**6,115**	**6,115**	**6,120**	**6,120**	**3,175**
4,253	3,886	3,519	3,152	2,832	2,526	2,220	1,914	1,609	1,303	997	691	385	79
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**20**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**
17	14	10	7	4	2	1	0	0	0	0	0	0	0
245	**245**	**245**	**243**	**240**	**140**	**95**	**5**	**5**	**5**	**0**	**0**	**0**	**0**
71	59	46	33	21	11	5	1	0	0	0	0	0	0
120	**120**	**120**	**120**	**120**	**80**	**65**	**25**	**25**	**25**	**10**	**0**	**0**	**0**
42	36	30	24	17	11	7	4	2	1	0	0	0	0
1,320	**1,320**	**1,320**	**1,320**	**1,320**	**770**	**570**	**115**	**90**	**15**	**0**	**0**	**0**	**0**
403	335	267	199	131	76	40	8	3	0	0	0	0	0
110	**110**	**110**	**110**	**110**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
25	19	14	8	3	0	0	0	0	0	0	0	0	0
295	**295**	**295**	**295**	**295**	**80**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**
74	59	45	30	15	3	1	0	0	0	0	0	0	0
140	**140**	**140**	**140**	**140**	**90**	**70**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
43	35	28	21	14	7	3	0	0	0	0	0	0	0
70	**70**	**70**	**70**	**70**	**70**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
19	16	12	9	5	2	0	0	0	0	0	0	0	0
230	**230**	**230**	**230**	**230**	**25**	**25**	**10**	**10**	**5**	**0**	**0**	**0**	**0**
62	50	38	27	15	4	2	1	1	0	0	0	0	0
1,425	**1,425**	**1,425**	**1,425**	**1,425**	**1,425**	**1,425**	**510**	**190**	**65**	**65**	**15**	**0**	**0**
556	479	402	326	250	175	99	30	12	6	2	0	0	0
375	**375**	**370**	**370**	**365**	**365**	**365**	**365**	**365**	**90**	**90**	**85**	**20**	**0**
171	152	133	115	96	78	60	42	23	12	8	3	1	0
205	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**70**	**0**	**0**
111	101	91	80	70	60	50	39	29	19	9	2	0	0
245	**245**	**245**	**245**	**245**	**245**	**245**	**245**	**245**	**245**	**50**	**50**	**50**	**30**
130	118	105	92	79	67	54	41	28	16	8	6	3	1
1,890	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,890**	**1,640**	**740**	**740**	**0**
1,063	968	873	778	683	588	492	397	302	207	119	59	22	0
250	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**50**	**0**	**0**	**0**
126	113	100	87	74	61	48	35	22	9	1	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**5**	**5**	**5**
35	32	28	25	22	19	15	12	9	6	2	1	0	0
1,650	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**1,650**	**400**
1,064	981	899	816	734	651	569	486	404	321	239	156	74	10

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2007	2008	2009	2010	2011	2012	2013
GENERAL FUND (CONT)								
STATE TRANSPORTATION (CONT)								
	'06.258	**19,500**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
		9,750	963	913	863	813	763	713
WASTE MANAGEMENT								
	'90.610	**120**	**10**	**10**	**10**	**10**	**10**	**10**
		38	6	6	5	5	4	3
	'92.558	**1,000**	**90**	**65**	**65**	**65**	**65**	**65**
		367	48	44	41	37	34	31
	'96.463	**1,720**	**140**	**140**	**140**	**140**	**140**	**140**
		558	86	79	71	64	57	50
INFRASTRUCTURE DEVELOPMENT								
STATE BUILDING CAPITAL IMPROVEMENT								
	'94.643	**25,670**	**2,250**	**2,245**	**2,245**	**2,240**	**2,240**	**2,240**
		7,428	1,222	1,113	1,005	895	785	675
	'96.463	**57,385**	**4,740**	**4,730**	**4,730**	**4,725**	**4,725**	**4,725**
		18,018	2,803	2,569	2,333	2,095	1,856	1,616
	'98.404	**40,745**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**
		15,011	2,052	1,903	1,751	1,598	1,446	1,296
VARIOUS PURPOSE								
	'00.492	**90,221**	**6,025**	**6,025**	**6,025**	**6,025**	**6,025**	**6,025**
		34,776	4,478	4,171	3,861	3,549	3,239	2,930
	'02.393	**96,970**	**5,930**	**5,930**	**5,930**	**5,930**	**5,930**	**5,930**
		40,819	4,832	4,531	4,226	3,921	3,615	3,310
	X'03.020	**20,230**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**
		8,598	982	922	863	803	744	684
SPORTS & HEALTH TAX REFUNDING BONDS								
	'16A.66	**730**	**470**	**140**	**120**	**0**	**0**	**0**
		37	25	10	3	0	0	0
GROUP TOTAL GENERAL FUND		**3,345,332**	**296,982**	**294,958**	**285,623**	**259,280**	**256,145**	**237,545**
		1,196,354	162,265	147,015	132,437	118,650	105,769	93,476
GAME & FISH								
	'16A.66	**8**	**3**	**3**	**3**	**0**	**0**	**0**
		1	0	0	0	0	0	0
GROUP TOTAL GAME & FISH		**8**	**3**	**3**	**3**	**0**	**0**	**0**
		1	0	0	0	0	0	0
TRUNK HIGHWAY								
	'16A.66	**185**	**185**	**0**	**0**	**0**	**0**	**0**
		5	5	0	0	0	0	0
TRUNK HIGHWAY								
	'00.479	**75,965**	**5,115**	**5,105**	**5,105**	**5,105**	**5,105**	**5,095**
		28,898	3,750	3,491	3,229	2,965	2,703	2,442

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1,000	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**500**
663	613	563	513	463	413	363	313	263	213	163	113	63	13
10	**10**	**10**	**10**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	2	2	1	1	0	0	0	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**0**	**0**	**0**	**0**	**0**
28	24	21	18	15	11	8	5	2	0	0	0	0	0
140	**140**	**140**	**140**	**140**	**100**	**75**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
43	36	28	21	14	7	2	0	0	0	0	0	0	0
2,240	**2,240**	**2,240**	**2,240**	**2,240**	**890**	**120**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
564	452	341	228	116	29	3	0	0	0	0	0	0	0
4,725	**4,725**	**4,725**	**4,725**	**4,725**	**3,425**	**1,660**	**275**	**25**	**0**	**0**	**0**	**0**	**0**
1,376	1,136	895	653	413	198	66	8	1	0	0	0	0	0
2,900	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,745**	**2,100**	**1,000**	**100**	**0**	**0**	**0**	**0**
1,144	990	837	686	537	388	242	108	30	3	0	0	0	0
6,025	**6,025**	**6,021**	**6,020**	**6,015**	**6,015**	**6,015**	**5,745**	**4,475**	**1,470**	**245**	**0**	**0**	**0**
2,620	2,308	1,996	1,686	1,380	1,073	766	461	202	51	6	0	0	0
5,930	**5,930**	**5,925**	**5,925**	**5,920**	**5,920**	**5,920**	**5,920**	**5,920**	**5,800**	**2,280**	**0**	**0**	**0**
3,005	2,700	2,394	2,089	1,784	1,480	1,175	870	565	263	57	0	0	0
1,190	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**0**	**0**	**0**
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	0	0
220,865	**205,130**	**193,375**	**170,715**	**160,390**	**142,470**	**133,435**	**117,820**	**105,645**	**83,575**	**70,515**	**58,340**	**38,875**	**13,650**
81,853	71,097	60,987	51,704	43,327	35,454	28,439	21,862	16,242	11,479	7,611	4,389	1,959	341
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,095	**5,095**	**5,095**	**5,095**	**5,095**	**5,095**	**5,095**	**5,095**	**3,595**	**770**	**120**	**45**	**45**	**0**
2,180	1,916	1,652	1,391	1,134	876	618	361	142	32	9	4	2	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

GROUP & FUND & TYPE	AUTHORIZATION YEAR-CHAPTER	AMOUNT OUTSTANDING 6/30/2007	2008	2009	2010	2011	2012	2013
TRUNK HIGHWAY (CONT)								
TRUNK HIGHWAY (CONT)								
	X'02.001	**8,595**	**510**	**505**	**505**	**505**	**505**	**505**
		3,653	417	392	366	341	316	291
	X'03.018	**90,290**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**
		38,607	4,383	4,119	3,855	3,591	3,326	3,062
	X'03.019	**359,920**	**20,865**	**20,865**	**20,865**	**20,865**	**20,865**	**19,230**
		165,143	17,560	16,517	15,474	14,430	13,387	12,367
GROUP TOTAL TRUNK HIGHWAY		**534,955**	**31,960**	**31,760**	**31,760**	**31,760**	**31,760**	**30,115**
		236,306	26,115	24,519	22,924	21,327	19,732	18,161
MAX EFFORT SCHOOL LOAN								
REFUNDING BONDS								
	'16A.66	**24,145**	**4,870**	**4,750**	**4,710**	**3,745**	**3,545**	**1,510**
		3,006	1,035	794	558	346	179	73
SCHOOL LOANS								
	'00.492	**12,180**	**805**	**805**	**805**	**805**	**805**	**805**
		4,649	593	553	512	472	431	391
	X'01.012	**15,810**	**930**	**930**	**930**	**930**	**930**	**930**
		6,719	767	721	674	628	581	535
	'02.393	**10,665**	**620**	**620**	**620**	**620**	**620**	**620**
		4,589	518	487	456	425	394	363
	'05.020	**10,400**	**525**	**525**	**525**	**525**	**525**	**525**
		5,153	507	481	454	428	402	376
GROUP TOTAL MAX EFFORT SCHOOL LOAN		**73,200**	**7,750**	**7,630**	**7,590**	**6,625**	**6,425**	**4,390**
		24,116	3,420	3,035	2,655	2,299	1,988	1,737
STATE GUARANTEED BONDS								
GUARANTEED BOND CLASS								
	'91.350	**35,815**	**1,105**	**1,180**	**1,260**	**1,350**	**1,430**	**1,515**
		14,559	2,211	2,133	2,050	1,966	1,883	1,794
GROUP TOTAL STATE GUARANTEED BONDS		**35,815**	**1,105**	**1,180**	**1,260**	**1,350**	**1,430**	**1,515**
		14,559	2,211	2,133	2,050	1,966	1,883	1,794
TOTAL PRINCIPAL - LESS GUARANTEE		**3,953,495**	**336,695**	**334,350**	**324,975**	**297,665**	**294,330**	**272,050**
TOTAL INTEREST - LESS GUARANTEE		1,456,777	191,800	174,569	158,015	142,276	127,489	113,374
TOTAL DEBT SERVICE - LESS GUARANTEE (1)		5,410,272	528,495	508,919	482,990	439,941	421,819	385,424
TOTAL PRINCIPAL - ALL FUNDS		**3,989,310**	**337,800**	**335,530**	**326,235**	**299,015**	**295,760**	**273,565**
TOTAL INTEREST - ALL FUNDS		1,471,336	194,011	176,702	160,064	144,242	129,372	115,169
TOTAL DEBT SERVICE - ALL FUNDS (1)		5,460,646	531,811	512,232	486,299	443,257	425,132	388,734

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2008-2027

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
505	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**5**	**0**	**0**
265	240	215	190	164	139	114	89	63	38	13	0	0	0
5,285	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**185**	**185**	**75**
2,798	2,534	2,269	2,005	1,741	1,477	1,212	948	684	420	155	19	9	2
19,230	**19,230**	**19,230**	**18,855**	**18,400**	**18,400**	**18,400**	**18,400**	**18,400**	**18,400**	**18,400**	**16,950**	**10,950**	**3,120**
11,405	10,444	9,482	8,521	7,589	6,669	5,749	4,829	3,909	2,989	2,069	1,186	488	78
30,115	**30,115**	**30,115**	**29,740**	**29,285**	**29,285**	**29,285**	**29,285**	**27,785**	**24,960**	**24,310**	**17,185**	**11,180**	**3,195**
16,648	15,134	13,619	12,107	10,628	9,161	7,693	6,227	4,799	3,478	2,246	1,209	499	80
1,015	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
20	0	0	0	0	0	0	0	0	0	0	0	0	0
805	**805**	**805**	**805**	**805**	**805**	**800**	**800**	**800**	**120**	**0**	**0**	**0**	**0**
350	310	269	229	188	147	107	67	26	3	0	0	0	0
930	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**0**	**0**	**0**
488	442	395	349	302	256	209	163	116	70	23	0	0	0
620	**620**	**620**	**620**	**620**	**620**	**620**	**620**	**620**	**615**	**620**	**130**	**0**	**0**
332	301	270	239	208	177	146	115	84	53	22	3	0	0
525	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**525**	**425**
349	323	297	271	244	218	192	166	139	113	87	61	34	11
3,895	**2,880**	**2,880**	**2,880**	**2,880**	**2,880**	**2,875**	**2,875**	**2,875**	**2,190**	**2,075**	**655**	**525**	**425**
1,540	1,375	1,231	1,087	942	798	654	510	366	239	132	64	34	11
1,605	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1,698	824	0	0	0	0	0	0	0	0	0	0	0	0
1,605	**26,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1,698	824	0	0	0	0	0	0	0	0	0	0	0	0
254,875	**238,125**	**226,370**	**203,335**	**192,555**	**174,635**	**165,595**	**149,980**	**136,305**	**110,725**	**96,900**	**76,180**	**50,580**	**17,270**
100,041	87,606	75,837	64,897	54,897	45,412	36,785	28,599	21,407	15,197	9,989	5,662	2,493	432
354,916	**325,731**	**302,207**	**268,232**	**247,452**	**220,047**	**202,380**	**178,579**	**157,712**	**125,922**	**106,889**	**81,842**	**53,073**	**17,702**
256,480	**264,495**	**226,370**	**203,335**	**192,555**	**174,635**	**165,595**	**149,980**	**136,305**	**110,725**	**96,900**	**76,180**	**50,580**	**17,270**
101,739	88,430	75,837	64,897	54,897	45,412	36,785	28,599	21,407	15,197	9,989	5,662	2,493	432
358,219	**352,925**	**302,207**	**268,232**	**247,452**	**220,047**	**202,380**	**178,579**	**157,712**	**125,922**	**106,889**	**81,842**	**53,073**	**17,702**

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 2006 valuation, was estimated by the Commissioner of Revenue to be $519,219,387,000. 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
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	459,506,046	4,807,666	464,313,712	12.74
2006 (est)	514,254,153	4,965,234	519,219,387	11.83

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 December 31, 2006, principal in the amount of $13,876,778 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 December 31, 2006, principal in the amount of $7,570,245 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 $8,275,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. As of April 1, 2007, $6,940,000 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, of which $165,855,000 remain will be outstanding, on April 1, 2007. 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.

(This page has been left blank intentionally.)

APPENDIX C

I. Schedule of Bonds Being Refunded

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated August 1, 1997, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2008 will be called for redemption and prepayment on August 1, 2007 at par plus accrued interest.

Maturing August 1	Principal Amount	Interest Rate
2008	$10,150,000	4.625%
2009	10,150,000	4.625%
2010	10,150,000	4.75%
2011	10,150,000	4.80%
2012	10,145,000	4.85%
2013	10,145,000	4.90%
2014	10,145,000	4.90%
2015	10,145,000	5.00%
2016	10,145,000	5.00%
2017	10,145,000	5.00%
	101,470,000	

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated June 1, 1998, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after June 1, 2009 will be called for redemption and prepayment on June 1, 2008 at par plus accrued interest.

Maturing June 1	Principal Amount	Interest Rate
2009	$8,775,000	5.00%
2010	8,775,000	5.00%
2011	8,775,000	5.00%
2012	8,775,000	5.00%
2013	7,925,000	5.00%
2014	7,775,000	5.00%
2015	7,775,000	5.00%
2016	7,775,000	5.00%
2017	7,775,000	5.00%
2018	7,775,000	5.00%
	81,900,000	

Proceeds of the Bonds will be used to refund the General Obligation State Various Purpose Bonds dated November 1, 1998, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2009 will be called for redemption and prepayment on November 1, 2008 at par plus accrued interest.

Maturing November 1	Principal Amount	Interest Rate
2009	$9,040,000	5.00%
2010	9,040,000	5.00%
2011	9,040,000	5.00%
2012	9,040,000	5.00%
2013	9,040,000	5.00%
2014	9,040,000	5.00%
2015	9,040,000	5.00%
2016	9,040,000	5.00%
2017	9,040,000	5.00%
2018	9,040,000	5.00%
	90,400,000	

APPENDIX D

Cash Flow Information

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

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

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

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

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

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

The Legislature 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
FEBRUARY 2007 FORECAST
Fiscal Year Ending June 30, 2006
(Dollars in Thousands)

	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	$ 3,039,376	$ 2,136,167	$ 1,739,807	$ 1,888,879	$ 1,901,132	$ 1,607,790	$ 1,830,254	$ 2,531,648	$ 2,198,016	$ 1,924,203	$ 2,132,704	$ 2,219,070	
Receipts:													
Individual Income Tax	$ 456,556	$ 453,514	$ 692,301	$ 462,812	$ 428,389	$ 623,192	$ 893,836	$ 170,857	$ 366,767	$ 851,200	$ 742,323	$ 697,688	$ 6,839,435
Sales and Use Taxes	173,755	415,587	393,690	398,000	361,324	357,538	444,378	353,477	301,424	381,697	333,200	603,981	4,518,050
Corporate & Bank Excise	1,952	24,528	234,075	42,209	5,364	180,003	34,554	29,408	262,754	48,412	40,837	165,132	1,069,228
Statewide Property Tax	33,911	151	18	1	2,293	276,350	4,505	145	18	1	120	318,021	635,535
Motor Vehicle Taxes	52,386	44,115	31,076	23,333	23,353	25,093	26,316	20,969	36,085	33,817	33,392	36,604	386,538
Tobacco Product Taxes	2,638	25,478	61,245	(3,439)	15,745	20,737	16,332	17,818	13,288	18,465	19,638	55,641	263,586
Insurance Taxes	1,911	4,652	72,140	371	1,820	72,026	737	15,709	98,635	1,468	1,452	73,047	343,969
Other Excise Taxes	101,107	212,476	77,624	130,580	89,916	132,941	127,652	84,583	69,041	122,686	98,641	106,342	1,353,589
Investment Earnings	6,232	7,515	6,041	6,251	6,413	6,760	7,363	8,418	8,635	8,920	8,007	9,755	90,310
Tobacco Settlement	0	0	0	0	100	178,960	0	0	0	0	0	0	179,060
Inter-governmental Grants	8,449	11,080	15,644	4,275	11,422	11,223	13,701	16,639	13,761	11,876	19,169	9,200	146,439
Other Sources	197,836	282,350	280,847	263,018	213,814	210,862	396,269	235,240	155,551	255,452	233,893	195,193	2,920,325
Subtotal Receipts	$ 1,036,732	$ 1,481,445	$ 1,864,701	$ 1,327,411	$ 1,159,954	$ 2,095,685	$ 1,965,643	$ 953,263	$ 1,325,959	$ 1,733,994	$ 1,530,672	$ 2,270,604	$ 18,746,063
Total Resources	$ 4,076,108	$ 3,617,612	$ 3,604,508	$ 3,216,290	$ 3,061,086	$ 3,703,475	$ 3,795,897	$ 3,484,911	$ 3,523,975	$ 3,658,197	$ 3,663,376	$ 4,489,674	
Expenditures:													
State Payroll	$ 205,514	$ 194,068	$ 276,121	$ 204,275	$ 200,333	$ 210,100	$ 197,488	$ 208,593	$ 293,022	$ 212,741	$ 208,598	$ 192,743	$ 2,603,596
Agency Operations	132,603	136,436	111,372	110,254	113,312	102,970	109,069	93,074	110,247	97,400	120,138	122,950	1,359,826
Aid to School Districts	459,272	975,279	688,729	440,245	188,937	617,746	579,226	567,049	810,061	732,155	546,359	251,967	6,857,026
Aid to Cities	230,850	7,563	80,621	43,290	10,281	275,755	11,583	20,116	16,437	4,939	6,233	6,208	713,876
Aid to Counties	233,140	36,460	41,067	94,273	27,571	216,665	16,388	35,489	26,899	22,812	31,766	16,687	799,217
Aid to Higher Education Institutions	98,170	106,704	32,283	8,940	106,493	94,262	97,831	10,822	57,239	66,206	106,211	55,687	840,849
Aid to Non-Gov't Organizations	27,907	33,968	14,381	18,734	20,457	15,477	24,634	25,024	14,157	15,507	22,235	13,676	246,157
Aid to Special Districts	34,192	18,684	40,758	18,519	13,368	15,277	28,222	9,354	10,060	31,133	11,361	17,345	248,272
Payments to Individuals	516,064	353,416	440,268	351,671	401,413	317,654	193,161	306,671	296,930	284,805	391,401	240,189	4,093,643
Other	2,228	15,227	(9,970)	24,956	18,132	7,315	6,646	10,703	(35,280)	57,795	4	(1,551)	96,205
Debt Service	0	0	0	0	353,000	0	0	0	0	0	0	0	353,000
Total Expenditures	$ 1,939,941	$ 1,877,805	$ 1,715,630	$ 1,315,157	$ 1,453,297	$ 1,873,221	$ 1,264,249	$ 1,286,895	$ 1,599,772	$ 1,525,493	$ 1,444,306	$ 915,901	$ 18,211,667
Ending Cash Balance	$ 2,136,167	$ 1,739,807	$ 1,888,879	$ 1,901,132	$ 1,607,790	$ 1,830,254	$ 2,531,648	$ 2,198,016	$ 1,924,203	$ 2,132,704	$ 2,219,070	$ 3,573,773	
Minimum Statutory Cash Balance for the Month	$ 1,748,489	$ 1,408,963	$ 1,480,024	$ 1,660,813	$ 1,499,469	$ 1,394,380	$ 1,713,972	$ 1,956,518	$ 1,400,585	$ 1,383,751	$ 1,769,336	$ 1,803,224	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
FEBRUARY 2007 FORECAST
Fiscal Year Ending June 30, 2007
(Dollars in Thousands)

	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	$ 3,573,773	$ 2,922,895	$ 2,435,061	$ 2,637,715	$ 2,556,747	$ 2,403,393	$ 2,688,853	$ 3,270,146	$ 2,873,889	$ 2,471,675	$ 2,371,668	$ 2,356,079	
Receipts:													
Individual Income Tax	$ 489,891	$ 508,806	$ 693,859	$ 503,990	$ 489,762	$ 600,812	$ 925,914	$ 169,444	$ 363,529	$ 880,210	$ 752,710	$ 714,574	$ 7,093,500
Sales and Use Taxes	183,133	419,830	397,040	428,493	365,429	362,666	433,893	352,050	303,879	372,058	343,387	623,125	4,584,983
Corporate & Bank Excise	9,320	18,896	244,039	46,982	6,300	265,273	15,373	32,536	274,860	38,462	35,223	190,638	1,177,900
Statewide Property Tax	29,772	2	(3)	(2)	2,397	292,079	4,975	43	0	0	0	334,109	663,372
Motor Vehicle Taxes	34,939	34,878	34,666	24,204	25,509	28,057	24,258	21,112	29,813	32,842	33,151	46,795	370,222
Tobacco Product Taxes	(17,453)	34,558	11,060	18,338	21,287	15,518	18,014	15,381	14,173	17,666	16,620	58,052	223,212
Insurance Taxes	1,470	6,804	71,883	1,159	2,259	74,345	812	8,967	98,520	3,767	10,563	73,085	353,633
Other Excise Taxes	107,951	99,326	79,942	136,422	79,108	143,621	134,559	86,112	53,321	110,596	78,473	102,323	1,211,753
Investment Earnings	10,815	14,195	11,777	11,703	12,286	11,579	11,484	14,694	7,941	8,701	8,021	11,343	134,540
Tobacco Settlement	0	193	0	0	100	0	180,312	0	0	0	0	0	180,605
Inter-governmental Grants	10,911	14,093	11,481	13,066	8,163	10,326	11,672	24,852	1,496	4,243	4,996	82,175	197,474
Other Sources	248,325	352,664	295,354	204,671	212,196	241,138	412,859	226,346	144,832	115,878	175,481	131,633	2,761,377
Subtotal Receipts	$ 1,109,074	$ 1,504,245	$ 1,851,098	$ 1,389,026	$ 1,224,796	$ 2,045,414	$ 2,174,125	$ 951,537	$ 1,292,362	$ 1,584,421	$ 1,458,623	$ 2,367,850	$ 18,952,571
Total Resources	$ 4,682,847	$ 4,427,140	$ 4,286,159	$ 4,026,741	$ 3,781,543	$ 4,448,807	$ 4,862,978	$ 4,221,683	$ 4,166,251	$ 4,056,096	$ 3,830,291	$ 4,723,929	
Expenditures:													
State Payroll	$ 221,043	$ 206,558	$ 294,834	$ 215,194	$ 214,633	$ 201,313	$ 213,823	$ 217,755	$ 299,568	$ 215,460	$ 209,895	$ 163,968	$ 2,674,045
Agency Operations	144,204	133,312	105,179	132,924	107,515	103,290	126,256	93,803	122,985	126,570	123,305	169,211	1,488,552
Aid to School Districts	257,824	962,597	588,424	380,026	188,871	532,461	626,963	603,974	747,789	775,730	593,027	280,132	6,537,817
Aid to Cities	255,744	9,005	84,255	43,862	11,925	297,152	206,440	31,478	16,055	5,483	5,209	6,059	972,667
Aid to Counties	246,290	53,626	26,846	86,136	43,280	25,111	14,599	4,474	91,193	76,979	86,659	87,133	842,326
Aid to Higher Education Institutions	110,039	100,543	23,980	52,161	127,446	91,173	104,698	14,631	21,407	25,400	63,007	45,451	779,935
Aid to Non-Gov't Organizations	24,563	25,733	17,023	56,393	19,867	22,584	17,141	22,451	9,636	12,863	11,327	24,413	263,994
Aid to Special Districts	36,504	18,545	18,175	18,601	31,990	15,894	33,272	10,241	13,778	16,760	16,980	12,347	243,087
Payments to Individuals	458,253	460,925	487,020	480,763	206,219	465,545	242,287	344,789	353,091	425,254	363,978	363,546	4,651,671
Other	5,488	21,235	2,707	3,934	26,404	5,431	7,353	4,198	19,074	3,931	826	1,460	102,039
Debt Service	0	0	0	0	400,000	0	0	0	0	0	0	0	400,000
Total Expenditures	$ 1,759,952	$ 1,992,079	$ 1,648,443	$ 1,469,994	$ 1,378,150	$ 1,759,954	$ 1,592,832	$ 1,347,794	$ 1,694,576	$ 1,684,428	$ 1,474,211	$ 1,153,720	$ 18,956,134
Ending Cash Balance	$ 2,922,895	$ 2,435,061	$ 2,637,715	$ 2,556,747	$ 2,403,393	$ 2,688,853	$ 3,270,146	$ 2,873,889	$ 2,471,675	$ 2,371,668	$ 2,356,079	$ 3,570,209	
Minimum Statutory Cash Balance for the Month	$ 3,164,390	$ 2,466,070	$ 2,217,368	$ 2,493,145	$ 1,819,466	$ 1,952,589	$ 2,151,237	$ 2,166,459	$ 2,297,298	$ 2,124,116	$ 1,857,980	$ 1,850,088	

(This page has been left blank intentionally.)

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 April 1, 2007, 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 April 1, 2007:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: April 1, 2007

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 04/01/2007 (in thousands)
Rental Housing	26	2.30% to 6.60%	2007-2047	$ 477,915	$ 196,180
Residential Housing Finance	53	2.15% to 6.51%	2007-2038	1,984,690	1,789,705
Single Family Mortgage	59	2.35% to 8.05%	2007-2035	1,312,240	310,315
	138			$3,774,845	$2,296,200

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 April 1, 2007 will be $530,771,791. 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 April 1, 2007, MOHE will have $557,000,000 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 April 1, 2007, the MnSCU will have $101,370,000 tax exempt bonds and $17,420,000 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 $3,633,077 and the other for $14,780,000. 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 April 1, 2007, the MHEFA will have $717,419,291 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 April 1, 2007, the MSABC will have $4,315,000 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 April 1, 2007, 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 $141.1 million of these bonds for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of April 1, 2007, the RFA had issued $34,910,000 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 April 1, 2007, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $708,825,000, Drinking Water Revenue Bonds, $153,125,000, and Transportation Revenue Bonds, $28,220,000, for a total outstanding amount of $889,770,000. The MPFA's bonds are not a debt or liability of the state. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed $1,500,000,000.

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 April 1, 2007, MAEDB will have outstanding $18,720,000 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 $264,247,903 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 April 1, 2007 the IRRRA will have $13,590,000 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, $35,815,000 of the revenue bonds remain outstanding as of April 1, 2007, of which $20,610,000 are payable primarily from lease payments of NAI, and $15,205,000 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 $35,815,000 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 April 1, 2007, there will be $26,625,000 of Minnesota State Retirement System bonds outstanding.

The Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of state revenue bonds. These revenue bonds will be used to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The debt service on the revenue bonds are paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner of Finance sold $35,000,000 of the revenue bonds in November 2006. As of April 1, 2007 there will be $35,000,000 of the 911 Revenue 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.

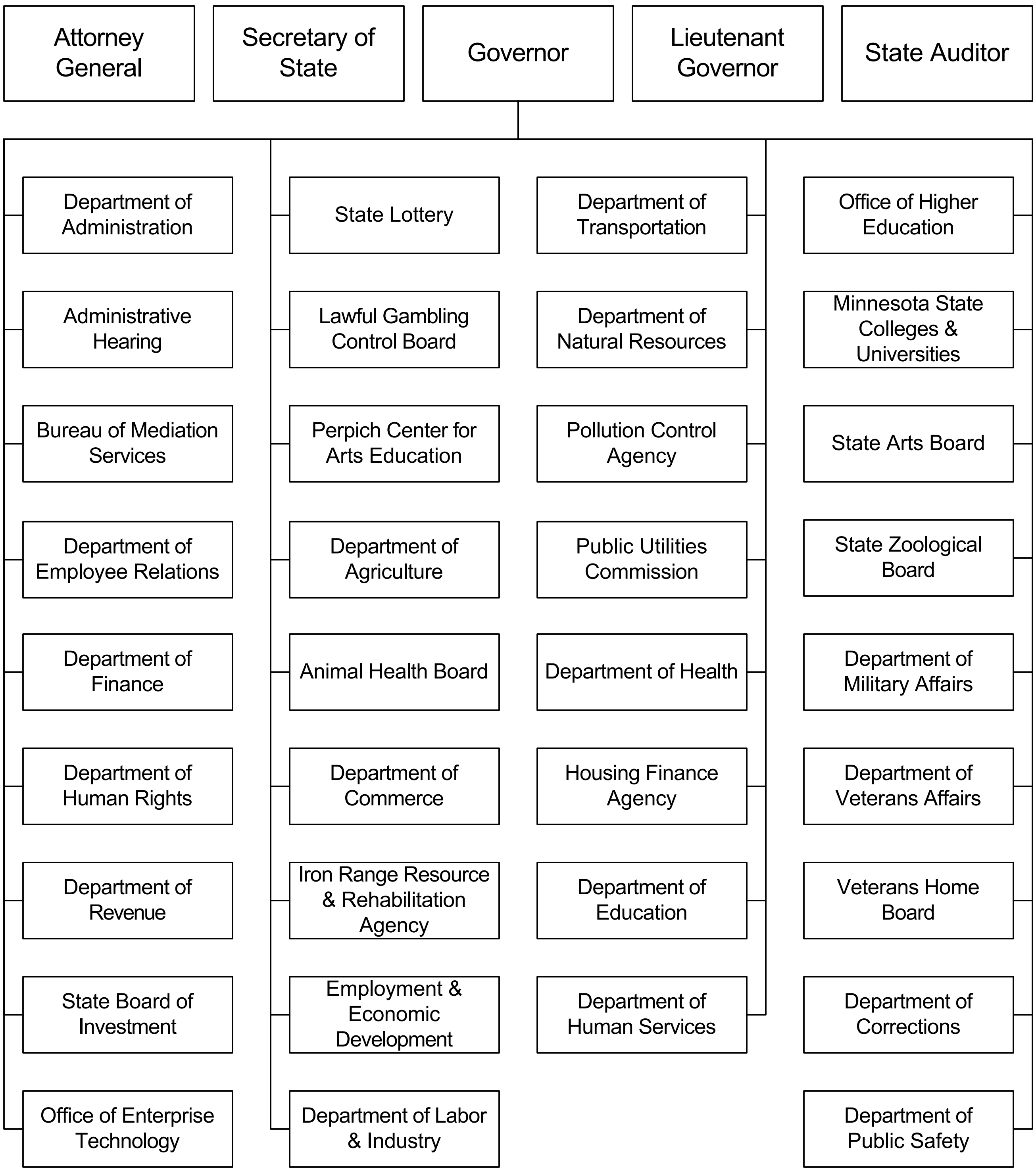
Banking and cash management activities.

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 2006 general purpose financial statements are presented in Appendix A, and general long-term debt unaudited schedules are presented in Appendix B.

Investments

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

Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the constitution, State law, or by federal law.

Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

Revenues and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

The State currently has 15 bargaining units for State employees. The Department of Employee Relations (DOER), Labor Relations and Total Compensation Division, negotiates seven non-faculty labor contracts. Minnesota State Colleges and Universities System staff negotiates three faculty contracts. The DOER develops compensation plans for un-represented employees. All contracts and compensation plans are subject to review and approval by the Legislature.

The State has settled voluntary agreements with AFSCME (7 units-craft, service, health care non-professional, clerical, technical, correctional officers and radio control officers), MAPE, MGEC, MNA, MLEA, MMA, SRSEA, Minnesota State College Faculty Association (MSCF), Minnesota State University Administration and Service Faculty (MSUAF) and Minnesota State University Interfaculty Organization (IFO) for the Current Biennium employee contracts.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of January 2007
AFSCME (7 bargaining units)	17,880
MN Association of Professional Employees (MAPE)	11,250
Middle Management Association (MMA)	2,760
MN Government Engineers Council (MGEC)	870
MN Nurses Association (MNA)	760
MN Law Enforcement Association (MLEA)	720
State Residential Schools Education Association (SRSEA)	180
State College Faculty Association (MSCF)	4,430
State University Interfaculty Organization (IFO)	3,250
State University Admin and Service Faculty (MSUAF)	670
Total Represented Employees	42,770
Total State Employment	49,000
Percent of All Executive Branch Employees Unionized	87%

APPENDIX G

Minnesota Defined Benefit Retirement Plans and Other Postemployment Benefits

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. Table G-2 provides information on the impact of the current year's legislation on the state Teachers' Retirement Fund. Additionally, Table G-3 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-3 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. As of July 1, 2010, benefit increases will be capped at 5%.

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. *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.

3. *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.

4. *Legislators' Retirement Plan.* General Fund appropriations are transferred to this account on a current disbursement basis as retirement benefits are paid.

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

6. *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	$ 839	$ 887
Legislators' Retirement Plan(1)	1,350	8,198	2,370
Minneapolis Employees Retirement Fund(2)	13,725	17,065	18,000
Basic Local Police & Fire Association(3)	164,246	175,094	184,123
Local Police or Fire Associations Amortization	10,005	9,938	9,300
Public Employees Retirement Association Aid	29,169	29,128	29,120
Minneapolis Teachers' Retirement Assoc.(4)	31,590	15,756	0
Teachers' Retirement Association(4)	0	15,800	31,600
St. Paul Teachers' Retirement Association(5)	5,929	5,936	5,934
TOTAL	$256,780	$277,754	$281,334

(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) The Minneapolis Teacher's Retirement Fund Association merged with the State Teacher's Retirement Association ("TRA") on July 1, 2006. Appropriations to aid the Minneapolis Teacher's Retirement Fund for FY07 and later years will be redirected to the State TRA.

(5) This plan is 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.

2006 Pension Legislation

- Consolidated the Minneapolis Teacher's Retirement Fund Association with the State Teacher's Retirement Association ("TRA"), effective July 1, 2006.
- Increased TRA employer and employee contributions from 5.0 to 5.5% of salaries beginning July 1, 2007, and increased the benefit for future teaching service. Table G-2 illustrates the impact of the consolidation, the increased contributions and the increased benefits on the TRA's funding ratio.
- Increased employer and employee contributions for the Minnesota State Retirement System ("MSRS") from 4 to 5% of salaries. Increases will be phased in over four years beginning July 1, 2007.
- Capped future benefit increases at 5% for benefit recipients of TRA, PERA and MSRS, as well as the St. Paul Teachers Retirement Fund. The effective date for this cap is July 1, 2010.

TABLE G-2

Condition of State Teachers' Retirement Association
Before and After Consolidation with Minneapolis Teachers' Retirement Fund Association
($ in Millions)

	Current Assets	Accrued Benefit Liability	Funding Ratio
Minneapolis Teachers' Retirement Fund Association. Pre-Consolidation: Actual, 7/1/2005	$ 783	$ 1,756	44.6%
Teachers' Retirement Association Pre-Consolidation: Actual, 7/1/2005	$17,753	$18,021	98.5%
Teachers' Retirement Association Post-Consolidation: Actual, 7/1/2006	$19,036	$20,679	92.0%

TABLE G-3

Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, June 30, 2006 ($ in Millions)[1]

	Current Assets	Accrued Benefit Liability	Funding Ratio	Active Members	Other Members
1. Funds For Which the State Has Custodial Responsibility[(2)]					
Minnesota State Retirement System:					
— General Employee Fund	$ 8,487	$ 8,819	96.23%	48,000	45,249
— Correctional Employee Fund	535	647	82.68%	3,910	2,580
— State Patrol Employee Fund	619	641	96.49%	851	887
— Judges Retirement Fund	152	202	75.06%	303	277
— Legislators Retirement Fund[(3)]	49	81	59.62%	76	436
— Constitutional Officers Fund[(3)]	.2	4	5.22%	0	16
Public Employees Retirement Association:					
— Public Employees Fund	12,495	16,738	74.65%	144,244	202,144
— PERA Police & Fire Fund	5,018	5,261	95.39%	10,591	8,557
— Local Correctional Service Fund	126	133	94.35%	3,531	2,409
Teachers Retirement Association	19,036	20,679	92.05%	79,164	78,412
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund	1,490	1,618	92.13%	335	5,054
Local Police & Fire Associations	637	853	74.75%	224	1,749
St. Paul Teachers' Retirement Fund	939	1,359	69.11%	4,052	5,742
Duluth Teachers' Retirement Fund	271	322	84.08%	1,174	2,072

(1) The information provided in this table reflects the condition of all funds as of June 30, 2006, 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) Current assets, accrued benefit liability and funding ratios shown are for pension benefits due to active members only. Assets and liabilities for retired members are accounted for separately in the Minnesota Post Retirement Investment Fund. As of June 30, 2006, Minnesota Post Retirement Investment Fund had 84.3% of the assets necessary to fund all future benefit payments.

(3) 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.

Postemployment benefits other than pensions

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. 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 Governmental Accounting Standards Board ("GASB") has issued Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("Statement 45"). The impact of implementing a CAFR using the new Statement 45 guidelines on postemployment benefits other than pensions has not been determined. GASB Statement 45 is required to be implemented for the CAFR for Fiscal Year 2008. The impact of the implementation will be determined by an actuarial calculation. The Commissioner of Finance is currently working with the Commissioner of Employee Relations to define the contract for postemployment benefits other than pensions actuarial calculations. The goal of the Commissioner of Finance is to have a contract in place by June 30, 2007.

There are two major components to the impact of the GASB implementation:

1. Only certain State employees are entitled to postemployment benefits other than pensions. These are described in Note 9 of the 2006 CAFR and include conservation officers, correctional counselors, and highway patrol officers. There are approximately 1,900 retired employees currently receiving this benefit.

   A rough estimate of $65 million has been recorded as the liability for the current retirees in the government-wide financial statements. Under GASB Statement 45, the CAFR statement for Fiscal Year 2008, postemployment benefits other than pensions will be recorded as a liability as part of the employee's compensation during their years of service. In the year of implementation, the estimate of the liability for past service is allowed to be amortized over a period not to exceed 30 years.

2. The second impact of GASB Statement 45 relates to retired employees that are allowed to obtain health insurance at the current cost per employee to the State. It is assumed that as employees get older, the cost of health care rises. The cost of healthcare for active employees has to be calculated separately from the healthcare cost for retirees. This rate subsidy will then be recorded as a liability as part of the compensation similar to item 1 above. The benefit of receiving a lower rate for health insurance must be calculated while the employee is still working. The materiality of this component is currently being evaluated under an existing actuarial contract.

(This page has been left blank intentionally.)

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 as shown in Table 1 or, at an average annual compound rate of 1.2 percent. In comparison, U.S. population also grew at an annual compound rate of 1.2 percent during this period. Between 2000 and 2006, 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 2006 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 2006 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 2006, as compared to 14.6 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, St. Jude Medical and other manufacturers of medical devices.

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 2006, 35.3 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 28.6 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 and Paper, Plastics and Rubber Products are 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. 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 2000-2006 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 2003 period, Minnesota non-farm employment declined 0.9 percent compared to a decline of 1.4 percent nationally. However, in the 2003 to 2006 period, Minnesota non-farm employment grew 2.8 percent compared to 4.7 percent nationally.

Performance Of The State's Economy

Since 1990, State per capita personal income has usually been within ten 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 2005, Minnesota per capita personal income was 108.2 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 2005. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and fifth during the period 2000 to 2005. Table 8 shows that Minnesota ranked ninth in personal income growth among neighboring states in 2004-2005. 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 2000-2006 period, Minnesota non-farm employment grew 2.8 percent, while regional employment declined 1.2 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2005 and 2006, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 4.1 percent in 2005, as compared to the national average of 5.1 percent. In 2006, Minnesota's unemployment rate averaged 4.0 percent, compared to the national average of 4.6 percent. In the first two months of 2007, Minnesota's unemployment rate exceeded the national rate.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	% Change U.S.	% Change Minnesota
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	282,217	4,934	1.1	1.3
2001	285,226	4,986	1.1	1.0
2002	288,126	5,025	1.0	0.8
2003	290,796	5,059	0.9	0.7
2004	293,638	5,094	1.0	0.7
2005	296,507	5,127	1.0	0.6
2006	299,398	5,167	1.0	0.8

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of the Census, www.census.gov/popest/states. Population data was released December 2006.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2006
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durables	224.7	8.0	9,000	6.5
Manufacturing Non-Durables	122.7	4.4	5,197	3.8
Natural Resources and Mining	6.0	0.2	684	0.5
Construction	129.8	4.6	7,688	5.6
Trade	437.0	15.5	21,216	15.3
Transportation, Warehousing, Public Utilities	94.5	3.4	5,014	3.6
Information	57.7	2.0	3,055	2.2
Financial Activities	181.1	6.4	8,363	6.0
Professional and Business Services	322.5	11.5	17,553	12.7
Education and Health Services	406.4	14.4	17,839	12.9
Leisure and Hospitality	245.8	8.7	13,142	9.5
Other Services	117.9	4.2	5,432	3.9
Government	414.1	14.7	21,990	15.9
Agriculture	54.9	2.0	2,206	1.6
Total	2,815.1	100.0	138,379	100.0

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov.

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

Minnesota employment data benchmarked to March 2006.

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

U.S. employment data released January 2007.

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, http://stats.bls.gov/cpsaat2.pdf/.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2006
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Wood Products	16.5	7.3	560	6.2
Fabricated Metals	43.7	19.5	1,554	17.3
Machinery	34.2	15.2	1,192	13.2
Computers and Electronics	54.3	24.3	1,317	14.6
Electrical Equipment	8.2	3.6	436	4.8
Transportation Equipment	14.7	6.5	1,765	19.7
Furniture and Related	13.1	5.8	556	6.2
Miscellaneous Manufacturing	23.2	10.3	651	7.2
Other Durables	16.8	7.5	969	10.8
Total	224.7	100.0	9,000	100.0

Sources: U.S. Employment — Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov.

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

Minnesota employment data benchmarked to March 2006. U.S. data released January 2007. 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 2006
(Thousands of Jobs)

Non-Durable Goods	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	43.3	35.3	1,484	28.6
Printing and Related	31.7	25.8	636	12.2
Paper, Plastic and Rubber Products	43.7	35.6	1,266	24.4
Other Non Durables	4.0	3.3	1,811	34.9
Total	122.7	100.0	5,197	100.0

Sources: U.S. Employment — Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov.

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

Minnesota data benchmarked to March 2006. U.S. data released February 2007. 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 2006
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	**1990**	**2000**	**2006**	**1990-2000**	**2000-2006**	**1990**	**2000**	**2006**	**1990-2000**	**2000-2006**
Manufacturing Durables	217.1	255.5	224.7	17.6	(12.1)	10,736	10,876	9,000	1.3	(17.2)
Manufacturing Non-Durables	124.2	141.1	122.7	13.6	(13.0)	6,959	6,388	5,197	(8.2)	(18.6)
Natural Resources and Mining	8.4	8.1	6.0	(3.6)	(25.9)	765	599	684	(21.7)	14.2
Construction	77.9	118.8	129.8	52.5	9.3	5,263	6,787	7,688	29.0	13.2
Trade	362.0	436.1	437.0	20.5	0.2	18,451	21,213	21,216	15.0	0.0
Transportation Warehousing and Utilities	85.8	103.3	94.5	20.4	(8.5)	4,216	5,012	5,014	18.9	0.0
Information	54.3	69.2	57.7	27.4	(16.6)	2,688	3,631	3,055	35.1	(15.9)
Financial Activities	129.3	164.8	181.8	27.5	10.3	6,614	7,687	8,363	16.2	8.8
Professional and Business Services	214.5	319.2	322.5	48.8	1.0	10,848	16,666	17,553	53.6	5.3
Education and Health Services	241.8	324.4	406.4	34.2	19.1	10,984	15,108	17,839	37.6	18.1
Leisure and Hospitality	181.0	221.6	245.8	22.4	10.9	9,288	11,862	13,142	27.7	10.8
Other Services	92.1	114.6	117.9	24.4	2.9	4,261	5,168	5,432	21.3	5.1
Government	347.9	407.6	414.1	17.2	1.6	18,415	20,790	21,990	12.9	5.8
Agriculture	103.1	73.4	54.9	(28.8)	(25.2)	3,223	2,464	2,206	(23.5)	(10.5)
Total	2,239.4	2,757.7	2,815.1	23.1	2.1	112,711	135,093	138,379	19.9	2.4

Sources: Minnesota 1990, 2000 and 2006 — Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

U.S. 1990, 2000 and 2006, Global Insight (USA), Inc., U.S. Central Data Bank, and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov.

Minnesota employment data benchmarked to March 2006. U.S. employment released February 2007. 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, http://stats.bls.gov/cps/cpsaat1.pdf/.

U.S. and Minnesota agricultural employment data for 2006 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.
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	32,616	30,574	106.7
2002	33,237	30,810	107.9
2003	34,328	31,463	109.1
2004	36,215	33,090	109.4
2005	37,322	34,495	108.2

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi. Data last updated September 2006.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2005

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2005 Personal Income (Millions)	2000-2005 Annual Compound Rate of Increase (%)	Regional Rank (1) 2000-2004	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2005 Population (Thousands)	2005 Per Capita Personal Income ($)	2005 Regional Rank
Illinois	238,499	400,373	5.32	6	462,857	2.94	9	12,440	20,824	1	12,765	36,264	2
Ohio	203,630	320,538	4.64	12	365,319	2.65	10	11,364	18,743	4	11,471	31,867	8
Michigan	176,189	294,227	5.26	7	331,304	2.40	11	9,956	18,922	3	10,101	32,735	6
Indiana	97,213	165,285	5.45	4	195,372	3.40	8	6,092	17,491	9	6,266	31,150	12
Wisconsin	88,635	153,548	5.65	2	184,087	3.69	6	5,374	18,072	6	5,528	33,251	3
Missouri	90,407	152,722	5.38	5	181,542	3.52	7	5,606	17,627	8	5,798	31,299	10
Minnesota	87,318	157,964	6.11	1	191,568	3.93	5	4,934	19,891	2	5,127	37,322	1
Iowa	48,358	77,763	4.86	10	94,316	3.94	4	2,928	17,389	10	2,966	31,795	9
Kansas	44,876	74,570	5.21	9	90,433	3.93	5	2,693	18,085	5	2,748	32,948	5
Nebraska	28,444	47,329	5.22	8	58,019	4.16	3	1,713	17,983	7	1,758	32,988	4
South Dakota	11,273	19,438	5.60	3	25,328	5.44	1	756	16,172	11	775	32,642	7
North Dakota	10,166	16,097	4.70	11	19,883	4.32	2	641	15,943	12	635	31,230	11

(1) Minnesota and Kansas are tied for 5th place.

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of the Census, www.census.gov/popest/states/tables, and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/sp. Population data released December 2006. Income data last updated September 2006.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION(1)
2004-2005

Rank	State	Percent Growth
1	North Dakota	7.67
2	Kansas	5.65
3	South Dakota	4.87
4	Missouri	4.66
5	Illinois	4.60
6	Wisconsin	4.16
7	Indiana	4.04
8	Nebraska	3.87
9	MINNESOTA	3.79
10	Ohio	3.69
11	Michigan	3.40
12	Iowa	3.15
	REGION	4.10

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.

(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	2006 Employment	% Increase 1990-2000	2000-2006
Illinois	5,288.4	6,044.8	5,934.7	14.3	(1.8)
Ohio	4,882.3	5,624.7	5,441.3	15.2	(3.3)
Michigan	3,969.7	4,673.9	4,341.1	17.7	(7.1)
Indiana	2,521.9	3,000.1	2,973.4	19.0	(0.9)
Wisconsin	2,291.5	2,833.8	2,860.7	23.7	0.9
Missouri	2,345.0	2,748.7	2,774.2	17.2	0.9
MINNESOTA	2,135.9	2,684.9	2,765.3	25.7	2.8
Iowa	1,226.4	1,478.5	1,503.0	20.6	1.7
Kansas	1,088.5	1,344.9	1,353.6	23.6	0.6
Nebraska	730.1	914.0	946.9	25.2	3.6
South Dakota	288.7	377.7	398.8	30.8	5.6
North Dakota	265.8	327.7	352.9	23.2	7.7
Region	27,034.2	32,053.7	31,640.8	18.6	(1.3)

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov. Minnesota employment, Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi/tools/ces.

TABLE 10
MINNESOTA AND U.S. UNEMPLOYMENT RATES FOR 1999-2006 AND THE FIRST TWO MONTHS OF 2007 NOT SEASONALLY ADJUSTED

Year	Annual Average Minnesota	Annual Average U.S.
1999	2.8%	4.2%
2000	3.1%	4.0%
2001	3.8%	4.7%
2002	4.5%	5.8%
2003	4.8%	6.0%
2004	4.6%	5.6%

Month	Minnesota	U.S.
2005		
January	5.2%	5.7%
February	4.9%	5.8%
March	5.0%	5.4%
April	4.2%	4.9%
May	3.7%	4.9%
June	3.9%	5.2%
July	3.6%	5.2%
August	3.5%	4.9%
September	3.8%	4.8%
October	3.3%	4.6%
November	3.7%	4.8%
December	4.1%	4.6%
Annual Average	4.1%	5.1%

Month	Minnesota	U.S.
2006		
January	5.0%	5.1%
February	4.8%	5.1%
March	4.6%	4.8%
April	4.0%	4.5%
May	3.3%	4.4%
June	3.7%	4.8%
July	3.7%	5.0%
August	3.5%	4.6%
September	3.8%	4.4%
October	3.4%	4.1%
November	3.8%	4.3%
December	4.2%	4.3%
Annual Average	4.0%	4.6%

Month	Minnesota	U.S.
2007		
January	5.4%	5.0%
February	5.1%	4.9%

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

TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 05	Rank 04	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Rank
29	27	Target	52,620,000	34,995,000	2,408,000	General Merchandisers	2
37	40	UnitedHealth Group	45,365,000	41,374,000	3,300,000	Health Care: Insurance	1
76	77	Best Buy	27,433,000	10,294,000	984,000	Specialty Retailers	4
85	85	St. Paul Travelers Cos.	24,365,000	113,187,000	1,622,000	Insurance: P & C (stock)	4
101	105	Minnesota Mining & Mfg. (3M)	21,167,000	20,513,000	3,199,000	Miscellaneous	1
113	104	Supervalu	19,543,200	6,278,300	385,800	Wholesalers: Food and Grocery	2
131	143	U.S. Bancorp	16,596,000	209,465,000	4,489,000	Commercial Banks	6
182	190	Northwest Airlines	12,286,000	13,083,000	(2,533,000)	Airlines	4
188	198	Cenex Harvest States	11,984,600	4,726,900	250,000	Wholesalers: Food and Grocery	3
206	197	General Mills	11,244,000	18,066,000	1,240,000	Consumer Food Products	4
235	246	Medtronic	10,054,600	16,617,400	1,803,900	Medical Products & Equipment	2
247	256	Xcel Energy	9,695,300	21,648,300	513,000	Utilities: Gas & Electric	15
301	279	Land O'Lakes	7,567,400	3,095,100	128,900	Consumer Food Products	9
352	319	Thrivent Financial for Lutherans	6,189,500	54,932,100	565,600	Insurance: Life, Health (mutual)	6
379	442	C.H. Robinson Worldwide	5,688,900	1,395,100	203,400	Transportation and Logistics	3
401	402	Hormel Foods	5,414,000	2,822,400	253,500	Consumer Food Products	12
457	476	Nash Finch	4,555,500	1,077,400	41,300	Wholesalers: Food and Grocery	6
459	455	Ecolab	4,534,800	3,796,600	319,500	Chemicals	16
470	—	Mosaic	4,396,700	8,444,000	165,600	Chemicals	12

Source: *Fortune Magazine,* dated April 17, 2006.

(This page has been left blank intentionally.)

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 April 17, 2007 (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 2007 (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.

(This page has been left blank intentionally.)

APPENDIX K
Form of Legal Opinion

The Honorable Tom J. Hanson
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $264,050,000 General Obligation State Refunding 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 $264,050,000 General Obligation State Refunding Bonds dated April 25, 2007 (the "Bonds"). The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, rules, regulations and judicial decisions now in effect, it is our opinion that:

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: April 25, 2007.