OFFICIAL STATEMENT DATED JULY 22, 2008

NEW ISSUES

RATING: Moody's: Aa1
Standard & Poor's: AAA
Fitch: AAA
See "Ratings" herein

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 the federal alternative minimum tax. For a discussion of tax matters see "Tax Exemption and Collateral Tax Matters" herein.

$463,915,000
STATE OF MINNESOTA
General Obligation State Bonds

Dated: Date of Issues **Due: as shown on inside cover**

$275,000,000
General Obligation State Various Purpose Bonds, Series 2008A

$33,500,000
General Obligation State Trunk Highway Bonds, Series 2008B

$155,415,000
General Obligation State Refunding Bonds, Series 2008C
(collectively referred to as the "Bonds")

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

The Bonds are subject to redemption and prepayment by the State as provided herein.

Form and Payment:

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

The Bonds are offered by the State subject to the legal opinions of Dorsey & Whitney LLP, bond counsel, as to the validity of the Bonds and tax exemption, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or about Tuesday, August 5, 2008.

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.

Electronic bids for each respective series will be received by the Commissioner of Finance until 10:00 A.M., C.D.T. on Tuesday, July 22, 2008, as set forth in each Notice of Sale.

$463,915,000
State of Minnesota
General Obligation State Bond Maturity Schedules

$275,000,000
General Obligation State Various Purpose Bonds, Series 2008A

Maturity (June 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2009	$17,975,000	5.00%	1.50%	GY6
2010	17,975,000	5.00%	2.15%	GZ3
2011	17,975,000	5.00%	2.62%	HA7
2012	17,975,000	5.00%	2.85%	HB5
2013	22,475,000	5.00%	3.05%	HC3
2014	13,525,000	5.00%	3.23%	HD1
2015	13,525,000	5.00%	3.40%	HE9
2016	13,525,000	5.00%	3.55%	HF6
2017	13,525,000	5.00%	3.68%	HG4
2018	13,525,000	5.00%	3.80%	HH2

Maturity (June 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2019	$11,300,000	5.00 %	3.96%	HJ8
2020	11,300,000	5.00 %	4.11%	HK5
2021	11,300,000	5.00 %	4.21%	HL3
2022	11,300,000	5.00 %	4.28%	HM1
2023	11,300,000	5.00 %	4.34%	HN9
2024	11,300,000	5.00 %	4.41%	HP4
2025	11,300,000	5.00 %	4.47%	HQ2
2026	11,300,000	4.625%	4.66%	HR0
2027	11,300,000	4.75 %	4.69%	HS8
2028	11,300,000	4.75 %	4.74%	HT6

$33,500,000
General Obligation State Trunk Highway Bonds, Series 2008B

Maturity (June 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2009	$2,215,000	4.00%	1.80%	HU3
2010	2,215,000	3.25%	2.15%	HV1
2011	2,215,000	3.25%	2.60%	HW9
2012	2,215,000	4.00%	2.95%	HX7
2013	2,215,000	3.50%	3.05%	HY5
2014	1,675,000	4.00%	3.32%	HZ2
2015	1,675,000	4.00%	3.47%	JA5
2016	1,675,000	5.00%	3.55%	JB3
2017	1,675,000	4.00%	3.70%	JC1
2018	1,675,000	4.00%	3.82%	JD9

Maturity (June 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2019	$1,405,000	4.00 %	3.98%	JE7
2020	1,405,000	4.125%	4.15%	JF4
2021	1,405,000	4.125%	4.20%	JG2
2022	1,405,000	4.50 %	4.36%	JH0
2023	1,405,000	4.50 %	4.42%	JJ6
2024	1,405,000	5.00 %	4.35%	JK3
2025	1,405,000	4.50 %	4.52%	JL1
2026	1,405,000	4.50 %	4.58%	JM9
2027	1,405,000	4.50 %	4.63%	JN7
2028	1,405,000	5.00 %	4.68%	JP2

$155,415,000
General Obligation State Refunding Bonds, Series 2008C

Maturity (August 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2009	$ 9,965,000	5.00%	1.50%	JQ0
2010	16,985,000	5.00%	2.15%	JR8
2011	310,000	5.00%	2.62%	JS6
2012	16,150,000	5.00%	2.85%	JT4
2013	16,115,000	5.00%	3.05%	JU1
2014	16,085,000	5.00%	3.23%	JV9

Maturity (August 1)	Amount	Interest Rate	Price or Yield	CUSIP 604129
2015	$16,045,000	5.00%	3.40%	JW7
2016	16,010,000	5.00%	3.55%	JX5
2017	15,965,000	5.00%	3.68%	JY3
2018	15,920,000	5.00%	3.80%	JZ0
2019	15,865,000	5.00%	3.96%	KA3

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 contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$463,915,000

General Obligation State Bonds

Dated Date of Issue

$275,000,000
General Obligation State Various Purpose Bonds, Series 2008A

$33,500,000
General Obligation State Trunk Highway Bonds, Series 2008B

$155,415,000
General Obligation State Refunding Bonds, Series 2008C

INTRODUCTION

General

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 16 through 55, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance (the "Department") to furnish information relating to $275,000,000 General Obligation State Various Purpose Bonds (the "Series 2008A Bonds"), $33,500,000 General Obligation State Trunk Highway Bonds (the "Series 2008B Bonds") and $155,415,000 General Obligation State Refunding Bonds (the "Series 2008C Bonds" and together with the Series 2008A Bonds and the Series 2008B Bonds, the "Bonds") of the State of Minnesota (the "State") to be dated the date of issue, 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 Series 2008A Bonds in the principal amount of $275,000,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises. The Series 2008B Bonds in the principal amount of $33,500,000 are being issued for the purpose of financing the cost, construction, improvement and maintenance of programs and projects of the State trunk highway system.

The Series 2008C Bonds in the principal amount of $155,415,000 are being issued for the purpose of refunding $75,000,000 in principal amount of outstanding general obligation bonds of the State dated August 1, 1999, and $81,150,000 in principal amount of outstanding general obligation bonds of the State dated June 1, 2000 (the "Refunded Bonds"). Such proceeds of the Series 2008C 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 Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Refunded Bonds and the dates on which they will be called for redemption are described in Appendix D.

Security

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

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Series 2008A Bonds and on the Series 2008B Bonds is payable semiannually on each June 1 and December 1 to maturity or prior redemption, commencing December 1, 2008. Interest on the Series 2008C Bonds is payable semiannually on each February 1 and August 1 to maturity, commencing February 1, 2009. If principal or interest is due on a date on which commercial banks are not open for business, then payment will be made on the first day thereafter when such banks are open for business. The Bonds are subject to redemption at the option of the State on the terms and conditions stated in the section hereof entitled "Redemption and Prepayment."

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

REDEMPTION AND PREPAYMENT

Series 2008A Bonds and Series 2008B Bonds maturing on or before June 1, 2018 will not be subject to redemption prior to their stated maturity dates, but Series 2008A Bonds and Series 2008B Bonds maturing on or after June 1, 2019 will be subject to redemption and prepayment by the State at its option on June 1, 2018 and any interest payment date thereafter, in whole or in part, in an order determined by the State and by lot within each maturity, at a price of par plus accrued interest to the date specified for redemption.

Series 2008C Bonds are not subject to redemption prior to their stated maturity date.

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

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

Sources and Uses of Funds of Series 2008A Bond Proceeds

Sources:		
Bond Proceeds:		
Par Amount of Bonds	275,000,000.00	
Premium on Bonds	16,409,919.50	
Total Sources		291,409,919.50
Uses:		
Capital Projects Funds		
Bond Proceeds Fund	275,000,000.00	
Total Bond Proceeds Funds		275,000,000.00
Debt Service Fund Deposit		
Premium on Bonds		16,409,919.50
Total Uses		291,409,919.50

Sources and Uses of Funds of Series 2008B Bond Proceeds

Sources:		
Bond Proceeds:		
Par Amount of Bonds	33,500,000.00	
Premium on Bonds	499,150.00	
Total Sources		33,999,150.00
Uses:		
Capital Projects Funds		
Trunk Highway Bond Proceeds	33,500,000.00	
Total Bond Proceeds Funds		33,500,000.00
Debt Service Fund Deposit		
Premium on Bonds		499,150.00
Total Uses		33,199,150.00

Sources and Uses of Funds of Series 2008C Bond Proceeds

Sources:		
Bond Proceeds:		
Par Amount of Bonds	155,415.00	
Premium on Bonds	13,404,245.55	
Total Bond Proceeds		168,819,245.55
Other Sources:		
Previous Debt Service Balance		6,452,287.50
Total Sources		175,271,533.05
Uses:		
Refunding Escrow		
Cash Deposit	372.16	
Escrow Purchases	161,745,399.27	
Total Refunding Escrow		161,745,771.43
Delivery Date Expenses		
Cost of Issuance		120,000.00
Debt Service Fund Deposit		
Premium on Bonds	13,404,245.55	
Rounding	1,516.07	
Total Debt Service Fund Deposit		13,405,761.62
Total Uses		175,271,533.05

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 the federal alternative minimum tax.

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. The State currently anticipates the sale of approximately $500 million of additional tax-exempt general obligation bonds in the fall of 2008.

Bonds Outstanding

The total amount of State general obligation bonds outstanding on the date of issuance of the Bonds, including this issue will be approximately $4.4 billion. The total amount of general obligation bonds authorized but unissued as of date of issuance of the Bonds, will be approximately $3.1 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 Katherine Kardell, Assistant Commissioner, State Department of Finance, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8030, email kathy.kardell@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

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

Statutory Provisions. The Series 2008A Bonds are authorized by Minnesota Statutes, Section 16A.631 through 16A.675 and the Series 2008B Bonds are authorized by Minnesota Statutes, Section 167.50 through 167.52. Such Bonds are also authorized by the session laws as set forth below.

Series 2008A Bonds.

Session laws authorizing the issuance of the Series 2008A Bonds and the amounts included in this issue are set forth below:[1]

Law Authorizing	Bonds This Issue
1996 Session, Chapter 463	$ 10,000
2000 Session, Chapter 492	1,000,000
2001 Special Session, Chapter 12	300,000
2002 Session, Chapter 374	1,225,000
2002 Session, Chapter 393	2,400,000
2002 Special Session, Chapter 1	490,000
2003 Special Session, Chapter 20	3,300,000
2005 Session, Chapter 20	21,000,000
2006 Session, Chapter 258	88,375,000
2007 Session, Chapter 16	4,500,000
2007 Special Session, Chapter 2	27,000,000
2008 Session, Chapter 152	15,000,000
2008 Session, Chapter 179	110,000,000
2008 Session, Chapter 365	400,000
	$275,000,000

Series 2008B Bonds.

Session laws authorizing the issuance of the Series 2008B Bonds and the amounts included in this issue are set forth below:(1)

Law Authorizing	Bonds This Issue
2007 Special Session, Chapter 2	$13,500,000
2008 Session, Chapter 152	20,000,000
	$33,500,000

Series 2008C Bonds.

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council of which $155,415,000 are included in this issue. The issuance of such Bonds was approved by resolution of the State Executive Council on March 20, 2007.

Security(2)

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

(1) See also the table of General Obligation Bonds Authorized, Issued and Unissued on page B-2 and the Project Description included in Appendix C.

(2) 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).

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, along 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 (the "General Fund" as defined on page 17) 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 transfers of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

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

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund" or "State Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula allocating the 5% may be made within six years of the last previous change, which occurred in 2008.

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

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

BOOK ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 above 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.

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 the federal alternative minimum tax.

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.

Impact of Kentucky v. Davis

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. On May 19, 2008, however, the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution.

Discount Bonds ("Discount Bonds")

Series 2008A Bonds having a stated maturity in the year 2026 and Series 2008B Bonds having a stated maturity in the years 2020, 2021 and 2025 through 2027 are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of: (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Holders of Discount Bonds should consult their own advisors with respect to computation and accrual of original issue discount and with respect to the state and local tax consequences of owning such Discount Bonds.

Premium Bonds ("Premium Bonds")

Series 2008A Bonds maturing in the years 2009 through 2025 and 2027 through 2028, Series 2008B Bonds maturing in the years 2009 through 2019 and 2022 through 2024 and 2028 and Series 2008C Bonds maturing in the years 2009 through 2019] 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 forms of legal opinions to be issued by Dorsey & Whitney LLP with respect to the Bonds are 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 issuance of Series 2008C 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 16 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 21 to the State Financial Statements for the Fiscal Year Ended June 30, 2007, 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 21 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 each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 are $761,000. The current maximum limits of liability for tort claims arising in Minnesota are $400,000 for any one claim and $1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are $500,000 for any one claim and $1,500,000 for any number of claims arising out of a single occurrence.

2. *35W Bridge Collapse.* On August 1, 2007 the 35W interstate bridge over the Mississippi River collapsed. Thirteen people were killed, and approximately 145 injured. The bridge, which opened in 1967, was designed by a private contractor under contract with the State of Minnesota; it was inspected and maintained by the Minnesota Department of Transportation ("MnDOT"). The cause of the collapse is under investigation by the National Transportation Safety Board. In addition, a law firm was retained by the Minnesota Legislature to investigate MnDOT practices in regard to the inspection and maintenance of bridges. The Minnesota Office of Legislative Auditor has also reviewed how MnDOT responded to the condition of the state's roads and bridges. The Minnesota Legislature

enacted a Compensation Fund codified in Minn. Stat. § 3.7391 et seq. and appropriated $36,640,000 for payments to representatives of decedents and claimants who were on the 35W bridge at the time of the collapse. A panel of three attorneys will determine the amount of payments. Persons accepting payment from the Compensation Fund will be required to forego the right to sue the State for damages. Persons who decline payment from the Compensation Fund will retain the right to sue the State. The State has received 186 Notices of Claim arising from the collapse of the 35W bridge. Claims must be filed with the Compensation Fund Panel by October 15, 2008 and offers of settlements must be made by February 28, 2009.

3. *Administrative Services Provided by Public School Personnel — Disallowance of Federal Funding.* The Department of Human Services (DHS) and the Center for Medicare/Medicaid Services (CMS) have settled this matter. DHS revised its Medicaid eligibility ratio to more accurately reflect the number of Medicaid eligible children receiving services from school district personnel, and CMS reduced the amount of the disallowance from $9,700,000 to $8,385,958, and CMS agreed to waive any interest due on the disallowed amount.

4. *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). In the fall of 2007 all of the parties brought cross-motions for summary judgment, and the Court ruled for the Commissioner of Revenue on all claims. Great Lakes Gas Transmission LP and Northern Border Pipeline Co. appealed the Court's decision to the Minnesota Court of Appeals. Briefing has been completed and the parties are waiting for the scheduling of oral arguments.

5. *In the Matter of the Commission Inquiry Regarding Potential Proscribed Ex Parte Contact Regarding Commissioner Scott; In the Matter of the Minnesota Department of Commerce Against Qwest Corporation Regarding Unfiled Agreement; In the Matter of the Complaint of A T & T Communications of the Midwest, Inc. against Qwest Corporation* (Minnesota Court of Appeals). This matter has been resolved. Upon reconsideration of this matter, the Public Utilities Commission reduced the amount of the penalty that Qwest was required to pay from the original amount of $25,955,000 to a revised amount of $6,500,000, and refunded to Qwest $19,455,000, which is the difference between the original amount and the revised penalty amount.

6. *McLane Minnesota, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). The parties submitted cross-motions for summary judgment, and the Court ruled in favor of the Commissioner of Revenue. McLane Minnesota, Inc., has indicated that it intends to appeal the Court's decision as soon as judgment is entered.

7. *Medical Assistance Supplemental Payments to Government Owned Facilities.* The Minnesota Department of Human Services was successful in its appeal of the federal Centers for Medicaid and Medicare Services ("CMS") disallowance of $19,700,000 in federal funding. The U.S. Department of Health and Human Services' Departmental Appeals Board overturned the disallowance, finding that the payments complied with federal law and the federal agency's disallowance was based on erroneous factual determinations.

8. *Merrill Lynch Fenner & Smith, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). The trial of this matter has been rescheduled for February 2009, and the parties are continuing with discovery matters.

9. *Stewart Title Guaranty Company v. Commissioner of Revenue* (Minnesota Tax Court). The Minnesota Tax Court granted the Commissioner of Revenue's motion for summary judgment on all claims, and Stewart Title Guaranty Company appealed the court's ruling to the Minnesota Supreme Court. Briefing of this matter to the Minnesota Supreme Court has been completed, and the parties are awaiting a decision.

10. *Union Pacific Railroad Co. & Soo Line Railroad Co. v. Salomone, et al.* (Federal District Court, No. CV 04-924 JRT/JSM). The Commissioner of the Minnesota Department of Revenue filed a motion for a rehearing en banc to the United States Eighth Circuit Court of Appeals, which was denied. The Commissioner of Revenue then chose not to appeal this denial to the United States Supreme Court, and has been denying the outstanding refund claims. It is expected that additional

litigation will be initiated by all of the railroads that have outstanding refund claims, with these claims expected to be $20,000,000 to $30,000,000.

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. The Commissioner has never failed to comply with any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Series 2008A Bonds at public sale to Lehman Brothers, Inc. as Underwriters, for a price of $170,191,653.95, with the Series 2008A Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2008B Bonds at public sale to UBS Securities, LLC as Underwriters, for a price of $33,999,150.00, with the Series 2008B Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2008C Bonds at public sale to Lehman Brothers, Inc. as Underwriters, for a price of $168,819,245.55, with the Series 2008C Bonds to bear interest at the rates set forth on the inside front 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 inside front 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, 2007 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 2007 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2008 will be available by December 31, 2008. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2008 and comparative data for the same period ending June 30, 2007 are summarized on pages 21 and 22.

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, 2003, and which ended on June 30, 2005, is referred to herein as the "FY 2004-2005 Biennium." The biennium which began on July 1, 2005 and which ended on June 30, 2007, is referred to herein as the "Previous Biennium." The biennium which began on July 1, 2007 and which will end on June 30, 2009, is referred to herein as the "Current Biennium." The biennium which will begin July 1, 2009 and will end on June 30, 2011 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 2007 Legislature ending in May 2007. 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 2005 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 2005 and 2006 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 2006 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 2006. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2006. In November 2006, 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 2007. In February 2007, 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 2007. 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 2006, 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 18 to 44 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 originally established the Budget Reserve Account at $686 million for the Current Biennium. Of this amount, a special contingent reserve of $33 million was designated for aids to counties to deal with anticipated federal reductions affecting human services case management activities. In December 2007, the $33 million special contingent reserve was spent for its designated purpose. Actions in the 2008 legislative session reduced the Budget Reserve Account to $153 million. 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. By law, Unrestricted Balance at the end of each biennium are transferred to the Tax Relief Account. The use of the funds from the Tax Relief Account requires legislative action.

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 $9.4 billion in tax year 2006, 6.6 percent of residents' adjusted gross income. In tax year 2007 net capital gains realizations by Minnesota residents are estimated to total $10.0 billion or 6.7 percent of adjusted gross income. In Tax Year 2008 net capital gains are estimated to be $9.5 billion.

Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium 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 3.7 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 2008 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 2008 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 2.4 percent over the 2005 to 2009 period. Forecast and actual growth rates for 2005 through 2009 average 2.4%. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

GII FEBRUARY 2008
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	3.1	2.9	2.2	1.4	2.2
GDP DEFLATOR (Inflation)	3.2	3.2	2.7	2.2	1.8
NOMINAL GDP Growth Rate	6.4	6.1	4.9	3.6	4.0

A report is published with each forecast and is available at www.finance.state.mn.us. The November 2008 revenue and expenditure forecast is expected to be released in late November 2008. The November 2008 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

Economic Update

The July 2008 Economic Update shows General Fund tax receipts for Fiscal Year 2008 are now estimated to be $391 million more than forecast in February 2008.

Individual income tax receipts showed the largest variance, up $177 from the forecast. More than $100 million of that variance came from payments and refund variance associated with tax year 2007. Withholding receipts were $74 million above forecast at the end of fiscal 2008. Net sales tax revenue was less than $3 million under forecast, while corporate income tax revenues were $124 million more than forecast. All other revenues, including the General Fund share of the motor vehicle sales tax, exceeded forecast by $92 million.

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, 2005 through 2007, and for the additional time periods shown. For the Fiscal Years ended June 30, 2005 through 2007 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such Fiscal Years. For the twelve-month periods ending June 30, 2007 and June 30, 2008, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2007 and 2008, 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 1,2006 through June 30 2007 (1)	July 1,2007 through June 30 2008 (1)
	2005	2006	2007		
UNRESTRICTED REVENUES:					
Income Tax - Individual	$ 7,436,665	$ 8,066,172	$ 8,470,300	$ 8,256,769	$ 8,812,182
Income Tax - Corporation	779,422	1,288,941	1,316,425	1,350,493	1,252,062
Sales Tax	4,520,823	4,689,500	4,776,884	4,762,618	4,820,158
Statewide Property Tax	610,809	631,279	665,746	547,470	488,572
Inheritance and Gift Tax	80,372	210,291	112,003	110,525	120,670
Liquor, Wine and Malt Beverage Tax	75,025	67,938	72,671	71,829	72,963
Cigarette and Tobacco Tax	169,067	222,507	219,638	217,365	183,930
Mining Taxes	5,660	6,630	8,148	8,106	11,521
Gross Earnings Taxes	287,416	259,299	270,004	266,860	281,594
Motor Vehicle Excise Tax	300,065	251,605	274,372	270,360	213,210
Income Reciprocity Tax	54,289	53,768	64,123	63,481	69,050
Department Earnings	516,297	535,909	527,232	521,466	515,386
Investment Income	21,936	55,867	108,689	95,251	92,254
Tobacco Settlement	175,488	180,790	183,911	183,912	184,411
All Other Revenues	731,767	663,689	622,740	613,592	544,501
TOTAL UNRESTRICTED REVENUES	$ 15,765,101	$ 17,184,185	$ 17,692,886	$ 17,340,097	$ 17,662,464
RESTRICTED REVENUES	86,146	77,294	70,398	70,398	92,177
LESS REVENUE REFUNDS:					
Income Tax - Individual	$ 902,243	$ 997,460	$ 1,057,919	$ 1,057,919	$ 1,092,708
Income Tax - Corporation	68,288	99,026	153,330	153,330	178,221
Sales Tax	240,654	217,508	263,927	263,927	245,122
All Other	36,323	44,261	39,949	39,949	38,909
TOTAL REFUNDS	$ 1,247,508	$ 1,358,255	$ 1,515,125	$ 1,515,125	$ 1,554,960
NET REVENUES	$ 14,603,739	$ 15,903,224	$ 16,248,159	$ 15,895,370	$ 16,199,681

(1) For Fiscal Years 2005, 2006 and 2007, the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the twelve-month periods ended June 30, 2007 and 2008, 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 1,2006 through June 30 2007 (1)	July 1,2007 through June 30 2008 (1)
	2005 (2)	2006	2007		
EXPENDITURES:					
Personal Services	$ 1,069,652	$ 1,110,675	$ 1,178,760	$ 1,081,169	$ 1,152,108
Purchased Services	347,287	345,879	433,292	402,310	406,202
Materials and Supplies	59,906	56,270	62,158	57,153	55,240
Capital Outlay (3)	6,388	192,094	4,783	37,587	19,516
Grants and Subsidies:					
Individuals	3,759,643	4,018,406	4,417,310	4,096,462	4,369,301
Municipalities and Towns	706,557	713,640	764,679	695,757	730,657
Counties	687,776	769,145	801,822	731,002	796,483
School Districts (4)	6,038,169	6,545,175	6,428,981	6,434,899	6,759,783
Private Organizations	168,858	176,014	176,399	160,140	199,565
University of Minnesota	502,142	540,414	567,237	519,216	706,360
Other	142,698	182,897	200,514	185,761	196,815
TOTAL EXPENDITURES	$ 13,489,076	$ 14,650,609	$ 15,035,935	$ 14,401,456	$ 15,392,030
NET OTHER FINANCING SOURCES (USES)	693,739	506,773	770,924	584,844	694,754
TOTAL EXPENDITURES and NET OTHER FINANCING SOURCES (USES)	$ 14,182,815	$ 15,157,382	$ 15,806,859	$ 14,986,300	$ 16,086,784

(1) For Fiscal Years 2005, 2006 and 2007, the schedule of expenditures includes all expenditures for the Fiscal Year, including accruals at June 30. For the twelve-month periods ended June 30, 2007 and 2008, only current year expenditures have been included.

(2) For Fiscal Years 2005, 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 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.

BUDGET — CURRENT BIENNIUM

Forecast and projected revenues and expenditures are based on the legal requirements contained in Minnesota statutes and session laws as of the time of the forecast and projections.

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, 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	0	
Total for Statutorily Mandated Accounts		1,003
Projected Unrestricted Balance at June 30, 2009		$ 2,170

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

	End of 2006 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

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

	Nov 2006 Previous Biennium	Nov 2006 Current Biennium	$ 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	

The above table compares forecast revenues and expenditures made in November 2006 for the Previous Biennium and the Current Biennium. The November 2006 forecast for the Current Biennium was the first forecast for that biennium. The forecasted revenues and expenditures indicate that the revenues for the Current Biennium would exceed the revenues for the Previous Biennium; tax revenues were forecast to be greater, and other resources were forecast to be lower. The balance brought forward for the Current Biennium was expected to be higher than the balance that was brought forward for the Previous Biennium.

Individual income tax revenues were expected to show the most growth in the Current Biennium, from the Previous Biennium. Sales tax revenues were forecast to grow over the Previous Biennium, while statewide property tax receipts were expected to grow over the Previous Biennium. Corporate income tax collections were forecast to decline from the Previous 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 Previous Biennium, other non-dedicated revenues lower, and transfers in from other funds lower than the Previous Biennium. All other resources were forecast to be higher than the Previous Biennium.

Projected spending for the Current Biennium was expected to be greater than end of session estimates, and higher than spending in the Previous Biennium. Health and human services spending estimates increased over the Previous Biennium. Net spending in all other areas was nearly flat due to the fact that Minnesota law required FY 2007 legislative appropriations be the base for the Current 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 Current Biennium having been used for tax changes made in the 2006 legislative session effective in the Current Biennium.

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, 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

CURRENT 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)

Total spending was projected to be more than projected in November 2006. 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.

March 2007 Governor's Budget Recommendations

In January 2007 the Governor submitted a proposed budget to the Legislature for the Current Biennium that was based on the November 2006 forecast of General Fund revenues and expenditures. 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:

CURRENT 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

Recommendations were updated to reflect changes in forecasts for K-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 Account, raising the proposed level from $700 million to $800 million, 4.5 percent of annual expenditures.

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

CURRENT BIENNIUM
MARCH 2007 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)

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 Current Biennium.

The Governor included no general tax increases in his March 2007 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 Current Biennium.

Expenditures Proposed in the Governor's Budget:

The March 2007 Governor's recommendation for the Current Biennium increased General Fund spending by $1.933 billion from the February 2007 projected forecast. The total recommended spending increase is $3.076 billion (9.8 percent) over the forecast for the Previous 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 formula under which the state provides local school districts funds for education 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 Previous Biennium to repay school district payment shifts do not recur and act to reduce growth compared to the Previous Biennium.

The forecasted growth in human services is largely attributable to 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:

Minnesota 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 the 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.

Next Biennium:

The planning estimates for the Next Biennium, based on the March 2007 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 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 displays the Governor's budget for the Current Biennium compared to the Previous Biennium. The table highlights growth in major revenues and spending categories, identifying both amounts and percent change from previous levels.

CURRENT BIENNIUM
MARCH 2007 GOVERNOR'S RECOMMENDATIONS
COMPARISONS TO PREVIOUS BIENNIUM
($ in Millions)

	Previous Biennium	Current Biennium	$ Change	% Change
Balance Forward From Prior Year	$ 1,393	$ 2,108	$ 715	51.3%
Previous 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 Previous 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)	

2007 Legislative Session

The 2007 legislative session ended on the constitutional deadline of May 21, 2007. Legislative actions authorizing revenues and spending for the Current Biennium were based on the February 2007 forecast. The end of the 2007 legislative session estimates, for revenues, expenditures and fund balances are detailed below reflect the enacted budget after line-item and other vetoes by the Governor.

The Current Biennium budget based on 2007 Legislative actions is detailed below:

CURRENT BIENNIUM
GENERAL FUND
2007 LEGISLATIVE SESSION*
($ in Millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,106
Non-Dedicated Revenues	32,966	
Dedicated Revenues, Transfers In and Other	846	
Total Revenues and Transfers		33,812
Total Resources		$35,918
Expenditures		34,509
Projected Unreserved Balance at June 30, 2009		$ 1,409
Cash Flow Account	350	
Budget Reserve Account	686	
Total for Statutorily Mandated Accounts		1,036
Projected Unrestricted Balance at June 30, 2009		$ 373

*Taking into effect Governor's vetoes.

The following table details revenue and expenditure changes enacted by the 2007 Legislature compared to the February 2007 forecast for the Current Biennium. The information highlights increases and decreases from forecast levels for major revenue and expenditure categories.

CURRENT BIENNIUM
2007 LEGISLATIVE SESSION*
COMPARISON TO FEBRUARY 2007 FORECAST
($ in Millions)

	Feb 2007 Forecast	Enacted	Change
Balance Forward From Prior Year	$ 2,126	$ 2,106	$ (20)
Current Resources:			
Income Tax Receipts	15,567	15,567	0
Corporate Tax Receipts	2,209	2,209	0
Sales Tax Receipts	9,432	9,432	0
Motor Vehicle Sales Tax Receipts	317	317	0
Statewide Property Tax Receipts	1,402	1,402	0
Other Taxes	2,412	2,514	102
Miscellaneous Non-Tax Revenues, Transfers	2,339	2,371	32
Total Current Resources	33,678	33,812	134
Total Resources	35,804	35,918	114
Expenditures:			
K-12 Education	12,996	13,780	784
Higher Education	2,802	3,155	353
Property Tax Aids & Credits	3,108	3,108	0
Health & Human Services	9,460	9,695	235
Public Safety	1,723	1,877	154
All Other Spending	2,549	2,894	345
Total Spending	32,638	34,509	1,871
Cash Flow Account	350	350	0
Budget Reserve	653	686	33
Projected Balance at June 30, 2009	$ 2,163	$ 373	$(1,790)

*Taking into effect Governor's vetoes.

Revenues in the Enacted Budget

The approved budget reflects little change in General Fund revenues from the February 2007 forecast for the Current Biennium. No general tax increases or decreases were included in the adopted budget. The Governor and legislature failed to agree on an omnibus tax bill, resulting in a gubernatorial veto. Revenue provisions in the vetoed omnibus tax bill, however, were largely limited to modifications to taxes paid related to foreign operating corporations. Without these changes, forecast revenues for the biennium increased only slightly from forecast levels, reflecting additional tax compliance revenues and limited fee and other revenue changes occurring in omnibus appropriation bills.

Expenditures Authorized in the Enacted Budget:

The enacted budget for the Current Biennium increased General Fund spending by $1.871 billion from the February 2007 projected forecast. The total recommended spending increase is $3.011 billion (9.6 percent) over the forecast for the Previous Biennium.

K-12 education accounts for 40 percent of total General Fund spending, increasing $784 million over forecast spending. One-third of the change resulted from increases to the basic education funding formula of 2 percent in the first year and 1.0 percent in the second year. Slightly over 40 percent of the total change is attributed to increases in special education funding. Significant initiatives in one-time school technology funding, deferred maintenance funding, and increases in kindergarten pupil unit weighting accounted for the remainder of the net increase.

Health and human services programs account for 28 percent of authorized spending, an increase of $235 million from forecast levels, but $1.453 billion over the Previous Biennium. Primary components of the change included forecast growth in human services attributable to largely growing costs in Medical Assistance, Minnesota's Medicaid program. Limited additional spending occurred as a result of expanding MinnesotaCare coverage for adults without children. Other changes represented a combination of changes related to improving mental health services, providing 2 percent yearly rate increases to continuing care providers, and promoting electronic health records technology.

The enacted budget included significant increases both to the State's higher education systems as well as to student financial aid programs that acted to reduce possible tuition increases. Property tax aids and credit payments to local governments and individuals, local government aids, as well as property tax refund payments to individuals were left unchanged from forecast levels. Proposed increases for these programs had been part of an omnibus tax bill that was vetoed by the Governor. No action left local aid credit and refund formulae in place. Finally, a major portion of increased spending for public safety was directed to operations of the State's correctional facilities, as well as providing for increased operating costs in the State's court systems, related to caseload increases.

Budgets for most areas included three percent per year increases from current appropriation levels for potential compensation costs related to bargained labor contracts being negotiated.

Reserves:

At the end of the 2007 legislative session, Minnesota law provided for a total of $1.003 billion in reserves, including the Budget Reserve Account and a separate cash flow account. No changes were made to these reserves. A special contingent reserve of $33 million was designated for aids to counties to deal with anticipated federal reductions affecting human services case management activities.

Final budget actions left an unusually high unexpended, available General Fund balance of $373 million. Executive vetoes of the omnibus tax bill reduced legislative spending by $138 million, as well as deferring a recommended increase to the budget reserve of $150 million. An executive veto of a capital budget bill reduced legislatively approved cash spending for capital projects by $135 million, while reducing debt service spending from forecast levels that assumed a small off-year capital budget.

Next Biennium:

The planning estimates for the Next Biennium, based on the enacted budget, indicate that there would be a structural balance of $1.144 billion, meaning that projected total revenues, excluding any balances carried forward, would exceed total expenditures for the Next Biennium. The planning estimates are based on projected 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 displays the budget for the Current Biennium compared to the Previous Biennium based on the 2007 Legislative Session. The table highlights growth in major revenues and spending categories, identifying both amounts and percent change from current levels.

CURRENT BIENNIUM
2007 LEGISLATIVE SESSION
COMPARISONS TO PREVIOUS BIENNIUM
($ in Millions)

	Previous Biennium	Current Biennium	$ Change	% Change
Balance Forward From Prior Year	$ 1,393	$ 2,106	$ 713	
Current Resources:				
Income Tax Receipts	13,956	15,567	1,611	11.5%
Corporate Tax Receipts	2,240	2,209	(31)	(1.4)%
Sales Tax Receipts	8,983	9,432	449	5.0%
Motor Vehicle Sales Tax Receipts	491	317	(174)	(35.5)%
Statewide Property Tax Receipts	1,295	1,402	107	8.3%
Other Taxes	2,600	2,514	(86)	(3.3)%
Miscellaneous Non-Tax Revenues, Transfers	2,646	2,371	(275)	(10.4)%
Total Current Resources	32,211	33,812	1,601	5.0%
Total Resources	33,604	35,918	2,314	6.9%
Expenditures:				
K-12 Education	13,362	13,780	418	3.1%
Higher Education	2,763	3,155	392	14.2%
Property Tax Aids & Credits	3,028	3,108	80	2.6%
Health & Human Services	8,242	9,695	1,453	17.6%
Public Safety	1,714	1,877	163	9.5%
All Other Spending	2,389	2,894	505	21.1%
Total Spending	31,498	34,509	3,011	9.6%
Cash Flow Account	350	350	0	
Budget Reserve	653	686	33	
Tax Relief Account	110	0	(110)	
Projected Balance at June 30	$ 993	$ 373	$ (620)	

September 2007 Special Legislative Session

On September 11, 2007, the Legislature convened in a one-day special session to provide flood relief for southeastern Minnesota. The Legislature enacted a variety of aid provisions to assist local governments and individuals meet match requirement for federal disaster assistance as well as for the Department of Natural Resources to repair a flood damaged state park. In total, the Legislature appropriated $79 million of General Fund resources for flood cleanup and recovery and authorized $56 million of general obligation bonds for capital projects resulting from flood damage. Additionally, the first $55 million of federal emergency relief appropriations were authorized for spending by the Department of Transportation for cleanup and recovery efforts related to the Interstate 35W bridge collapse in Minneapolis.

November 2007 Forecast

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

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

Resources		
Unreserved Balance at June 30, 2007		$ 2,245
Non-Dedicated Revenues	32,232	
Dedicated Revenues, Transfers In and Other	840	
Total Revenues and Transfers		33,072
Total Resources		$35,317
Expenditures		$34,654
Projected Unreserved Balance at June 30, 2009		$ 663
Cash Flow Account	350	
Budget Reserve Account	686	
Total for Statutorily Mandated Accounts		$ 1,036
Projected Unrestricted Balance at June 30, 2009		($ 373)

The following table details revenue and expenditure changes in the November 2007 forecast compared to the 2007 enacted budget for the Current Biennium taking into account budgeted amounts from both the regular and special legislative sessions. The information highlights increases and decreases for major revenue and expenditure categories.

CURRENT BIENNIUM
NOVEMBER 2007 FORECAST
CHANGES FROM END OF 2007 SPECIAL LEGISLATIVE SESSION
($ in Millions)

	End of Session	Nov 2007 Forecast	Change
Balance Forward From Prior Year	$ 2,106	$ 2,245	$ 139
Current Resources:			
Income Tax Receipts	15,628	15,659	31
Corporate Tax Receipts	2,216	1,898	(318)
Sales Tax Receipts	9,467	9,158	(309)
Motor Vehicle Sales Tax Receipts	317	313	(4)
Statewide Property Tax Receipts	1,402	1,437	35
Other Taxes	2,411	2,230	(181)
Miscellaneous Non-Tax Revenues, Transfers	2,371	2,377	6
Total Current Resources	33,812	33,072	(740)
Total Resources	35,918	35,317	(601)
Expenditures:			
K-12 Education	13,781	13,788	7
Higher Education	3,155	3,155	0
Property Tax Aids & Credits	3,109	3,154	45
Health & Human Services	9,695	9,718	23
Public Safety	1,886	1,886	0
All Other Spending	2,962	2,953	(9)
Total Spending	34,588	34,654	66
Cash Flow Account	350	350	0
Budget Reserve	686	686	0
Projected Balance at June 30, 2009	$ 294	$ (373)	$(667)

Forecast revenues were expected to be less than at the end of the 2007 special legislative session. Changes in the corporate income and sales taxes showed the largest decrease. Individual income taxes were projected to be slightly greater than estimates at the end of session. All other resources were lower than previous estimates with mortgage registration and deed taxes contributing to the decline.

Projected spending for the Current Biennium was $66 million higher than estimates made at the end of the 2007 special legislative session. Total spending was projected to be $34.654 billion. K-12 education, health and human services and property tax aids and credits were all forecast to be higher than earlier estimates. These increases were offset by a decrease in spending for debt service.

February 2008 Forecast

The Department of Finance prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of February 2008. The February 2008 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

CURRENT BIENNIUM
GENERAL FUND
FEBRUARY 2008 FORECAST
($ in Millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,245
Non-Dedicated Revenues	31,730	
Dedicated Revenues, Transfers In and Other	812	
Total Revenues and Transfers		32,542
Total Resources		$34,787
Expenditures		$34,718
Projected Unreserved Balance at June 30, 2009		$ 68
Cash Flow Account	350	
Budget Reserve Account	653	
Total for Statutorily Mandated Accounts		$ 1,003
Projected Unrestricted Balance at June 30, 2009		$ (935)

The following table details revenue and expenditure changes in the February 2008 forecast compared to the November 2007 forecast for the Current Biennium. The information highlights increases and decreases for major revenue and expenditure categories.

CURRENT BIENNIUM
FEBRUARY 2008 FORECAST
CHANGES FROM NOVEMBER 2007 FORECAST
($ in Millions)

	Nov 2007 Forecast	Feb 2008 Forecast	Change
Balance Forward From Prior Year	$ 2,245	$ 2,245	$ 0
Current Resources:			
Income Tax Receipts	15,659	15,345	(314)
Corporate Tax Receipts	1,898	1,760	(138)
Sales Tax Receipts	9,158	9,145	(13)
Motor Vehicle Sales Tax Receipts	313	293	(20)
Statewide Property Tax Receipts	1,437	1,442	5
Other Taxes	2,230	2,223	(7)
Miscellaneous Non-Tax Revenues, Transfers	2,377	2,334	(43)
Total Current Resources	33,072	32,542	(530)
Total Resources	35,317	34,787	(530)
Expenditures:			
K-12 Education	13,788	13,805	17
Higher Education	3,155	3,155	0
Property Tax Aids & Credits	3,154	3,152	(2)
Health & Human Services	9,630	9,703	73
Public Safety	1,886	1,886	0
All Other Spending	3,041	3,017	(24)
Total Spending	34,654	34,718	64
Cash Flow Account	350	350	0
Budget Reserve	686	653	(33)
Projected Balance at June 30, 2009	$ (373)	$ (935)	$(562)

Forecast revenues were expected to be less than the forecast made in November 2007. Individual income tax receipts were projected to be lower than November due to slower growth in wages and declines in non-wage income. Corporate tax revenues and other major taxes were also projected to be lower. The statewide property tax estimate was slightly higher.

Projected spending for the Current Biennium was $64 million higher than estimates made in November 2007. Modest increases in K-12 education and health and human services accounted for the change. Slight reductions in debt service, property tax aids and credits, and dedicated spending partially offset those increases.

The cash flow account remained at $350 million, and budget reserves decreased by $33 million. The reserves had held $33 million for counties for medical assistance case management services in anticipation of federal funding reductions. After the November forecast, federal rules were issued that triggered statutory provisions directing this money to be spent. As a result, reserves were $33 million lower compared to November 2007, and $33 million of the health and human services spending increase was attributable to this change.

March 2008 Governor's Supplemental Budget Recommendations

In March 2008 the Governor submitted supplemental budget recommendations to the Legislature to bring the Current Biennium budget back into balance. Based on the February 2008 forecast general fund revenues and expenditures were projected to result in a deficit of $935 million by June 30, 2009.

The Governor's recommendations for the supplemental budget are detailed below:

CURRENT BIENNIUM
GENERAL FUND
MARCH 2008 GOVERNOR'S RECOMMENDATION
($ millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,245
Non-Dedicated Revenues	31,823	
Dedicated Revenues, Transfers In and Out	1,081	
Total Revenues and Transfers		32,904
Total Resources		$35,149
Expenditures		$34,394
Projected Unreserved Balance at June 30, 2009		$ 754
Cash Flow Account	350	
Budget Reserve Account	403	
Total for Statutorily Mandated Accounts		$ 753
Projected Unrestricted Balance at June 30, 2009		$ 1

The Governor proposed general fund changes that totaled $936 million, about 2.7 percent of total projected spending for the Current Biennium. The components of the Governor's plan included using $250 million of the state's budget reserve, as well as transferring $250 million from the health care access fund to the general fund. Changes in taxes included recommendations to expand revenue from corporate taxes, primarily on revenue from foreign operating corporations, as well as a proposed one-eighth of one percent decrease in the state's general sales tax. Overall, the supplemental budget increased tax revenue by $47 million and non-tax revenue by $315 million.

The Governor's supplemental budget included recommended spending reductions of $324 million in the Current Biennium. The largest reductions were in the Department of Human Services, focusing on health care services as well as spending reductions related to utilizing unobligated federal welfare block grant resources. Other recommendations included $54 million in proposed reductions in higher education system funding and reductions to most agencies' operating budgets of four percent for the second year of the Current Biennium.

Limited new spending was proposed in the Governor's budget, including cash-funded projects and debt service for the Governor's recommended bond-financed capital projects. The supplemental budget also included recommendations for $12 million related to rural economic development, $6 million for services and benefits for veterans and members of the armed services, and $20 million for compensating victims of the I-35W bridge collapse (with an additional $20 million from the state's trunk highway fund).

2008 Legislative Session

During the 2008 legislative session, the Legislature enacted a number of significant revenue and appropriations measures in the general fund and non-general funds for the Current Biennium. Early in the session, the Legislature approved a ballot question for the November 2008 election that, if approved, will amend the State's Constitution to increase the general sales tax by three-eighths of one percent and dedicate the proceeds to arts and environmental funds.

Additionally, prior to the release of the Governor's supplemental budget recommendations, the Legislature overrode the Governor's veto of a transportation funding bill. This legislation raised the State's gas tax by a total of five cents, implemented in increments. See also the Trunk Highway section on page 48.

On August 1, 2007, the Interstate 35W bridge over the Mississippi River in Minneapolis collapsed. Prior to and during the legislative session, response measures were put in place to address both the rapid rebuilding of this artery and the compensation of victims and families of those on the bridge when it collapsed. During the September, 2007 special session and in a series of technical legislative procedures prior to the regular session, the legislature provided appropriation authority to MnDOT to spend federal emergency relief appropriations intended to cover most of the cost of the bridge cleanup, demolition, and reconstruction. In September, MnDOT awarded a $234 million design-build contract to replace the bridge, with an expected completion date no later than December 24, 2008. During the regular session a victims' compensation fund was established with $38 million from the general fund for payments to survivors and victims' families. See also Litigation section on page 13.

Giving effect to enacted legislative changes, general fund resources are now expected to total $35.102 billion. Current Biennium revenues, excluding the balance brought forward from the Previous Biennium, are projected to be $32.857 billion, $516 million (1.6%) greater than the Previous Biennium. General fund expenditures after session actions are forecast to be $34.593 billion, $3.104 billion (9.9%) more than the Previous Biennium. Budgeted revenues and expenditures are expected to leave a projected Unreserved General Fund balance of $509 million, including a Cash Flow Account of $350 million and a Budget Reserve Account of $153 million, resulting in a projected Unrestricted General Fund balance on June 30, 2009 of $6 million.

The end of 2008 legislative session estimates of resources, expenditures, and fund balances is detailed below.

CURRENT BIENNIUM
GENERAL FUND
2008 LEGISLATIVE SESSION
($ millions)

Resources		
Unreserved Balance at June 30, 2007		$ 2,245
Non-Dedicated Revenues	31,935	
Dedicated Revenues, Transfers In and Out	922	
Total Revenues and Transfers		32,857
Total Resources		$35,102
Expenditures		$34,593
Projected Unreserved Balance at June 30, 2009		$ 509
Cash Flow Account	350	
Budget Reserve Account	153	
Total for Statutorily Mandated Accounts		$ 503
Projected Unrestricted Balance at June 30, 2009		$ 6

Resources:

The largest single change in resources from session action was the reduction in the state's budget reserve of $500 million, leaving a remaining balance of $153 million in the reserve account. Additionally, $110 million of balances in other non-general funds also added resources that contributed to budget balancing for the Current Biennium, the largest among these a $50 million transfer from the state's health care access fund. The 2008 Legislature made changes in tax law that expands the state's collection of revenue from foreign operating corporations, expected to increase corporate tax revenue by $109 million in the Current Biennium. An enhanced tax compliance initiative was expected to yield $21 million in additional tax revenue.

Expenditures:

Session action reduced spending by $125 million in the Current Biennium compared to the February 2008 forecast. This reduction was the net effect of a variety of increased spending initiatives in combination with reducing or redirecting previously appropriated amounts for most agencies. In particular, $172 million was reduced in health and human services programs. Limited new spending was directed at increasing the general formula for state aid paid to school districts by $44 million on a one-time basis, allocating $38 million for compensation for victims of the I-35W bridge collapse, providing $16 million for cash-financed capital projects and debt service for enacted capital projects, and directing $6 million of additional spending to address an outbreak of bovine tuberculosis in northern Minnesota. Finally, some spending changes enacted in the 2008 session will affect Next Biennium commitments to provide property tax aid to counties and cities as well as individual homeowners. The expected impact of these changes is $185 million in the Next Biennium.

Next Biennium:

Planning estimates for the Next Biennium, based on the February 2008 forecast, adjusted for legislative action, indicate that there will be a structural shortfall of $946 million, meaning that projected total revenues, excluding any balances carried forward, would be lower than total expenditures.

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 in FY 2010 and 1.9 percent in FY 2011, applied to total projected spending, would add $1.041 billion to expenditures for the Next Biennium.

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 end of the 2008 legislative session. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2008 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Current Biennium
Forecast Resources			
Prior Year Ending Balance(1)	$ 2,244,935	$ 1,316,892	$ 2,244,935
Net Non-Dedicated Revenues	15,845,319	16,090,058	31,935,377
Dedicated Revenues	74,985	64,313	139,298
Transfers From Other Funds	336,974	395,669	732,643
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	$16,282,278	$16,575,040	$32,857,318
Total Revenues Plus Prior Year Ending Balance	$18,527,213	$17,891,932	$35,102,253
Authorized Expenditures & Transfers			
K-12 Education	6,840,305	6,990,012	13,830,317
Higher Education	1,568,499	1,570,292	3,138,791
Property Tax Aids & Credits	1,570,222	1,583,189	3,153,411
Health & Human Services	4,622,536	4,908,376	9,530,912
Public Safety	932,539	943,889	1,876,428
Transportation	143,653	108,275	251,928
Environment, Energy & Natural Resources	253,749	189,737	443,486
Agriculture & Veterans	144,295	132,769	277,064
Economic Development	253,878	139,629	393,507
State Government	388,034	313,314	701,348
Debt Service	409,296	461,202	870,498
Capital Projects	24,682	10,250	34,932
Cancellation Adjustment	(6,164)	(15,000)	(21,164)
Subtotal Expenditures & Transfers	17,145,524	17,335,934	34,481,458
Dedicated Revenue Expenditures	64,797	46,913	111,710
Total Expenditures and Transfers	17,210,321	17,382,847	34,593,168
Balance Before Reserves	1,316,892	509,085	509,085
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	153,000	153,000
Budgetary Balance	313,892	6,085	6,085

(1) Fiscal Year 2007 ended with an Unrestricted General Fund balance of $1.100 billion and an Unreserved Accounting General Fund Balance of $2.245 billion.

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

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF NON-DEDICATED REVENUES
END OF 2008 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Current Biennium
Net Non-Dedicated Revenues:			
Income Tax – Individual	7,583,000	7,766,795	15,349,795
Income Tax – Corporate	900,785	968,780	1,869,565
Sales Tax	4,575,246	4,601,341	9,176,587
Motor Vehicle Sales Tax	176,465	116,891	293,356
Statewide Property Tax	702,517	739,125	1,441,642
Estate Tax	120,000	123,000	243,000
Liquor, Wine & Beer Tax	74,205	76,070	150,275
Cigarette & Tobacco Tax	186,330	186,510	372,840
Mining Tax	7,639	4,550	12,189
Mortgage Registry Tax	101,000	83,200	184,200
Deed Transfer Tax	81,600	73,600	155,200
Gross Earnings Tax	253,360	252,060	505,420
Lawful Gambling Tax	49,966	48,366	98,332
Medical Assistance Tax	210,766	216,030	426,796
Income Tax Reciprocity	69,050	74,374	143,424
Tobacco Settlements	182,004	180,987	362,991
Investment Income	108,679	35,000	143,679
State Operated Services Collections	60,859	72,040	132,899
Lottery Revenue	51,979	52,105	104,084
Departmental Earnings	219,000	240,317	459,317
Fines & Surcharges	76,545	95,215	171,760
Tax Compliance	0	21,000	21,000
All Other Non-Dedicated Revenue	106,752	114,363	221,115
Tax and Non-Tax Refunds	(52,428)	(51,661)	(104,089)
Total Net Non-Dedicated Revenues	15,845,319	16,090,058	31,935,377

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 is set forth below.

Income Tax: The income tax rate schedules for 2008 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 $332. 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. A refundable low income motor fuels credit is effective for Tax Year 2009.

SINGLE FILER

Taxable Income	Tax
on the first $21,800	5.35 percent
on all over $21,800, but not over $71,590	7.05 percent
on all over $71,590	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $31,860	5.35 percent
on all over $31,860 but not over $126,580	7.05 percent
on all over $126,580	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 $26,830	5.35 percent
on all over $26,830 but not over $107,820	7.05 percent
on all over $107,820	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: A State general property tax is 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 in Tax Year 2008 gives an 81% weight to sales, a 9.5%

weight to payroll and a 9.5% 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 began 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:

1.75%	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.

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 Tax: 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.

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 Tax: 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 13 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 .0033% per $500 or $1.65 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 Tax:

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 Tax: 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 Tax: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $2,815 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 7, page 13 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of 11,914 miles of highways, 4,792 bridges, and 1,035 maintenance, enforcement, service, and administrative buildings at 387 sites. Minnesota has 914 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is 135,000 miles.

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

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the distribution formula may be made within six years of the last previous change. The current distribution formula was established in the 2008 legislative session. In 2007, the Legislature directed that from the 5% distribution in the County State Aid Highway Fund $12.94 million in Fiscal Year 2008 and $15.23 million in Fiscal Year 2009 be transferred to the Trunk Highway Fund.

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, drivers license fees (through Fiscal Year 2005), investment income, and miscellaneous fees and reimbursements. A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the State and includes gasoline, diesel fuel, and other special fuels. The following table explains the motor fuel tax rate increase that was passed by the 2008 Legislature:

2008 LEGISLATIVE MOTOR FUEL TAX RATE INCREASE
Base Rate: Twenty Cents/Gallon

Fiscal Year	Effective Date	Increase Cents/Gallon	New Effective Rate
2008	Apr-08	0.020	0.220
2009	Aug-08	0.005	0.225
2009	Oct-08	0.030	0.255
2010	Jul-09	0.016	0.271
2011	Jul-10	0.004	0.275
2012	Jul-11	0.005	0.280
2013	Jul-12	0.005	0.285

For some special fuels the rate is different than gasoline and diesel and is based on the equivalent energy content of the fuel compared to gasoline.

Preliminary revenues from motor fuels taxes were $631 million to the Highway User Tax Distribution Fund in Fiscal Year 2008, after refunds, collection costs and other transfers (e.g., estimated revenues from taxes paid on non-highway fuel transferred to other state accounts). Of this amount, $372 million was transferred to the Trunk Highway Fund. MnDOT forecasts collections of $775 million in Fiscal Year 2009 to the Highway User Tax Distribution Fund, with a resulting transfer of $444 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25% times the original value of the vehicle, with all but the $10 portion of the tax being decreased in accordance with a statutory schedule. Previously registered vehicles will pay the declining scheduled amount, but only up to a maximum of the smallest amount previously paid on that vehicle. The minimum tax is $35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being $1,760 for trucks registered at 80,000 pounds that are less than 9 years old. Trucks registered at a weight greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes generated an estimated $483 million in Fiscal Year 2008, after refunds and collection costs, of which $285 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be $500 million in Fiscal Year 2009 to the Highway User Tax Distribution Fund, with a resulting transfer of $288 million to the Trunk Highway Fund.

The State of Minnesota levies a sales tax of 6.5% on motor vehicles ("MVST"). All MVST is deposited in the State General Fund and then transferred to the appropirate statutorily designated funds. The following table shows the historic Highway User Tax Distribution Fund ("HUTD") shares delininated by the 2000, 2001, and 2003 Legislatures.

MINNESOTA MOTOR VEHICLE SALES TAX TRANSFER RATES TO HUTD PRIOR TO 2006 CONSTITUTIONAL AMENDMENT

Fiscal Year	Rate
2002	30.86%
2003	32.00%
2004	30.00%
2005	30.00%
2006	30.00%
2007	30.00%

In November 2006, voters approved a constitutional amendment phasing in dedication of all MVST for transportation purposes over five years, starting July 1, 2007 (FY 2008). The following table shows percent and forecast amount, if available, to each of the recipient funds for this revenue source.

MOTOR VEHICLE SALES TAX DEDICATION BY 2006 CONSTITUTIONAL AMENDMENT ($ in Millions)

	Highway User Tax Distribution Fund		General Fund		Transit Assistance Fund	
	Percent	Forecasted Amount	Percent	Forecasted Amount	Percent	Forecasted Amount
2008	38.25%	$186.2	36.25%	$176.5	25.50%	$124.1
2009	44.25%	197.0	26.25%	116.9	29.50%	131.4
2010	50.25%	239.4	16.25%	77.4	33.50%	159.6
2011	56.25%	278.4	6.25%	30.9	37.50%	185.6
2012	60.00%	*	0.00%	*	40.00%	*

*Amount not projected in most recent statewide revenue forecast.

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

CURRENT BIENNIUM
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
2008 LEGISLATIVE SESSION*
(Thousands of Dollars)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Current Biennium
Estimated Resources			
Balance Forward from Prior Year	$ 60,957	$ 105,382	$ 60,957
Prior Year Adjustments			0
	60,957	105,382	60,957
Revenues			
Federal Grants	572,313	379,442	951,755
Departmental Earnings	8,358	8,358	16,716
Investment Income	12,200	12,400	24,600
Other Income	61,202	61,295	122,497
Total Receipts	654,073	461,495	1,115,568
Transfers from Other Funds			
General Fund Reimbursement	4,801	4,801	9,602
County State Aid Highway Fund	12,940	15,330	28,270
HUTD Reimbursement	610	610	1,220
Hwy Users Tax Distribution Fund	765,259	850,113	1,615,372
Plant Management Fund	1,298	1,298	2,596
Special Revenue Fund	1,915	2,175	4,090
Transportation Revolving Loan Fund	4,600		4,600
Total Transfers	791,423	874,327	1,665,750
Total Resources Available	1,506,453	1,441,204	2,842,275
Estimated Uses			
Expenditures			
Transportation			
Transportation, Department of	1,268,772	1,226,891	2,495,663
Public Safety, Department of	79,329	86,271	165,600
Contingent Account	200	200	400
Subtotal-Transportation	1,348,301	1,313,362	2,661,663
State Government			
Tort Claims	600	600	1,200
Subtotal-State Government	600	600	1,200
Total Expenditures	1,348,901	1,313,962	2,662,863
Transfers to Other Funds			
Air Transportation Revolving			
Debt Service Fund	52,170	55,010	107,180
Total Transfers	52,170	55,010	107,180
Total Uses	1,401,071	1,368,972	2,770,043
Undesignated Fund Balance	$ 105,382	$ 72,232	$ 72,232

*Taking into effect Governor's vetoes.

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

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

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

Capital Needs of the Trunk Highway System

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

The 2003 Legislature provided a $400 million bond authorization for trunk highway improvements. The 2007 Legislature authorized $20.02 million of trunk highway bonds for highway flood damaged projects. The 2008 Legislature passed a $1.8 billion authorization for trunk highway bonds. See Appendix D for a list of projects to be sold in the Series 2008B Bonds.

The table below depicts the spending for highway construction and related purposes associated with the appropriations made by the 2007 and 2008 Legislatures for the Current Biennium from the proceeds of trunk highway bonds. The last item in the table, "Program Delivery," is included to show the anticipated use of bond funds in the Current Biennium for that purpose. Program delivery expenditures will also be made from other portions of MnDOT's budget.

CURRENT BIENNIUM
TRUNK HIGHWAY IMPROVEMENT PROGRAM
($ in Millions)

Improvement Category	Trunk Highway Funds and Federal Funds	Bond Funds	Total
Major Construction[1]	$1,249.8[1]	$125.5	$1,375.3
Safety	26.0		26.0
Traffic Management	62.0		62.0
Municipal Agreements	124.1		124.1
Right of Way	80.0		80.0
Miscellaneous Agreement	25.8		25.8
Capital Construction and Improvements	0.0	22.0	22.0
Program Delivery	0.0		0.0
Total	$1,567.7[2]	$147.5	$1,715.2

(1) The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

(2) The total expenditures, excluding the amount provided by bond funds, consists of $638.5 million of state highway revenues and $929.2 million of federal funds.

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

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

Estimated Resources	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Current Biennium
Balance Forward from Prior Year	$37,007	$ (670)	$ 37,007
Bond Sales Proceeds	14,000	133,500	147,500
Total Resources Available	$51,007	132,830	184,507
Estimated Uses			
Expenditures			
Transportation Expenditures	51,667	132,830	184,507
Undesignated Fund Balance	$ (670)	$ 0	$ 0

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2005 through June 30, 2007. For the Fiscal Years ended June 30, 2005 through June 30, 2007 the revenues and expenditures shown include all revenues and expenditures for each Fiscal Year, including revenue received and expenditures made after June 30 of such Fiscal Year which are properly allocable to such Fiscal Year. For the twelve-month periods ending June 30, 2007 and June 30, 2008, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2007 and 2008. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the table on page 54 are presented by object of expenditure.

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

	Fiscal Year Ended June 30(1)			July 1, 2006 Through June 30, 2007(2)	July 1, 2007 Through June 30, 2008(2)
	2005(1)	2006(1)	2007(1)		
Revenues:					
Taxes:(3)					
Motor Fuel	$ 391,173	$ 390,294	$ 390,104	$ 378,607	$ 391,243
Motor Vehicle Registration(4)	304,364	301,974	301,068	298,583	302,435
Motor Vehicle Sales	98,894	95,033	94,053	72,173(5)	104,065(5)
Less: Revenue Refunds	(35,855)	(37,022)	(38,531)	(38,249)	(37,600)
Net Taxes	$ 758,576	$ 750,279	$ 746,694	$ 711,115	$ 760,143
Federal Grant Agreements	354,299	361,175	480,129	480,193	446,030
Drivers License Fees	22,228	833	1,523	1,523	1,565
Penalties & Fines	6,082	6,401	6,439	6,013	4,920
Investment Income	4,846	8,262	11,517	10,141	9,883
Local Government Contracts	20,937	86,461	16,874	16,874	40,629
Other Revenue	32,602	36,261	27,749	27,087	15,052
TH Revenue Refunds	(1,959)	(2,085)	(70)	(70)	
Total Revenues	$1,197,611	$1,247,587	$1,290,855	$1,252,876	$1,278,222

(1) For Fiscal Years 2005, 2006 and 2007 the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30.

(2) For the twelve-month periods ended June 30, 2007, and June 30, 2008, only current year receipts have been included.

(3) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration, and Motor Vehicle Sales Taxes to the Highway User Tax Distribution Fund.

(4) The 2005 Legislature transferred revenues and corresponding collection expenses relating to driver's license from the Trunk Highway Fund to the Department of Public Safety Driver's Services Account in the Special Revenue Fund. In Fiscal Year 2006 the first $833,000 collected and in Fiscal Year 2007 the first $1,523,000 collected was transferred back to the Trunk Highway Fund.

(5) An additional transfer of $9.5 million for June 2007 was made in July and August of 2007, and an additional transfer of $10.1 million for June 2008, was made on July 8, 2008.

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

	Fiscal Year Ended June 30[1]			July 1, 2006 Through June 30, 2007[2]	July 1, 2007 Through June 30, 2008[2]
	2005	2006	2007		
Expenditures:					
Personal Services	$ 369,892	$ 355,263	$ 360,902	$ 341,490	$ 359,731
Purchased Services	122,885	112,354	106.094	82,549	77,719
Materials and Supplies	64,919	58,645	66,914	55,826	56,274
Capital Outlay:					
Equipment	28,131	18,687	30,777	18,404	9,853
Capital Outlay & Real Property[3]	641,805	605,856	798,672	208,443	343,666
Capital Outlay: Encumbered[2]				585,025	296,326
Grants and Subsidies:					
Individuals	25	40	20	20	10
Counties	168	129	135	70	79
School Districts					45
Private Organizations					
Other Grants	949	1,016	2,377	822	727
All Other	5,655	6,308	13,280	7,818	4,239
Total Expenditures	$1,234,429	$1,158,298	$1,379,171	$1,300,467	$1,148,669
Transfers:					
Debt Service	27,512	36,347	53,752	53,752	52,170
Other Transfers	(7,040)	(17,912)	(15,639)	(8,557)	(26,164)
Net Transfers	$ 20,472	$ 18,435	$ 38,113	$ 45,195	$ 26,006
Total Expenditures and Net Transfers Out	$1,254,901	$1,176,733	$1,417,284	$1,345,662	$1,174,675

(1) For Fiscal Years 2005, 2006 and 2007, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30.

(2) For the twelve-month periods ended June 30, 2007 and June 30, 2008, only current year expenditures have been included.

(3) Because construction contracts typically span into future Fiscal Years, and are encumbered in their entirety in the appropriate Fiscal Year, materially large amounts of encumbrances exist at the end of a Fiscal Year. For Fiscal Year 2005, 2006 and 2007, encumbrances have therefore been included in Capital Outlay and Real Property totals.

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 $125.812 million.

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

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

Resources	
Unreserved Balance at June 30, 2007	$ 166
Revenues	1,084
Total Resources	1,250
Expenditures	827
Projected Unreserved Balance at June 30, 2009	$ 423
Transfer to General Fund	148
Projected Unrestricted Balance at June 30, 2009	$ 275

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APPENDIX A

State Financial Statements
For the Fiscal Year
Ended June 30, 2007

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APPENDIX A
Table of Contents

BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Mr. Tom Hanson, 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, 2007, 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 69 percent, 64 percent, and 37 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, Clearway Minnesota, 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, 2007, 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 7, 2007

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, 2007, 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
- ClearWay Minnesota
- 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 balances* for the General and Federal funds, which are reported as major funds. Information from the remaining 26 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

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

Proprietary Funds

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

Enterprise funds, a 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 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds statement of net assets and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the 8 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.

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, 2007, by $12.9 billion (presented as *net assets*). Of this amount, $1.3 billion was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors or the constitution.

- The state's total net assets increased by $1.5 billion (13.1 percent) during fiscal year 2007. Net assets of governmental activities increased by $1.2 billion (12.5 percent), while net assets of the business-type activities showed an increase of $290 million (16.3 percent).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $5.4 billion, an increase of $859 million compared to the prior year. This amount includes an unreserved fund balance of $3.2 billion.

Long-Term Debt

- The state's total long-term debt obligations increased by $536 million (9.7 percent) during the current fiscal year. The increase is primarily due to the issuance of general obligation bonds for trunk highway projects and other various state purposes and revenue bonds for grants to school districts in the taconite assistance area, a public safety radio communication system, and the Minnesota State Colleges and Universities.

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 $12.9 billion at the end of 2007, compared to $11.4 billion at the end of the previous year.

Net Assets
June 30, 2007 and 2006
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current Assets	$ 10,341,404	$ 8,953,370	$ 1,522,925	$ 1,233,116	$ 11,864,329	$ 10,186,486
Noncurrent Assets:						
Capital Assets	9,799,769	9,171,111	1,308,504	1,186,102	11,108,273	10,357,213
Other Assets	784,933	738,563	134,667	89,839	919,600	828,402
Total Assets	$ 20,926,106	$ 18,863,044	$ 2,966,096	$ 2,509,057	$ 23,892,202	$ 21,372,101
Current Liabilities	$ 5,087,004	$ 4,616,173	$ 361,293	$ 304,511	$ 5,448,297	$ 4,920,684
Noncurrent Liabilities	5,036,122	4,646,661	531,219	421,395	5,567,341	5,068,056
Total Liabilities	$ 10,123,126	$ 9,262,834	$ 892,512	$ 725,906	$ 11,015,638	$ 9,988,740
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 6,781,966	$ 6,468,103	$ 1,016,955	$ 931,297	$ 7,798,921	$ 7,399,400
Restricted	2,703,598	2,482,626	1,058,032	852,943	3,761,630	3,335,569
Unrestricted	1,317,416	649,481	(1,403)	(1,089)	1,316,013	648,392
Total Net Assets	$ 10,802,980	$ 9,600,210	$ 2,073,584	$ 1,783,151	$ 12,876,564	$ 11,383,361

The largest portion, $7.8 billion of $12.9 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. 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 $3.8 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 $1.3 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 $1.5 billion (13.1 percent) over the course of this fiscal year. This resulted from a $1.2 billion (12.5 percent) increase in net assets of governmental activities, and a $290 million (16.3 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2007 and 2006
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	$ 1,117,489	$ 1,358,286	$2,350,238	$ 2,376,805	$ 3,467,727	$ 3,735,091
Operating Grants and Contributions	6,500,439	5,694,003	187,530	176,023	6,687,969	5,870,026
Capital Grants	236,700	452,197	1,839	1,963	238,539	454,160
General Revenues:						
Individual Income Taxes	7,463,959	7,069,242	-	-	7,463,959	7,069,242
Corporate Income Taxes	1,160,380	1,189,328	-	-	1,160,380	1,189,328
Sales Taxes	4,600,984	4,439,667	-	-	4,600,984	4,439,667
Property Taxes	667,395	633,288	-	-	667,395	633,288
Motor Vehicle Taxes*	1,025,820	1,037,593	-	-	1,025,820	1,037,593
Fuel Taxes	647,168	659,980	-	-	647,168	659,980
Other Taxes*	2,154,689	2,165,814	-	-	2,154,689	2,165,814
Tobacco Settlement	184,924	184,139	-	-	184,924	184,139
Investment/Interest Income	155,016	101,803	26,786	18,300	181,802	120,103
Other Revenues	91,867	28,447	17,811	17,141	109,678	45,588
Total Revenues	$26,006,830	$25,013,787	$2,584,204	$ 2,590,232	$ 28,591,034	$27,604,019
Expenses:						
Public Safety and Corrections	$ 855,328	$ 818,192	$ -	$ -	$ 855,328	$ 818,192
Transportation	1,795,056	1,791,316	-	-	1,795,056	1,791,316
Agricultural and Environmental Resources	614,295	525,251	-	-	614,295	525,251
Economic and Workforce Development*	595,085	179,966	-	-	595,085	179,966
General Education	7,323,406	7,336,455	-	-	7,323,406	7,336,455
Higher Education	921,339	786,563	-	-	921,339	786,563
Health and Human Services*	9,717,294	8,916,659	-	-	9,717,294	8,916,659
General Government	771,733	718,996	-	-	771,733	718,996
Intergovernmental Aid	1,489,439	1,400,479	-	-	1,489,439	1,400,479
Interest	208,719	172,612	-	-	208,719	172,612
State Colleges and Universities	-	-	1,550,936	1,479,519	1,550,936	1,479,519
Unemployment Insurance	-	-	735,987	690,713	735,987	690,713
Lottery	-	-	311,893	332,031	311,893	332,031
Other	-	-	215,005	183,043	215,005	183,043
Total Expenses	$24,291,694	$22,646,489	$2,813,821	$ 2,685,306	$ 27,105,515	$25,331,795
Excess (Deficiency) Before Transfers	$ 1,715,136	$ 2,367,298	$ (229,617)	$ (95,074)	$ 1,485,519	$ 2,272,224
Transfers	(510,578)	(474,090)	510,578	474,090	-	-
Change in Net Assets	$ 1,204,558	$ 1,893,208	$ 280,961	$ 379,016	$ 1,485,519	$ 2,272,224
Net Assets, Beginning	$ 9,600,210	$ 7,722,231	$1,783,151	$ 1,404,135	$ 11,383,361	$ 9,126,366
Prior Period Adjustments	7,684	(15,229)	-	-	7,684	(15,229)
Change in Fund Structure	(9,472)	-	9,472	-	-	-
Net Assets, Ending	$10,802,980	$ 9,600,210	$2,073,584	$ 1,783,151	$ 12,876,564	$11,383,361

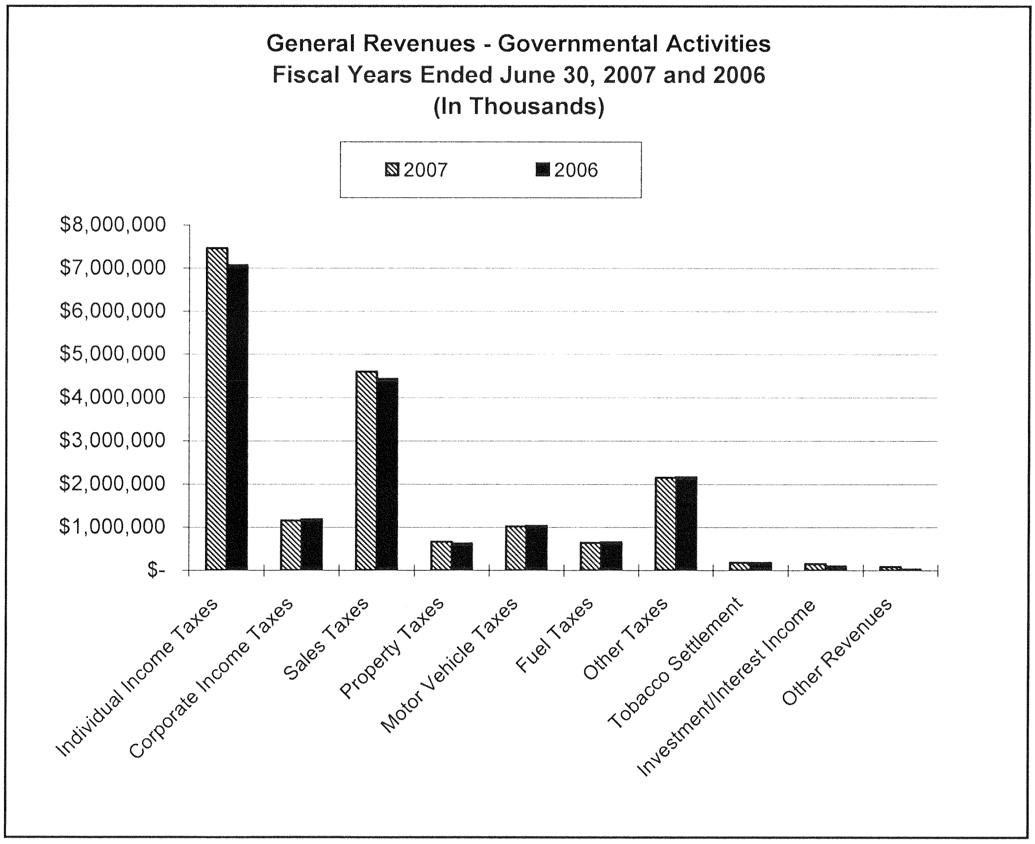
* 2006 has been restated for reclassifications to be consistent with 2007 presentation.

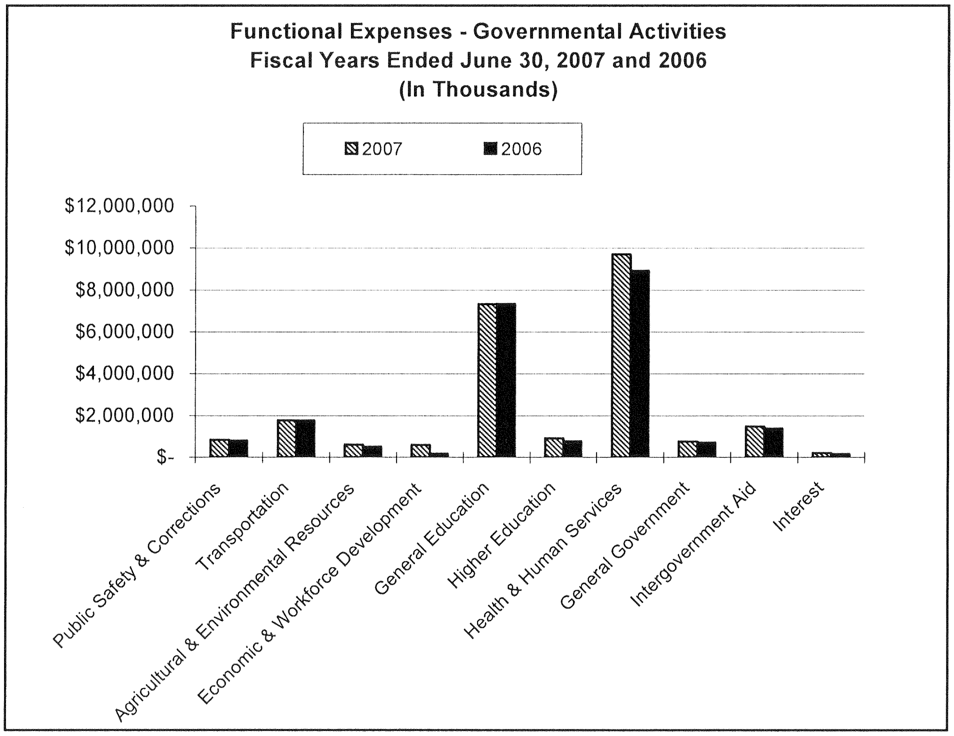
Approximately 62 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 24 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 12 percent of the total revenues. The remaining 2 percent came from other general revenues.

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

Governmental Activities

Governmental activities increased the state's net assets by $1.2 billion. The increase in revenues was primarily attributable to the growth in the economy. The increase in operating grants and contributions was primarily attributable to the federal governments share of the increase in medical assistance expenditures.

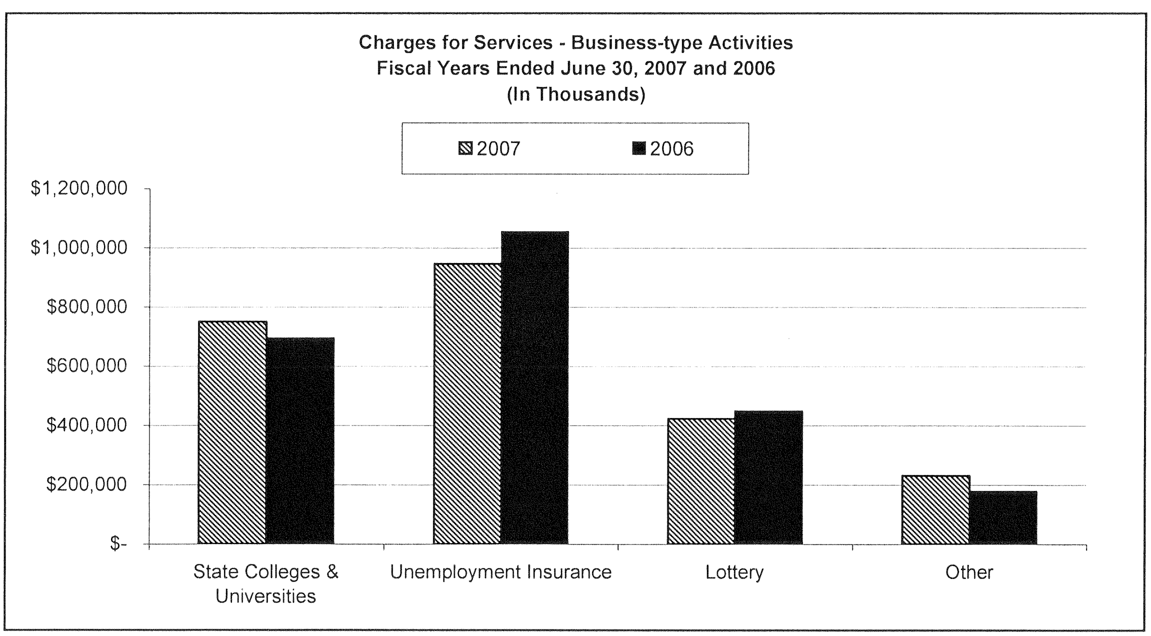




The increase in revenues was partially offset by an increase in Health and Human Services and Higher Education expenditures, and Intergovernmental Aid. Health and Human Services expenditures increased primarily due to an increase in the number of eligible participants for medical assistance and increased average health care costs. As stated above, this increase was partially offset by the increase in the federal governments share of these expenditures. Higher Education expenditures increased primarily due to grants to the University of Minnesota (component unit) for increases in capital projects, while the increase in Intergovernmental Aid is due to an increase in property tax credits and increased aid to local governments. The increase in Economic and Workforce Development primarily resulted from a one-time decrease in the prior year due to discounting the liability related to the supplementary and second injury workers' compensations injuries to present value.

Business-type Activities

The state's proprietary funds net assets increased by $290 million during the current year. This primarily resulted from a $175 million increase in net assets in the Unemployment Insurance Fund, which compared to a $301 million increase in the prior year. A one-time assessment of 14% caused the premiums to increase in the prior year. The remaining increase of $115 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 $5.4 billion, an increase of $859 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 $1.1 billion, an increase of $514 million in comparison with the prior year. This improvement primarily resulted from an increase in income tax receipts due to a growth in the economy. The increase in revenues was also partially offset by increases in Health and Human Services and Higher Education expenditures, and Intergovernmental Aid. The increase in Health and Human Services expenditures resulting from the increase in medical assistance expenditures was partially offset by an increase in operating grants and contributions for the federal governments share of these expenditures. An increase in capital expenditures for the University of Minnesota (component unit) caused an increase in capital grants for the state's share of these expenditures. The increase in Intergovernmental Aid results from an increase in property tax credits and increased aid to local governments.

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 $290 million during the current year. This primarily resulted from a $175 million increase in net assets in the Unemployment Insurance Fund and an increase of $126 million in net assets of the State Colleges and Universities Fund.

General Fund Budgetary Highlights

Based on the November 2006 forecast, the state's financial outlook has improved since enactment of the fiscal year 2007 budget during the 2005 legislative session. This improvement was primarily caused by a projected increase in revenues from income and corporate taxes. Based on the November 2006 and February 2007 forecasts, expenditures remained consistent with the originally enacted 2007 budget.

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, 2007, was $13.2 billion, less accumulated depreciation of $2.1 billion, resulting in a net book value of $11.1 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, 2007 and 2006
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Capital Assets not Depreciated:						
Land	$ 1,807,456	$ 1,680,456	$ 79,488	$ 76,365	$ 1,886,944	$ 1,756,821
Buildings, Structures, Improvements	28,975	27,328	-	-	28,975	27,328
Construction in Progress	183,997	108,217	132,191	104,354	316,188	212,571
Infrastructure	6,351,250	5,965,253	-	-	6,351,250	5,965,253
Art and Historical Treasures	500	500	-	-	500	500
Total Capital Assets not Depreciated	$ 8,372,178	$ 7,781,754	$ 211,679	$ 180,719	$ 8,583,857	$ 7,962,473
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 1,925,399	$ 1,871,213	$ 1,918,343	$ 1,779,350	$ 3,843,742	$ 3,650,563
Infrastructure	65,505	49,250	-	-	65,505	49,250
Library Collections	-	-	48,264	48,505	48,264	48,505
Equipment, Furniture, Fixtures	390,001	388,834	282,764	275,915	672,765	664,749
Total Capital Assets Depreciated	$ 2,380,905	$ 2,309,297	$ 2,249,371	$ 2,103,770	$ 4,630,276	$ 4,413,067
Less: Accumulated Depreciation	953,314	919,940	1,152,546	1,098,387	2,105,860	2,018,327
Capital Assets Net of Depreciation	$ 1,427,591	$ 1,389,357	$ 1,096,825	$ 1,005,383	$ 2,524,416	$ 2,394,740
Total	$ 9,799,769	$ 9,171,111	$ 1,308,504	$ 1,186,102	$ 11,108,273	$ 10,357,213

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 2,900 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 2006, 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 five years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2006, indicated that 97 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.

Actual spending on pavement was significantly below the original budgeted amount for 2007 primarily as a result of the delay in the reconstruction of the I-35W and Highway 62 interchange.

Additional information on the state's capital assets and infrastructure under the modified approach is included in Note 6 – Capital Assets and in the required supplementary information, respectively. Additional information on the collapse of the I-35W bridge over the Mississippi River is included in Note 22 – Subsequent Events.

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, 2007 and 2006
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General Obligation	$ 3,791,494	$ 3,414,239	$ 188,096	$ 156,896	$ 3,979,590	$ 3,571,135
Revenue	15,145	-	170,941	95,780	186,086	95,780
Total	$ 3,806,639	$ 3,414,239	$ 359,037	$ 252,676	$ 4,165,676	$ 3,666,915

During fiscal year 2007, the state issued the following bonds:

- $616.5 million in general obligation state various purpose bonds
- $128.6 million in general obligation state trunk highway bonds
- $3.5 million in general obligation Rural Finance Authority bonds
- $43.1 million in revenue bonds for Minnesota State Colleges and Universities
- $35.0 million in revenue bonds for a public safety radio communication system
- $15.1 million in revenue bonds for grants to school districts in the taconite assistance area

In addition to the general obligation bonds noted above, the state issued $264.1 million of refunding bonds in April 2007.

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, 2007
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 5,370,634	$ 1,018,291	$ 6,388,925	$ 809,054
Investments	1,310,553	28,891	1,339,444	1,061,042
Accounts Receivable	1,985,938	436,980	2,422,918	353,813
Due from Component Units	19,052	-	19,052	-
Due from Primary Government	-	-	-	155,659
Accrued Investment/Interest Income	71,477	17	71,494	47,779
Federal Aid Receivable	772,669	12,997	785,666	1,833
Inventories	22,514	17,860	40,374	37,233
Loans and Notes Receivable	57,973	8,482	66,455	98,028
Internal Balances	36,396	(36,396)	-	-
Securities Lending Collateral	692,436	33,145	725,581	221,172
Other Assets	1,762	2,658	4,420	73,819
Total Current Assets	$ 10,341,404	$ 1,522,925	$ 11,864,329	$ 2,859,432
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 109,188	$ 109,188	$ 779,749
Investments-Restricted	-	-	-	458,808
Accounts Receivable-Restricted	-	-	-	26,177
Due from Primary Government	-	-	-	27,998
Other Assets-Restricted	-	95	95	16,906
Due from Component Units	101,020	-	101,020	-
Investments	-	-	-	3,492,851
Accounts Receivable	364,629	-	364,629	438,676
Loans and Notes Receivable	268,219	25,384	293,603	4,227,814
Depreciable Capital Assets (Net)	1,427,591	1,096,825	2,524,416	3,891,250
Nondepreciable Capital Assets	2,020,928	211,679	2,232,607	550,959
Infrastructure (Not depreciated)	6,351,250	-	6,351,250	-
Other Assets	51,065	-	51,065	11,141
Total Noncurrent Assets	$ 10,584,702	$ 1,443,171	$ 12,027,873	$ 13,922,329
Total Assets	$ 20,926,106	$ 2,966,096	$ 23,892,202	$ 16,781,761
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,178,115	$ 218,117	$ 3,396,232	$ 292,618
Due to Component Units	106,031	-	106,031	-
Due to Primary Government	-	-	-	24,536
Unearned Revenue	517,726	48,402	566,128	153,407
Accrued Interest Payable	70,189	317	70,506	73,037
General Obligation Bonds Payable	359,137	13,373	372,510	200,721
Bond Premium Payable	18,139	-	18,139	-
Loans and Notes Payable	4,854	995	5,849	205,758
Revenue Bonds Payable	645	5,375	6,020	576,884
Claims Payable	92,094	-	92,094	104,634
Compensated Absences Payable	27,655	16,305	43,960	153,055
Workers' Compensation Liability	14,090	1,756	15,846	-
Capital Leases Payable	5,893	2,726	8,619	-
Securities Lending Liabilities	692,436	33,145	725,581	221,172
Other Liabilities	-	20,782	20,782	12,972
Total Current Liabilities	$ 5,087,004	$ 361,293	$ 5,448,297	$ 2,018,794
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 94,600
Unearned Revenue-Restricted	-	-	-	75,838
Accrued Interest Payable-Restricted	-	-	-	8,650
Due to Primary Government	-	-	-	101,020
Unearned Revenue	-	-	-	4,134
General Obligation Bonds Payable	3,432,357	174,723	3,607,080	1,209,505
Bond Premium Payable	227,070	11,594	238,664	-
Loans and Notes Payable	55,640	4,424	60,064	7,152
Revenue Bonds Payable	14,500	165,566	180,066	3,475,865
Claims Payable	776,154	-	776,154	619,894
Compensated Absences Payable	227,282	113,099	340,381	19,961
Workers' Compensation Liability	93,818	4,099	97,917	-
Capital Leases Payable	166,839	22,656	189,495	-
Funds Held in Trust	-	-	-	89,789
Due to Component Units	22,594	-	22,594	-
Other Liabilities	19,868	35,058	54,926	110,369
Total Noncurrent Liabilities	$ 5,036,122	$ 531,219	$ 5,567,341	$ 5,816,777
Total Liabilities	$ 10,123,126	$ 892,512	$ 11,015,638	$ 7,835,571

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2007
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 6,781,966	$ 1,016,955	$ 7,798,921	$ 2,902,616
Restricted for:				
Debt Service	$ 471,990	$ -	$ 471,990	$ -
Transportation	718,965	-	718,965	-
Environmental Resources	639,112	-	639,112	-
Economic and Workforce Development	62,783	4,830	67,613	-
School Aid-Nonexpendable	721,173	-	721,173	-
School Aid-Expendable	89,575	-	89,575	-
Health & Human Services	-	27,942	27,942	-
Unemployment Benefits	-	693,189	693,189	-
State Colleges and Universities	-	318,397	318,397	-
Other Purposes	-	13,674	13,674	
Component Units	-	-	-	5,304,776
Total Restricted	$ 2,703,598	$ 1,058,032	$ 3,761,630	$ 5,304,776
Unrestricted	$ 1,317,416	$ (1,403)	$ 1,316,013	$ 738,798
Total Net Assets	$ 10,802,980	$ 2,073,584	$ 12,876,564	$ 8,946,190

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(IN THOUSANDS)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBU-TIONS	CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 855,328	$ 130,830	$ 141,046	$ -
Transportation	1,795,056	18,796	497,689	216,988
Agricultural and Environmental Resources	614,295	217,702	72,601	2,112
Economic and Workforce Development	595,085	162,519	214,022	-
General Education	7,323,406	42,943	719,133	-
Higher Education	921,339	-	-	-
Health and Human Services	9,717,294	265,853	4,730,232	-
General Government	771,733	278,846	125,716	17,600
Intergovernment Aid	1,489,439	-	-	-
Interest	208,719	-	-	-
Total Governmental Activities	$ 24,291,694	$ 1,117,489	$ 6,500,439	$ 236,700
Business-type Activities:				
State Colleges and Universities	$ 1,550,936	$ 750,742	$ 183,141	$ 1,839
Unemployment Insurance	735,987	946,269	4,389	-
Lottery	311,893	422,570	-	-
Other	215,005	230,657	-	-
Total Business-type Activities	$ 2,813,821	$ 2,350,238	$ 187,530	$ 1,839
Total Primary Government	$ 27,105,515	$ 3,467,727	$ 6,687,969	$ 238,539
Component Units:				
University of Minnesota	$ 2,403,139	$ 1,109,730	$ 807,209	$ 226,658
Metropolitan Council	712,332	322,011	170,044	74,442
Housing Finance	359,001	176,452	174,541	-
Others	428,938	186,793	52,115	-
Total Component Units	$ 3,903,410	$ 1,794,986	$ 1,203,909	$ 301,100

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
Change in Fund Structure

Net Assets, Beginning, as Restated

Net Assets, Ending

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (583,452)		$ (583,452)	
(1,061,583)		(1,061,583)	
(321,880)		(321,880)	
(218,544)		(218,544)	
(6,561,330)		(6,561,330)	
(921,339)		(921,339)	
(4,721,209)		(4,721,209)	
(349,571)		(349,571)	
(1,489,439)		(1,489,439)	
(208,719)		(208,719)	
$ (16,437,066)		$ (16,437,066)	
	$ (615,214)	$ (615,214)	
	214,671	214,671	
	110,677	110,677	
	15,652	15,652	
	$ (274,214)	$ (274,214)	
$ (16,437,066)	$ (274,214)	$ (16,711,280)	
			$ (259,542)
			(145,835)
			(8,008)
			(190,030)
			$ (603,415)
$ 7,463,959	$ -	$ 7,463,959	$ -
1,160,380	-	1,160,380	-
4,600,984	-	4,600,984	-
667,395	-	667,395	-
1,025,820	-	1,025,820	-
647,168	-	647,168	-
2,154,689	-	2,154,689	185,157
184,924	-	184,924	-
155,016	26,786	181,802	187,403
91,867	17,811	109,678	149,684
-	-	-	902,061
(510,578)	510,578	-	-
$ 17,641,624	$ 555,175	$ 18,196,799	$ 1,424,305
$ 1,204,558	$ 280,961	$ 1,485,519	$ 820,890
$ 9,600,210	$ 1,783,151	$ 11,383,361	$ 8,125,300
7,684	-	7,684	-
(9,472)	9,472	-	-
$ 9,598,422	$ 1,792,623	$ 11,391,045	$ 8,125,300
$ 10,802,980	$ 2,073,584	$ 12,876,564	$ 8,946,190

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 2,618,415	$ 7,498	$ 2,529,377	$ 5,155,290
Investments	23,926	-	1,266,566	1,290,492
Accounts Receivable	1,839,119	142,435	363,914	2,345,468
Interfund Receivables	59,618	3,353	187,515	250,486
Due from Component Units	32	-	120,040	120,072
Accrued Investment/Interest Income	60,358	-	10,778	71,136
Federal Aid Receivable	-	702,342	70,327	772,669
Inventories	-	-	21,568	21,568
Loans and Notes Receivable	45,481	40	280,671	326,192
Advances to Other Funds	1,750	-	-	1,750
Securities Lending Collateral	249,619	-	423,760	673,379
Investment in Land	-	-	15,478	15,478
Total Assets	$ 4,898,318	$ 855,668	$ 5,289,994	$ 11,043,980
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 1,919,746	$ 806,129	$ 391,286	$ 3,117,161
Interfund Payables	26,953	12,183	174,821	213,957
Due to Component Units	100,440	752	1,463	102,655
Deferred Revenue	1,302,853	29,276	176,523	1,508,652
Accrued Interest Payable	18,600	-	-	18,600
Securities Lending Liabilities	249,619	-	423,760	673,379
Total Liabilities	$ 3,618,211	$ 848,340	$ 1,167,853	$ 5,634,404
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 108,754	$ -	$ 219,348	$ 328,102
Reserved for Trust Principal	-	-	1,191,878	1,191,878
Other Reserved Fund Balances	47,231	7,328	602,056	656,615
Total Reserved Fund Balances	$ 155,985	$ 7,328	$ 2,013,282	$ 2,176,595
Unreserved Fund Balances:				
Designated for:				
General Fund	$ 1,124,122	$ -	$ -	$ 1,124,122
Special Revenue Funds	-	-	1,139,133	1,139,133
Debt Service Fund	-	-	704,800	704,800
Permanent Funds	-	-	15,690	15,690
Undesignated, reported in:				
Capital Project Funds	-	-	6,044	6,044
Special Revenue Funds	-	-	243,192	243,192
Total Unreserved Fund Balance	$ 1,124,122	$ -	$ 2,108,859	$ 3,232,981
Total Fund Balances	$ 1,280,107	$ 7,328	$ 4,122,141	$ 5,409,576
Total Liabilities and Fund Balances	$ 4,898,318	$ 855,668	$ 5,289,994	$ 11,043,980

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, 2007
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 5,409,576
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	$ 6,351,250	
Depreciable Capital Assets	2,297,197	
Nondepreciable Capital Assets	2,005,450	
Accumulated Depreciation	(897,325)	
Total Capital Assets		9,756,572
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		995,456
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		50,610
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		181,144
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	$ (3,791,494)	
Bond Premium Payable	(245,209)	
Revenue Bonds Payable	(15,145)	
Accrued Interest Payable on Bonds	(51,589)	
Loans and Notes Payable	(42,618)	
Claims Payable	(868,248)	
Workers' Compensation Liability	(107,908)	
Capital Leases Payable	(172,732)	
Compensated Absences Payable	(249,597)	
Net Pension Obligation	(19,868)	
Due to Component Units	(25,970)	
Total Liabilities		(5,590,378)
Net Assets of Governmental Activities		$ 10,802,980

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 7,412,381	$ -	$ -	$ 7,412,381
Corporate Income Taxes	1,163,095	-	-	1,163,095
Sales Taxes	4,512,957	-	495	4,513,452
Property Taxes	665,746	-	-	665,746
Motor Vehicle Taxes	368,279	-	657,541	1,025,820
Fuel Taxes	-	-	648,078	648,078
Other Taxes	1,232,758	-	676,965	1,909,723
Tobacco Settlement	183,911	-	-	183,911
Federal Revenues	7,328	5,839,254	487,104	6,333,686
Licenses and Fees	254,026	-	482,724	736,750
Departmental Services	44,170	13,561	186,418	244,149
Investment/Interest Income	108,689	940	280,497	390,126
Securities Lending Income	10,063	-	20,492	30,555
Other Revenues	284,756	32,122	215,675	532,553
Net Revenues	$ 16,248,159	$ 5,885,877	$ 3,655,989	$ 25,790,025
Expenditures:				
Current:				
Public Safety and Corrections	$ 540,999	$ 109,661	$ 162,976	$ 813,636
Transportation	230,195	223,423	1,311,792	1,765,410
Agricultural and Environmental Resources	177,342	41,936	387,636	606,914
Economic and Workforce Development	128,870	214,802	289,133	632,805
General Education	6,614,672	624,769	81,050	7,320,491
Higher Education	784,191	-	138,581	922,772
Health and Human Services	4,377,724	4,603,967	721,148	9,702,839
General Government	641,915	12,069	45,601	699,585
Intergovernment Aid	1,489,229	-	210	1,489,439
Securities Lending Rebates and Fees	9,956	-	19,973	29,929
Total Current Expenditures	$ 14,995,093	$ 5,830,627	$ 3,158,100	$ 23,983,820
Capital Outlay	4,783	8,320	679,938	693,041
Debt Service	36,059	407	535,650	572,116
Total Expenditures	$ 15,035,935	$ 5,839,354	$ 4,373,688	$ 25,248,977
Excess of Revenues Over (Under) Expenditures	$ 1,212,224	$ 46,523	$ (717,699)	$ 541,048
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 705,300	$ 705,300
Revenue Bond Issuance	-	-	15,145	15,145
Loan Proceeds	-	-	24,610	24,610
Proceeds from Refunding Bonds	-	-	264,050	264,050
Payment to Refunded Bonds Escrow Agent	-	-	(264,050)	(264,050)
Bond Issue Premium	-	-	57,918	57,918
Transfers-In	500,911	1,468	2,293,451	2,795,830
Transfers-Out	(1,271,835)	(48,146)	(1,955,447)	(3,275,428)
Capital Leases	-	780	310	1,090
Net Other Financing Sources (Uses)	$ (770,924)	$ (45,898)	$ 1,141,287	$ 324,465
Net Change in Fund Balances	$ 441,300	$ 625	$ 423,588	$ 865,513
Fund Balances, Beginning, as Reported	$ 838,807	$ 6,703	$ 3,705,296	$ 4,550,806
Change in Fund Structure	-	-	(9,588)	(9,588)
Fund Balances, Beginning, as Restated	$ 838,807	$ 6,703	$ 3,695,708	$ 4,541,218
Change in Inventory	-	-	2,845	2,845
Fund Balances, Ending	$ 1,280,107	$ 7,328	$ 4,122,141	$ 5,409,576

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, 2007
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$	865,513
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 of $67,879 in the current period		625,162
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		(4,476)
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		2,860
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		2,845
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		150,567
Bond and loan proceeds provide current financial resources to governmental funds; however issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets		(1,067,023)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase		(1,090)
Repayment of bonds and loans are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets		608,656
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		21,544
Change in Net Assets of Governmental Activities	$	1,204,558

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

YEAR ENDED JUNE 30, 2007
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 6,948,365	$ 7,093,500	$ 7,230,856
Corporate Income Taxes	883,250	1,177,900	1,171,101
Sales Taxes	4,624,077	4,519,337	4,478,675
Property Taxes	663,930	663,372	665,744
Motor Vehicle Taxes	379,799	363,337	368,317
Other Taxes	1,209,011	1,245,168	1,217,446
Departmental Earnings/Licenses & Fees	339,640	343,826	283,918
Investment/Interest Income	22,000	86,500	105,149
Tobacco Settlement	173,267	180,605	183,911
Other Revenues	373,407	398,495	420,322
Net Revenues	$ 15,616,746	$ 16,072,040	$ 16,125,439
Expenditures:			
Public Safety and Corrections	$ 561,793	$ 563,321	$ 558,215
Transportation	227,667	232,389	231,973
Agricultural and Environmental Resources	188,576	195,728	193,402
Economic and Workforce Development	110,663	106,762	97,588
General Education	6,617,516	6,597,007	6,591,196
Higher Education	812,685	812,685	811,589
Health and Human Services	4,325,795	4,301,090	4,233,419
General Government	681,338	694,072	648,257
Intergovernment Aid	1,584,149	1,504,422	1,504,395
Total Expenditures	$ 15,110,182	$ 15,007,476	$ 14,870,034
Excess of Revenues Over (Under) Expenditures	$ 506,564	$ 1,064,564	$ 1,255,405
Other Financing Sources (Uses):			
Transfers-In	$ 613,825	$ 389,775	$ 400,273
Transfers-Out	(1,238,215)	(1,252,955)	(1,252,955)
Net Other Financing Sources (Uses)	$ (624,390)	$ (863,180)	$ (852,682)
Net Change in Fund Balances	$ (117,826)	$ 201,384	$ 402,723
Fund Balances, Beginning, as Reported	$ 1,884,109	$ 1,884,109	$ 1,884,109
Prior Period Adjustments	-	-	27,837
Fund Balances, Beginning, as Restated	$ 1,884,109	$ 1,884,109	$ 1,911,946
Budgetary Fund Balances, Ending	$ 1,766,283	$ 2,085,493	$ 2,314,669
Less: Appropriation Carryover	-	-	38,832
Less: Reserved for Long-Term Receivables	-	-	45,481
Less: Budgetary Reserve	-	-	1,112,660
Undesignated Fund Balances, Ending	$ 1,766,283	$ 2,085,493	$ 1,117,696

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 511,199	$ 412,462	$ 94,630	$ 1,018,291	$ 215,344
Investments	28,891	-	-	28,891	20,061
Accounts Receivable	37,334	367,710	31,936	436,980	20,472
Interfund Receivables	30,363	-	-	30,363	-
Accrued Investment/Interest Income	-	-	17	17	341
Federal Aid Receivable	11,692	1,305	-	12,997	-
Inventories	10,370	-	7,490	17,860	946
Deferred Costs	274	-	407	681	1,762
Loans and Notes Receivable	8,482	-	-	8,482	-
Securities Lending Collateral	33,145	-	-	33,145	19,057
Other Assets	-	-	1,977	1,977	-
Total Current Assets	$ 671,750	$ 781,477	$ 136,457	$ 1,589,684	$ 277,983
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 107,561	$ -	$ 1,627	$ 109,188	$ -
Other Assets-Restricted	95	-	-	95	-
Deferred Costs	-	-	-	-	455
Loans and Notes Receivable	25,384	-	-	25,384	-
Depreciable Capital Assets (Net)	1,064,344	-	32,481	1,096,825	27,719
Nondepreciable Capital Assets	210,000	-	1,679	211,679	-
Total Noncurrent Assets	$ 1,407,384	$ -	$ 35,787	$ 1,443,171	$ 28,174
Total Assets	$ 2,079,134	$ 781,477	$ 172,244	$ 3,032,855	$ 306,157
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 167,121	$ 26,296	$ 24,700	$ 218,117	$ 76,327
Interfund Payables	-	50,446	16,313	66,759	133
Unearned Revenue	35,578	11,546	1,278	48,402	4,530
Accrued Bond Interest Payable	-	-	317	317	-
General Obligation Bonds Payable	13,114	-	259	13,373	-
Loans and Notes Payable	995	-	-	995	4,854
Revenue Bonds Payable	2,080	-	3,295	5,375	-
Workers' Compensation Liability	1,756	-	-	1,756	-
Capital Leases	2,677	-	49	2,726	-
Compensated Absences Payable	14,436	-	1,869	16,305	464
Securities Lending Liabilities	33,145	-	-	33,145	19,057
Other Liabilities	20,742	-	40	20,782	-
Total Current Liabilities	$ 291,644	$ 88,288	$ 48,120	$ 428,052	$ 105,365
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 171,831	$ -	$ 2,892	$ 174,723	$ -
Loans and Notes Payable	4,424	-	-	4,424	13,022
Revenue Bonds Payable	120,271	-	45,295	165,566	-
Workers' Compensation Liability	4,099	-	-	4,099	-
Capital Leases	21,819	-	837	22,656	-
Compensated Absences Payable	103,184	-	9,915	113,099	4,876
Advances from Other Funds	-	-	-	-	1,750
Other Liabilities	44,530	-	2,122	46,652	-
Total Noncurrent Liabilities	$ 470,158	$ -	$ 61,061	$ 531,219	$ 19,648
Total Liabilities	$ 761,802	$ 88,288	$ 109,181	$ 959,271	$ 125,013
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 998,935	$ -	$ 18,020	$ 1,016,955	$ 9,995
Restricted for:					
Bond Covenants	$ 45,042	$ -	$ -	$ 45,042	$ -
Debt Service	19,989	-	-	19,989	-
Capital Projects	12,175	-	-	12,175	-
Economic and Workforce Development	-	-	4,830	4,830	-
Health and Human Services	-	-	27,942	27,942	-
Other Purposes	13,984	-	13,674	27,658	-
Total Restricted	$ 91,190	$ -	$ 46,446	$ 137,636	$ -
Unrestricted	$ 227,207	$ 693,189	$ (1,403)	$ 918,993	$ 171,149
Total Net Assets	$ 1,317,332	$ 693,189	$ 63,063	$ 2,073,584	$ 181,144

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, 2007
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 648,413	$ -	$ -	$ 648,413	$ -
Net Sales	-	-	467,011	467,011	17,866
Rental and Service Fees	-	-	170,880	170,880	158,813
Insurance Premiums	-	890,362	12,958	903,320	559,185
Federal Revenues	169,629	-	-	169,629	-
State Grants	85,166	-	-	85,166	-
Other Income	17,163	55,907	2,378	75,448	6,425
Total Operating Revenues	$ 920,371	$ 946,269	$ 653,227	$ 2,519,867	$ 742,289
Less: Cost of Goods Sold	-	-	310,271	310,271	5,680
Gross Margin	$ 920,371	$ 946,269	$ 342,956	$ 2,209,596	$ 736,609
Operating Expenses:					
Purchased Services	$ 195,894	$ -	$ 44,097	$ 239,991	$ 158,707
Salaries and Fringe Benefits	1,071,585	-	115,962	1,187,547	47,175
Student Financial Aid	27,577	-	-	27,577	-
Unemployment Benefits	-	735,987	-	735,987	-
Claims	-	-	9,739	9,739	478,117
Depreciation	72,131	-	4,147	76,278	9,249
Amortization	-	-	71	71	237
Supplies and Materials	83,377	-	6,430	89,807	8,604
Repairs and Maintenance	39,185	-	-	39,185	-
Indirect Costs	-	-	9,078	9,078	1,821
Other Expenses	38,072	-	6,272	44,344	2,813
Total Operating Expenses	$ 1,527,821	$ 735,987	$ 195,796	$ 2,459,604	$ 706,723
Operating Income (Loss)	$ (607,450)	$ 210,282	$ 147,160	$ (250,008)	$ 29,886
Nonoperating Revenues (Expenses):					
Investment Income	$ 21,968	$ 23	$ 4,780	$ 26,771	$ 12,398
Private Grants	13,512	-	-	13,512	-
Grants and Subsidies	1,839	4,389	-	6,228	-
Securities Lending Income	1,361	-	-	1,361	852
Other Nonoperating Revenues	-	17,410	56	17,466	58
Interest and Financing Costs	(14,078)	-	(2,411)	(16,489)	(414)
Grants, Aids and Subsidies	(9,037)	-	(14,978)	(24,015)	-
Securities Lending Rebates and Fees	(1,346)	-	-	(1,346)	(843)
Other Nonoperating Expenses	-	-	(3,442)	(3,442)	(8,533)
Gain (Loss) on Disposal of Capital Assets	189	-	156	345	(219)
Total Nonoperating Revenues (Expenses)	$ 14,408	$ 21,822	$ (15,839)	$ 20,391	$ 3,299
Income (Loss) Before Transfers & Contributions	$ (593,042)	$ 232,104	$ 131,321	$ (229,617)	$ 33,185
Capital Contributions	117,174	-	-	117,174	655
Transfers-In	602,194	-	3,782	605,976	-
Transfers-Out	-	(57,251)	(155,321)	(212,572)	(30,980)
Change in Net Assets	$ 126,326	$ 174,853	$ (20,218)	$ 280,961	$ 2,860
Net Assets, Beginning, as Reported	$ 1,191,006	$ 518,336	$ 73,809	$ 1,783,151	$ 178,284
Change in Fund Structure	-	-	9,472	9,472	-
Net Assets, Beginning, as Restated	$ 1,191,006	$ 518,336	$ 83,281	$ 1,792,623	$ 178,284
Net Assets, Ending	$ 1,317,332	$ 693,189	$ 63,063	$ 2,073,584	$ 181,144

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 720,160	$ 965,080	$ 651,114	$ 2,336,354	$ 739,190
Receipts from Grants	254,507	-	-	254,507	-
Receipts from Other Revenues	-	-	2,202	2,202	7,341
Receipts from Repayment of Program Loans	6,468	-	-	6,468	-
Financial Aid Disbursements	(28,906)	-	-	(28,906)	-
Payments to Claimants	-	(734,094)	(260,717)	(994,811)	(475,804)
Payments to Suppliers	(402,211)	-	(98,379)	(500,590)	(168,537)
Payments to Employees	(1,056,157)	-	(114,856)	(1,171,013)	(46,436)
Payments to Others	-	-	(25,363)	(25,363)	(6,440)
Payments of Program Loans	(6,112)	-	-	(6,112)	-
Net Cash Flows from Operating Activities	$ (512,251)	$ 230,986	$ 154,001	$ (127,264)	$ 49,314
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 13,512	$ 3,085	$ -	$ 16,597	$ -
Grant Disbursements	-	-	(16,003)	(16,003)	-
Transfers-In	602,194	-	3,782	605,976	-
Transfers-Out	-	(50,591)	(149,787)	(200,378)	(30,212)
Advances from Other Funds	-	-	-	-	2,000
Repayments of Advances from Other Funds	-	-	-	-	(3,886)
Proceeds from Bonds	-	-	37,298	37,298	-
Interest Paid	-	-	(976)	(976)	-
Other Nonoperating Expenses	(6,056)	-	(3,440)	(9,496)	(8,488)
Other Nonoperating Revenues	-	17,308	-	17,308	-
Net Cash Flows from Noncapital Financing Activities	$ 609,650	$ (30,198)	$ (129,126)	$ 450,326	$ (40,586)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 106,852	$ -	$ -	$ 106,852	$ -
Investment in Capital Assets	(175,290)	-	(3,441)	(178,731)	(11,504)
Proceeds from Disposal of Capital Assets	20	-	112	132	2,544
Proceeds from Capital Debt	88,811	-	-	88,811	-
Proceeds from Loans	-	-	-	-	9,557
Capital Lease Payments	(2,603)	-	(126)	(2,729)	-
Repayment of Loan Principal	(1,101)	-	-	(1,101)	(8,561)
Repayment of Bond Principal	(14,909)	-	(912)	(15,821)	-
Interest Paid	(15,194)	-	(1,376)	(16,570)	(717)
Net Cash Flows from Capital and Related Financing Activities	$ (13,414)	$ -	$ (5,743)	$ (19,157)	$ (8,681)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 1,783	$ -	$ -	$ 1,783	$ 12,704
Purchase of Investments	(3,654)	-	-	(3,654)	(12,640)
Investment Earnings	19,578	126	4,883	24,587	12,409
Net Cash Flows from Investing Activities	$ 17,707	$ 126	$ 4,883	$ 22,716	$ 12,473
Net Increase (Decrease) in Cash and Cash Equivalents	$ 101,692	$ 200,914	$ 24,015	$ 326,621	$ 12,520
Cash and Cash Equivalents, Beginning, as Reported	$ 517,068	$ 211,548	$ 64,248	$ 792,864	$ 202,824
Change in Fund Structure	-	-	7,994	7,994	-
Cash and Cash Equivalents, Beginning, as Restated	$ 517,068	$ 211,548	$ 72,242	$ 800,858	$ 202,824
Cash and Cash Equivalents, Ending	$ 618,760	$ 412,462	$ 96,257	$ 1,127,479	$ 215,344

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
(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)	$ (607,450)	$ 210,282	$ 147,160	$ (250,008)	$ 29,886
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 72,131	$ -	$ 4,147	$ 76,278	$ 9,249
Amortization	-	-	71	71	237
Loan Principal Repayments	6,468	-	-	6,468	-
Loans Issued	(6,112)	-	-	(6,112)	-
Provision for Loan Defaults	155	-	-	155	-
Loans Forgiven	652	-	-	652	-
Change in Valuation of Assets	2,367	-	-	2,367	-
Change in Assets and Liabilities:					
Accounts Receivable	(3,060)	20,853	768	18,561	3,943
Inventories	(708)	-	1,185	477	(75)
Other Assets	77	-	1,398	1,475	(369)
Accounts Payable	11,667	(2,138)	1,394	10,923	6,483
Compensated Absences Payable	9,286	-	629	9,915	496
Unearned Revenues	3,879	1,989	(2,754)	3,114	(662)
Other Liabilities	(1,603)	-	3	(1,600)	126
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 95,199	$ 20,704	$ 6,841	$ 122,744	$ 19,428
Net Cash Flows from Operating Activities	$ (512,251)	$ 230,986	$ 154,001	$ (127,264)	$ 49,314
Noncash Investing, Capital and Financing Activities:					
Donated Assets	$ 1,034	$ -	$ -	$ 1,034	$ -
Change in Fair Value of Investments	995	-	-	995	-
Capital Assets Purchased on Account	33,716	-	-	33,716	-
Disposal of Capital Assets	-	-	-	-	431
Buildings Capitalized under Notes Payable	592	-	-	592	-
Investment Earning on Account	686	-	-	686	1,066
Bond Premium Amortization	804	-	174	978	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 9,132	$ -	$ 121,440
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 3,632,621	$ 17,546	$ -
Investments:			
Commercial Paper	$ 184,400	$ 1,676	$ -
Debt Securities	12,320,578	125,829	-
Equity Securities	36,552,394	354,798	-
Mutual Funds	4,301,626	-	-
Total Investments	$ 53,358,998	$ 482,303	$ -
Accrued Interest and Dividends	$ 151,987	$ 1,567	$ -
Securities Trades Receivables (Payables)	(1,683,962)	(15,445)	-
Total Investment Pool Participation	$ 55,459,644	$ 485,971	$ -
Receivables:			
Employer Contributions	$ 20,472	$ -	$ -
Member Contributions	9,744	-	-
Accounts Receivable	-	-	15,314
Interfund Receivables	5,155	-	-
Other Receivables	43,106	-	-
Accrued Interest and Dividends	321	-	-
Total Receivables	$ 78,798	$ -	$ 15,314
Securities Lending Collateral	$ 8,055,519	$ 98,291	$ -
Depreciable Capital Assets (Net)	26,865	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 63,630,387	$ 584,262	$ 136,754
LIABILITIES			
Accounts Payable	$ 52,755	$ 81	$ 136,754
Interfund Payables	5,155	-	-
Accrued Expense	42	-	-
Revenue Bonds Payable	26,075	-	-
Bond Interest	79	-	-
Compensated Absences Payable	2,039	-	-
Securities Lending Liabilities	8,055,519	98,291	-
Total Liabilities	$ 8,141,664	$ 98,372	$ 136,754
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 55,488,723	$ 485,890	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 713,875	$ -
Member	938,924	-
Contributions From Other Sources	44,563	-
Participating Plans	-	97,948
Total Contributions	$ 1,697,362	$ 97,948
Net Investment Income:		
Investment Income	$ 8,614,720	$ 65,921
Less: Investment Expense	(69,799)	(339)
Net Investment Income	$ 8,544,921	$ 65,582
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 356,067	$ 3,593
Borrower Rebates	(332,670)	(3,403)
Management Fees	(5,411)	-
Net Securities Lending Revenue	$ 17,986	$ 190
Total Investment Income	$ 8,562,907	$ 65,772
Transfers From Other Funds	$ 19,395	$ -
Other Additions	17,796	-
Total Additions	$ 10,297,460	$ 163,720
Deductions:		
Benefits	$ 2,916,024	$ -
Refunds/Withdrawals	223,885	23,495
Administrative Expenses	44,686	-
Transfers to Other Funds	19,395	-
Total Deductions	$ 3,203,990	$ 23,495
Net Increase (Decrease)	$ 7,093,470	$ 140,225
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 48,395,253	$ 345,665
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 55,488,723	$ 485,890

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2006 and JUNE 30, 2007
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 242,155	$ 50,530	$ 120,017	$ 396,352	$ 809,054
Investments	172,465	224,651	126,044	537,882	1,061,042
Accounts Receivable	2,117	17,487	286,348	47,861	353,813
Due from Other Governmental Units	-	17,762	-	-	17,762
Due from Primary Government	-	51,224	100,956	3,479	155,659
Accrued Investment/Interest Income	16,919	3,019	7,928	19,913	47,779
Federal Aid Receivable	1,442	-	-	391	1,833
Inventories	-	18,424	18,777	32	37,233
Deferred Costs	15,206	-	-	6,087	21,293
Loans and Notes Receivable	-	-	13,061	84,967	98,028
Securities Lending Collateral	-	-	194,840	26,332	221,172
Other Assets	2,727	539	28,067	3,431	34,764
Total Current Assets	$ 453,031	$ 383,636	$ 896,038	$ 1,126,727	$ 2,859,432
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 540,947	$ 67,657	$ 164,626	$ 6,519	$ 779,749
Investments-Restricted	304,677	-	134,089	20,042	458,808
Accounts Receivable-Restricted	-	23,493	-	2,684	26,177
Due from Primary Government-Restricted	-	5,507	-	22,491	27,998
Other Assets-Restricted	-	16,906	-	-	16,906
Investments	-	-	3,346,352	146,499	3,492,851
Accounts Receivable	-	-	67,282	371,394	438,676
Loans and Notes Receivable	2,091,381	35,983	58,091	2,042,359	4,227,814
Depreciable Capital Assets (Net)	4,385	2,040,439	1,845,822	604	3,891,250
Nondepreciable Capital Assets	-	286,492	264,097	370	550,959
Other Assets	-	-	5,235	5,906	11,141
Total Noncurrent Assets	$ 2,941,390	$ 2,476,477	$ 5,885,594	$ 2,618,868	$ 13,922,329
Total Assets	$ 3,394,421	$ 2,860,113	$ 6,781,632	$ 3,745,595	$ 16,781,761
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 13,051	$ 68,795	$ 191,964	$ 15,025	$ 288,835
Payable to Other Governmental Units	-	426	-	-	426
Due to Primary Government	-	-	5,420	19,116	24,536
Unearned Revenue	-	9,361	111,242	32,804	153,407
Accrued Bond Interest Payable	47,593	3,760	6,676	15,008	73,037
General Obligation Bonds Payable	-	87,192	113,529	-	200,721
Loans and Notes Payable	-	-	205,100	658	205,758
Revenue Bonds Payable	525,475	890	4,204	46,315	576,884
Grants Payable	-	-	-	3,357	3,357
Claims Payable	-	8,686	16,679	79,269	104,634
Compensated Absences Payable	158	2,657	150,170	70	153,055
Securities Lending Liabilities	-	-	194,840	26,332	221,172
Other Liabilities	-	510	11,409	1,053	12,972
Total Current Liabilities	$ 586,277	$ 182,277	$ 1,011,233	$ 239,007	$ 2,018,794
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 38,443	$ 56,157	$ -	$ 94,600
Unearned Revenue-Restricted	-	75,838	-	-	75,838
Accrued Bond Interest Payable-Restricted	-	8,650	-	-	8,650
Due to Primary Government	-	-	51,830	49,190	101,020
Unearned Revenue	-	-	4,134	-	4,134
General Obligation Bonds Payable	-	947,081	262,424	-	1,209,505
Loans and Notes Payable	-	1,405	-	5,747	7,152
Revenue Bonds Payable	1,873,513	8,923	150,055	1,443,374	3,475,865
Claims Payable	-	8,646	11,517	599,731	619,894
Compensated Absences Payable	1,588	5,259	12,350	764	19,961
Funds Held in Trust	81,404	-	8,385	-	89,789
Other Liabilities	-	14,173	92,424	3,772	110,369
Total Noncurrent Liabilities	$ 1,956,505	$ 1,108,418	$ 649,276	$ 2,102,578	$ 5,816,777
Total Liabilities	$ 2,542,782	$ 1,290,695	$ 1,660,509	$ 2,341,585	$ 7,835,571
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 4,385	$ 1,440,727	$ 1,456,530	$ 974	$ 2,902,616
Restricted-Expendable	847,254	109,068	2,243,433	1,180,570	4,380,325
Restricted-Nonexpendable	-	-	924,451	-	924,451
Unrestricted	-	19,623	496,709	222,466	738,798
Total Net Assets	$ 851,639	$ 1,569,418	$ 5,121,123	$ 1,404,010	$ 8,946,190

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND JUNE 30, 2007
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 359,001	$ 712,332	$ 2,403,139	$ 428,938	$ 3,903,410
Program Revenues:					
Charges for Services	$ 176,452	$ 322,011	$ 1,109,730	$ 186,793	$ 1,794,986
Operating Grants and Contributions	174,541	170,044	807,209	52,115	1,203,909
Capital Grants and Contributions	-	74,442	226,658	-	301,100
Net (Expense) Revenue	$ (8,008)	$ (145,835)	$ (259,542)	$ (190,030)	$ (603,415)
General Revenues:					
Taxes	$ -	$ 185,157	$ -	$ -	$ 185,157
Investment Income	-	22,661	117,661	47,081	187,403
Other Revenues	817	170	146,679	2,018	149,684
Total General Revenues before Grants	$ 817	$ 207,988	$ 264,340	$ 49,099	$ 522,244
State Grants Not Restricted	36,256	-	645,619	220,186	902,061
Total General Revenues	$ 37,073	$ 207,988	$ 909,959	$ 269,285	$ 1,424,305
Change in Net Assets	$ 29,065	$ 62,153	$ 650,417	$ 79,255	$ 820,890
Net Assets, Beginning, as Reported	$ 822,574	$ 1,507,265	$ 4,470,706	$ 1,324,755	$ 8,125,300
Net Assets, Ending	$ 851,639	$ 1,569,418	$ 5,121,123	$ 1,404,010	$ 8,946,190

The notes are an integral part of the financial statements.

Index of Notes to the Financial Statements

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).

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 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, including the chair, subject to the advice and consent of the Minnesota senate. 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 administers 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.

- ClearWay Minnesota – ClearWay Minnesota issues grants to health, community, and academic organizations throughout Minnesota to support research and cessation activities that will encourage and help tobacco users quit. It is funded by tobacco lawsuit settlement proceeds. Although the state does not appoint a voting majority of ClearWay Minnesota's governing board and is neither able to impose its will on ClearWay Minnesota nor is there a potential financial benefit/burden to the state, the state believes that excluding ClearWay Minnesota 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 various sports facilities, including the National Sports Center, primarily for holding youth-oriented athletic and other non-athletic functions and events. Although the facilities belong to the state, NSCF is responsible for the operating costs and certain improvements to the facilities. The commission appoints foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. 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	ClearWay Minnesota Two Appletree Square, Suite 400 8011 34th Avenue South Minneapolis, Minnesota 55425
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449
Office of Higher Education 1450 Energy Park Drive Suite 350 St. Paul, Minnesota 55108	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Bldg., 332 Minnesota St., Suite E200 St. Paul, Minnesota 55101-1351
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454	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.

- 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 measurement focus 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.

Proprietary funds, including enterprise and internal service funds, are presented on the economic resource measurement focus and full accrual basis of accounting in the fund financial statements. This is the same measurement focus and basis of accounting as the government-wide financial statements.

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, 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 accrued.

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 expenses.

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.

Private-sector standards of accounting and financial reporting, including Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, generally are followed in the government-wide, proprietary, and component unit financial statements to the extent that those standards do not conflict with or contradict GASB guidance. Except for the Workers' Compensation Assigned Risk Plan

(WCARP) (component unit), the government has elected not to follow subsequent private-sector guidance. 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, restricted assets remaining after liabilities from restricted assets are paid, will be used for bond payments.

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 funds 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 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.

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, Municipal State-Aid Street, County State-Aid Highway, Environmental and Natural Resources, Iron Range Resources and Rehabilitation, Douglas J Johnson Economic Protection

Trust, Endowment, Maximum Effort School Loan, Health Impact Fee, Medical Education and Research, 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.

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.

Change in Fund Structure

Laws of Minnesota 2005 authorized the sale of revenue bonds to pay for the enhancement of the state's 911 emergency response system. Activities relating to the issuance and use of these bonds, as well as the collection of the related 911 fees, has been moved from the Miscellaneous Special Revenue Fund and the Debt Service Fund to the 911 Services Fund (enterprise fund).

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, 2007, 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, 2007 (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	$ 201,172	4.34	100%	-	-	-
U.S. Agencies	526,655	6.58	100%	-	-	-
Mortgage-backed Securities	171,992	21.95	83%	17%	-	-
State or Local Government Bonds	156,372	1.28	99%	1%	-	-
Corporate Bonds	1,894,196	2.59	83%	13%	1%	3%
Commercial Paper	3,484,431	0.12	100%	-	-	-
Repurchase Agreements	155,608	0.08	-	-	-	100%
Short-term Securities	120,887	0.20	78%	22%	-	-
Total Debt Securities	$ 6,711,313					
Equity Investments:						
Corporate Stock	$ 737,232					
Alternative Equities	8,069					
Total Equity Investments	$ 745,301					
Other Investments						
Escheat Property	$ 8,943					
Money Market Accounts	8,786					
Total Other Investments	$ 17,729					
Total Investments	$ 7,474,343 (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, 2007
(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	$ 1,900,357	6.56	100%	-	-	-
U.S. Agencies	1,165,669	4.00	98%	1%	-	1%
Mortgage-backed Securities	6,659,678	25.25	99%	-	-	1%
State or Local Government Bonds	244,868	5.67	92%	7%	-	1%
Corporate Bonds	2,639,415	9.75	20%	64%	14%	2%
Commercial Paper	186,076	0.15	80%	-	-	20%
Asset-backed Securities	707,345	12.53	92%	5%	-	3%
Short-term Securities	2,779,242	0.14	64%	30%	-	6%
Total Debt Securities	$ 16,282,650					
Equity Investments:						
Corporate Stock	$ 31,531,795					
Stock Options	40,397					
Alternative Equities	5,335,000					
Mutual Funds	4,301,626					
Total Equity Investments	$ 41,208,818					
Total Investments	$ 57,491,468					

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, 2007, in the Federal National Mortgage Association (FNMA). FNMA represented 15.4 percent of the primary government's total debt securities investments and 5.5 percent of the state's total investments. The pension trust and investment trust funds included in the primary government had 21.8 percent of debt securities investments and 6.2 percent of 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, 2007.

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, 2007

Currency	Cash	Debt	Equity
Australian Dollar	$ 8,245	$ -	$ 299,040
Brazilian Real	565	-	77,421
Canadian Dollar	8,108	1,373	381,011
Euro Currency	33,484	6,410	2,195,094
Hong Kong Dollar	1,190	-	276,061
Indian Rupee	665	-	100,602
Japanese Yen	26,601	-	1,191,055
New Taiwan Dollar	1,538	-	113,439
Pound Sterling	12,117	-	1,321,655
Singapore Dollar	363	-	80,872
South African Rand	546	-	89,717
South Korean Won	1,092	-	140,787
Swedish Krona	4,347	-	167,797
Swiss Franc	4,720	-	405,071
Other	1,697	-	326,038
Total	$ 105,278	$ 7,783	$ 7,165,660

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 separately managed funds of SBI.

Primary Government [1]
Securities Lending Analysis
As of June 30, 2007
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 534,886	$ 9,225,511
Collateral Held	$ 545,458	$ 9,567,384
Average Duration	80 days	N/A
Average Weighted Maturity	80 days	53 days

[1] Including securities lending for certain component units that invest through SBI.

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, 2007, 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

As of June 30, 2007, University of Minnesota (U of M), including its discretely presented component units, had $284,643,000 of cash and cash equivalents and $3,606,485,000 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 $233,896,000 and investments of $1,692,235,000.

U of M does not have a policy for custodial risk of deposits. As of June 30, 2007, $13,575,000 of the U of M's bank balance of $13,675,000 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. 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, 2007, $542,064,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $368,313,000 was rated AAA
- $118,079,000 was rated A to AA
- $54,562,000 was rated BB to BBB
- $1,110,000 was not rated

The securities subject to interest rate risk were comprised of:

- $277,944,000 in government agencies with an average duration of 2.12 years
- $88,741,000 in corporate bonds with an average duration of 0.72 years
- $55,361,000 in mortgage backed securities with an average duration of 4.27 years
- $80,014,000 in cash and cash equivalents with an average duration of .010 year
- $40,004,000 in other types of securities (primarily mutual funds) with an average duration of 2.43 years

As of June 30, 2007, U of M had $175,128,000 of equity investments subject to foreign currency risk. The three largest components of this amount (in thousands) are as follows:

Euro Currency	$	69,424
Japanese Yen	$	41,701
Pound Sterling	$	37,328

Metropolitan Council

As of December 31, 2006, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of $342,838,000. Of this amount, $309,839,000 was subject to rating. $231,040,000 of these investments were rated Aaa using the Moody's rating scale. $21,202,000 was commercial paper rated at A-1 or P-1, while $57,597,000 was not rated.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Off the $233,583,000 United States Treasury and agency investments, MC has a custodial credit risk exposure of $2,982,000 because the related securities are held by a custodial agent in the broker's name.

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, 2006. The investment portfolio has an average yield of 5.38 percent, modified duration of 6.38 years, effective duration of 4.31 years, and convexity of -.56.

The following table presents the estimated fair value of MC, excluding its component unit, investments subject to interest rate risk using the simulation model (in thousands).

	Estimated Fair Value	
December 31, 2006	$	324,196
Fair Value of Portfolio After Basis Point Increase of:		
50 Points	$	318,460
100 Points	$	312,091
150 Points	$	305,897
200 Points	$	299,963

Housing Finance Agency

As of June 30, 2007, Housing Finance Agency (HFA) had $1,260,244,000 of cash, cash equivalents, and investments. As of June 30, 2007, $189,947,000 of deposits and $333,121,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from .1 - .3 years (commercial paper) to 10.4 - 12.9 to years (US Treasuries).

HFA cash equivalents included $590,166,000 of investment agreements, which are generally uncollateralized interest bearing contracts. As of June 30, 2007, all investment agreement providers had 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 as of June 30, 2007. 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 remedial action is not taken.

HFA investments had an estimated fair market value of $477,142,000 as of June 30, 2007. Of these investments, $437,301,000 were primarily as agency investments having a Standard & Poor's rating of 'AAA' and Moody's rating of 'Aaa.'

HFA investments in any single issuer as of June 30, 2007, excluding investments issued or explicitly guaranteed by the US Government, exceeding five percent of total investments. These investments amounted to $772,356,000 and involved Federal Home Loan Bank, Wells Fargo, Rabobank, Depfa Bank, FSA Capital Management, and Bayerische Landesbank investment agreements.

Nonmajor Component Units

The following table presents the cash, cash equivalents, and investments (in thousands) by nonmajor component unit.

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 6,379	$ 20,042
ClearWay Minnesota	28	178,380
National Sports Center Foundation	666	-
Office of Higher Education	218,091	17,695
Public Facilities Authority	158,084	9,250
Rural Finance Authority	10,091	-
Workers' Compensation Assigned Risk Plan	9,532	332,557
Total	$ 402,871	$ 557,924

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, 2007:

Components of Net Receivables
As of June 30, 2007
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 586,145	$ -	$ -	$ 586,145
Sales and Use	401,303	-	-	401,303
Property	361,406	-	-	361,406
Health Care Provider	183,646	-	85,884	269,530
Highway Users	-	-	79,589	79,589
Child Support	91,020	91,461	-	182,481
Workers' Compensation	-	-	104,493	104,493
Other	215,599	50,974	99,047	365,620
Net Receivables	$ 1,839,119	$ 142,435	$ 369,013	$ 2,350,567

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 367,710	$ -	$ 367,710
Tuition and Fees	37,334	-	-	37,334
Other	-	-	31,936	31,936
Net Receivables	$ 37,334	$ 367,710	$ 31,936	$ 436,980
Total Government-wide Net Receivables				$ 2,787,547

[1]Includes $5,099 Internal Service Funds.

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

- Corporate and Individual Taxes $133,449,000
- Sales and Use Taxes $24,144,000
- Child Support $370,119,000
- Other Receivables $52,178,000

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

- Corporate and Individual Taxes $104,544,000

- Sales and Use Taxes $29,670,000
- Child Support $138,762,000
- Health Care Provider $71,159,000
- Other Receivables $20,494,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2007, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2007
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 33,866
Economic Development	45,406	-	70,255	4,134	-
School Districts	-	-	117,012	-	-
Agricultural	75	-	50,103	-	-
Transportation	-	-	19,490	-	-
Resources	-	-	18,575	-	-
Other	-	40	950	152	-
Total	$ 45,481	$ 40	$ 276,385	$ 4,286	$ 33,866

Component Units
Loans and Notes Receivable
As of June 30, 2007
(In Thousands)

Housing Finance Authority	$ 2,091,381
Metropolitan Council	35,983
University of Minnesota	71,152
Agricultural and Economic Development Board	15,739
Office of Higher Education	643,850
Public Facilities Authority	1,413,839
Rural Finance Authority	53,898
Total	$ 4,325,842

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 interfund receivables/payables. 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, 2007 (In Thousands)

Due to the General Fund From:		
Federal Fund	$	11,606
Nonmajor Governmental Funds		35,294
Nonmajor Enterprise Funds		12,585
Internal Service Funds		133
Total Due to General Fund From Other Funds	$	59,618
Due to the Federal Fund From:		
Nonmajor Governmental Funds	$	3,353
Total Due to Federal Fund From Other Funds	$	3,353
Due to the State Colleges and Universities Fund From:		
Nonmajor Governmental Funds	$	30,363
Total Due to State Colleges and Universities From Other Funds	$	30,363
Due to Fiduciary Funds From:		
Fiduciary Funds	$	5,155
Total Due to Fiduciary Funds From Other Fiduciary Funds	$	5,155
Due to the Nonmajor Governmental Funds From:		
General Fund	$	26,953
Federal Fund		577
Unemployment Insurance Fund		50,446
Nonmajor Governmental Funds		105,811
Nonmajor Enterprise Funds		3,728
Total Due to Nonmajor Governmental Funds From Other Funds	$	187,515

The Central Motor Pool Fund had an outstanding advance of $1,750,000 from the General Fund as of June 30, 2007. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2007
(In Thousands)

Transfers to the General Fund From:		
Federal Fund	$	19,231
Nonmajor Governmental Funds		398,579
Nonmajor Enterprise Funds		60,919
Internal Service Funds		22,182
Total Transfers to General Fund From Other Funds	$	500,911
Transfers to the Federal Fund From:		
Unemployment Insurance Fund	$	1,468
Total Transfers to Federal Fund From Other Funds	$	1,468
Transfers to the State Colleges and Universities Fund From:		
General Fund	$	602,194
Nonmajor Governmental Funds – Capital Contributions		117,174
Total Transfers to State Colleges and Universities From Other Funds	$	719,368
Transfers to the Internal Service Funds From:		
Governmental Capital Assets – Capital Contributions	$	655
Total Transfers to Internal Service Funds From Other Funds	$	655
Transfers to Fiduciary Funds From:		
Fiduciary Funds	$	19,395
Total Transfers to Fiduciary Funds From Other Fiduciary Funds	$	19,395
Transfers to the Nonmajor Governmental Funds From:		
General Fund	$	669,641
Federal Fund		28,915
Unemployment Insurance Fund		55,783
Nonmajor Governmental Funds		1,435,912
Nonmajor Enterprise Funds		94,402
Internal Service Funds		8,798
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	2,293,451
Transfers to the Nonmajor Enterprise Funds From:		
Nonmajor Governmental Funds	$	3,782
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$	3,782

Component Units

Receivables and payables as of June 30, 2007, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2007
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Metropolitan Council	$ 56,731	$ -
University of Minnesota	100,956	57,250
Total Major Component Units	$ 157,687	$ 57,250
Nonmajor Component Units	$ 25,970	$ 68,306
Total Component Units	$ 183,657	$ 125,556

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ 32	$ 100,440
Federal Fund	-	752
Total Major Governmental Funds	$ 32	$ 101,192
Nonmajor Governmental Funds	$ 120,040	$ 1,463
Total Primary Government	$ 120,072	$ 102,655 [1]

[1] Due to component units on the Government-wide Statement of Net Assets totals $128,625, including $25,970 of loans payable to the Public Facilities Authority, a component unit, that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $5,484,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The same is true for the $81,002,000 difference between the Due From Primary Government balance and the Due To Component Units balance.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity
Year Ended June 30, 2007 (In Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 1,680,456	$ 132,233	$ (5,233)	$ 1,807,456
Buildings, Structures, Improvements	27,328	1,647	-	28,975
Construction in Progress	108,217	124,624	(48,844)	183,997
Infrastructure	5,965,253	403,537	(17,540)	6,351,250
Art and Historical Treasures	500	-	-	500
Total Capital Assets not Depreciated	$ 7,781,754	$ 662,041	$ (71,617)	$ 8,372,178
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,871,213	$ 80,497	$ (26,311)	$ 1,925,399
Infrastructure	49,250	16,255	-	65,505
Equipment, Furniture, Fixtures	388,834	31,238	(30,071)	390,001
Total Capital Assets Depreciated	$ 2,309,297	$ 127,990	$ (56,382)	$ 2,380,905
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (675,644)	$ (44,544)	$ 24,291	$ (695,897)
Infrastructure	(5,990)	(7,967)	-	(13,957)
Equipment, Furniture, Fixtures	(238,306)	(30,835)	25,681	(243,460)
Total Accumulated Depreciation	$ (919,940)	$ (83,346)	$ 49,972	$ (953,314)
Total Capital Assets Depreciated, Net	$ 1,389,357	$ 44,644	$ (6,410)	$ 1,427,591
Governmental Act. Capital Assets, Net	$ 9,171,111	$ 706,685	$ (78,027)	$ 9,799,769
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 76,365	$ 3,123	$ -	$ 79,488
Construction in Progress	104,354	165,916	(138,079)	132,191
Total Capital Assets not Depreciated	$ 180,719	$ 169,039	$ (138,079)	$ 211,679
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,779,350	$ 139,065	$ (72)	$ 1,918,343
Library Collections	48,505	7,023	(7,264)	48,264
Equipment, Furniture, Fixtures	275,915	22,398	(15,549)	282,764
Total Capital Assets Depreciated	$ 2,103,770	$ 168,486	$ (22,885)	$ 2,249,371
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (874,449)	$ (49,131)	$ -	$ (923,580)
Library Collections	(27,772)	(6,911)	7,264	(27,419)
Equipment, Furniture, Fixtures	(196,166)	(20,236)	14,855	(201,547)
Total Accumulated Depreciation	$ (1,098,387)	$ (76,278)	$ 22,119	$ (1,152,546)
Total Capital Assets Depreciated, Net	$ 1,005,383	$ 92,208	$ (766)	$ 1,096,825
Business-type Act. Capital Assets, Net	$ 1,186,102	$ 261,247	$ (138,845)	$ 1,308,504
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	6,067	375	(712)	5,730
Total Capital Assets Depreciated	$ 35,614	$ 375	$ (712)	$ 35,277
Accumulated Depreciation for:				
Buildings	$ (3,687)	$ (739)	$ -	$ (4,426)
Equipment, Furniture, Fixtures	(4,026)	(672)	712	(3,986)
Total Accumulated Depreciation	$ (7,713)	$ (1,411)	$ 712	$ (8,412)
Total Capital Assets Depreciated, Net	$ 27,901	$ (1,036)	$ -	$ 26,865
Fiduciary Funds, Capital Assets, Net	$ 28,330	$ (1,036)	$ -	$ 27,294

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, 2007
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 15,412
Transportation	19,067
Agricultural and Environmental Resources	6,670
Economic and Workforce Development	611
General Education	3,129
Higher Education	39
Health and Human Services	18,024
General Government	4,927
Internal Service Funds	9,486
Total Governmental Activities	$ 77,365
Business-type Activities:	
State Colleges and Universities	$ 72,131
Lottery	442
Other	3,705
Total Business-type Activities	$ 76,278

During fiscal year 2007, depreciable infrastructure cost increased by $13,665,000 and accumulated depreciation by $5,981,000 as a result of capitalizing infrastructure not previously reported. The net impact on the Statement of Activities was a prior period adjustment of $7,684,000.

Capital outlay expenditures in the governmental funds totaled $693,041,000 for fiscal year 2007. Donations of general capital assets received during fiscal year 2007 were valued at $19,903,000. Transfers were $50,672,000 primarily from construction in progress. Additions in internal service funds were $12,720,000, and $30,000 in the Permanent School Fund.

General capital assets purchased with resources provided by outstanding capital lease agreements as of June 30, 2007, 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, 2007, for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Military Affairs	Transportation	Zoological Board
Authorization	$ 144,844	$ 20,494	$ 22,048	$ 35,640
Expended through June 30, 2007	123,351	14,010	14,392	15,839
Unexpended Commitment	19,466	1,410	7,649	13,060
Available Authorization	$ 2,027	$ 5,074	$ 7	$ 6,741

Land in the Permanent School Fund totaling 2,521,310 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, 2006, or June 30, 2007, as applicable:

Capital Assets
As of December 31, 2006 or June 30, 2007
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 87,157	$ 64,028	$ 370	$ 151,555
Construction in Progress	-	199,335	159,582	-	358,917
Museums and Collections	-	-	40,487	-	40,487
Buildings and Improvements	-	2,649,038	2,454,244	844	5,104,126
Equipment	7,064	553,838	705,929	1,694	1,268,525
Infrastructure	-	-	336,774	-	336,774
Total	$ 7,064	$ 3,489,368	$ 3,761,044	$ 2,908	$ 7,260,384
Less: Accumulated Depreciation	2,679	1,162,437	1,702,596	1,934	2,869,646
Net Total	$ 4,385	$ 2,326,931	$ 2,058,448 [1]	$ 974	$ 4,390,738

[1] In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $51,471 as of June 30, 2007.

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, 2007:

Components of Accounts Payable
As of June 30, 2007
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[(1)]	Total
School Aid Programs	$ 664,624	$ 132,571	$ -	$ 797,195
Tax Refunds	521,861	-	-	521,861
Medical Assistance	377,927	401,637	-	779,564
Grants	187,065	215,303	194,557	596,925
Salaries and Benefits	64,300	8,962	47,227	120,489
Vendors/Service Providers	69,450	39,077	195,205	303,732
Other	34,519	8,579	15,251	58,349
Net Payables	$ 1,919,746	806,129	452,240	3,178,115

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 101,617	$ -	$ 6,361	$ 107,978
Vendors/Service Providers	57,075	-	3,798	60,873
Other	8,429	26,296	14,541	49,266
Net Payables	$ 167,121	$ 26,296	$ 24,700	$ 218,117
Total Government-wide Net Payables				$ 3,396,232

[(1)]Includes $60,954 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, 2007, 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. 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. 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	2007	$ 89,448	$ 199,869
	2006	$ 85,379	$ 177,085
	2005	$ 83,101	$ 160,982
Employer[1]	2007	$ 86,493	$ 187,339
	2006	$ 82,645	$ 179,022
	2005	$ 80,312	$ 157,693

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

Single Employer Plan Disclosures as of June 30, 2007
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 39,147	$ 10,496	$ 2,954	$ 15,454
Interest on Net Pension Obligation (NPO)[1]	386	(739)	(903)	(2,922)
Amortization Adjustment to ARC[1]	(244)	796	922	1,850
Annual Pension Cost	$ 39,289	$ 10,553	$ 2,973	$ 14,382
Contributions	(23,959)	(10,364)	(2,011)	(12,448)
Increase (Decrease) in NPO	$ 15,330	$ 189	$ 962	$ 1,934
NPO, Beginning Balance (as restated)	$ 4,538	$ (8,698)	$ (10,627)	$ (34,371)
NPO, Ending (Asset)	$ 19,868	$ (8,509)	$ (9,665)	$ (32,437)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2007	$ 39,289	$ 10,553	$ 2,973	$ 14,382
	2006	$ 25,836	$ 9,639	$ 3,186	$ 9,784
	2005	$ 24,115	$ 10,347	$ 3,101	$ 8,677
Percentage of APC Contributed	2007	61%	98%	68%	87%
	2006	82%	106%	187%	120%
	2005	79%	96%	71%	129%
NPO (End of Year)	2007	$ 19,869	$ (8,509)	$ (9,665)	$ (32,436)
	2006	$ 4,538	$ (8,698)	$ (10,627)	$ (34,371)
	2005	$ (182)	$ (8,135)	$ (7,920)	$ (32,381)

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, 2006.
- The calculation of the actuarial valuation of assets for active employees is the fair market value smoothed over five years. For retired employees, assets are valued at the level of reserves necessary to fully fund the actuarial liability at the time of retirement in accordance with Minnesota Statutes.
- 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 for JRF is through July 1, 2020 and for CERF and SPRF is through July 1, 2036.
- 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.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) is the administrative agent for the State Colleges and Universities Retirement Fund. Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

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 2007
(In Thousands)

	UERF	DCF	PHCBF	CURF	HCSRF
Employee Contributions	$ 5,476	$ 1,254	$ 59,515	$ 27,295	$ 640
Employer Contributions	$ 6,258	$ 1,374	N/A	$ 32,186	$ 640

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

Note 9 – Termination and Postretirement Benefits

Primary Government – Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. 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 270 former faculty members currently receive this benefit. The cost of the benefits was $4,291,000 during fiscal year 2007

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 2007, 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 state had an actuarial valuation to determine the impact of implementing this standard. Based on this actuarial valuation, the estimated unfunded actuarial accrued liability at the beginning of the year is $659 million, which will be amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2008 is $66 million.

Pending implementation of Statement No. 45 in fiscal year 2008, the state will continue to recognize the cost of these benefits as eligible employees retire. Approximately 1,000 former employees currently receive this benefit. The cost of the benefits was $7,716,000 during fiscal year 2007.

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 $6,960,000 for the year ended December 31, 2006, for health care and life insurance benefits for 1,148 former employees who met specific eligibility requirements. MC also earmarked approximately $58,022,000 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, 2007, were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2007
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 784,875
Capital Projects Funds:	
General Projects Fund	1,871
Transportation Fund	45,865
Building Fund	394,997
Enterprise Funds:	
State Colleges and Universities	151,122
Total Primary Government	$ 1,378,730

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse petroleum storage tank owners for a significant portion 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 November 2007, the Petrofund has reimbursed eligible applicants approximately $385 million since program inception in 1987. Future expenditures from the Petrofund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at as yet undiscovered leak sites. 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 $555.2 million 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, 2007, were as follows:

University of Minnesota
Required Steam Plant Payments
(In Thousands)

Fiscal Year Ending June 30	Total
2008	$ 742
2009	650
Total Commitments	$ 1,392

Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2006, unpaid commitments for Metro Transit Bus services were approximately $45.4 million. Future commitments for Metro Transit Light Rail were approximately $9.3 million. Future commitments for Regional Transit services were approximately $108.4 million. Finally, future commitments for Environmental Services were approximately $48.9 million.

As of June 30, 2007, Public Facilities Authority (PFA) had committed approximately $127 million for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $3.7 million for disbursement of non point-source pollution control awards and $12.1 million for grants.

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, 2007, totaled approximately $71,531,000 and $17,551,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2006, totaled approximately $1,400,000 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
2008	$ 66,933	2008	$ 15,673	2007	$ 742
2009	61,343	2009	11,971	2008	351
2010	57,904	2010	7,219	2009	322
2011	53,681	2011	6,317	2010	230
2012	49,390	2012	5,682	2011	141
2013-2017	152,867	2013-2017	9,989	2012-2016	354
2018-2022	31,186	2018-2022	273	2017-2021	98
Total	$ 473,304	Total	$ 57,124	Total	$ 2,238

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2007, and the changes during fiscal year 2007:

Long-Term Liabilities
Year Ended June 30, 2007
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 3, 414,239	$ 969,350	$ 592,095	$ 3,791,494	$ 359,137
Bond Premium	201,142	57,918	13,851	245,209	18,139
Revenue Bonds	-	15,145	-	15,145	645
Loans	45,918	31,137	16,561	60,494	4,854
Due to Component Unit	29,910	3,030	6,970	25,970	3,376
Claims	892,613	70,949	95,314	868,248	92,094
Compensated Absences	246,363	211,279	202,705	254,937	27,655
Workers' Compensation	109,405	14,009	15,506	107,908	14,090
Capital Leases	182,930	1,090	11,288	172,732	5,893
Total	$ 5, 122,520	$ 1,373,907	$ 954,290	$ 5,542,137	$ 525,883
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 156,896	$ 43,200	$ 12,000	$ 188,096	$ 13,373
Bond Premium	7,735	4,839	980	11,594	-
Loans	5,832	688	1,101	5,419	995
Revenue Bonds	95,780	78,070	2,909	170,941	5,375
Compensated Absences	121,970	61,193	53,759	129,404	16,305
Workers' Compensation	5,411	3,007	2,563	5,855	1,756
Capital Leases	26,520	1,465	2,603	25,382	2,726
Total	$ 420,144	$ 192,462	$ 75,915	$ 536,691	$ 40,530

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	$ 3,044,667	$ 746,827	$ 188,096	$ 3,979,590
Bond Premium	245,209	-	11,594	256,803
Loans	-	60,494	5,419	65,913
Due to Component Unit	-	25,970	-	25,970
Revenue Bonds	-	15,145	170,941	186,086
Claims	80,294	787,954	-	868,248
Compensated Absences	120,467	134,470	129,404	384,341
Workers' Compensation	84,387	23,521	5,855	113,763
Capital Leases	171,514	1,218	25,382	198,114
Total	$ 3,746,538	$ 1,795,599	$ 536,691	$ 6,078,828

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
2008	$ 359,137	$ 181,411	$ 13,373	$ 9,190	$ 372,510	$ 190,601
2009	317,734	167,696	13,391	8,520	331,125	176,216
2010	304,441	151,953	13,414	7,845	317,855	159,798
2011	284,847	136,937	12,918	7,183	297,765	144,120
2012	281,519	122,685	12,946	6,536	294,465	129,221
2013-2017	1,137,773	421,589	57,377	23,601	1,195,150	445,190
2018-2022	774,443	176,378	44,622	10,523	819,065	186,901
2023-2027	331,600	31,733	20,055	2,040	351,655	33,773
Total	$ 3,791,494	$ 1,390,382	$ 188,096	$ 75,438	$ 3,979,590	$ 1,465,820

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

Fiscal Year(s)	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 645	$ 639	$ 5,375	$ 8,692	$ 6,020	$ 9,331
2009	785	611	6,775	8,122	7,560	8,733
2010	815	579	8,410	7,763	9,225	8,342
2011	845	546	8,740	7,355	9,585	7,901
2012	880	511	9,095	7,391	9,975	7,902
2013-2017	4,990	1,963	48,940	28,032	53,930	29,995
2018-2022	6,185	721	40,195	16,190	46,380	16,911
2023-2027	-	-	31,205	6,709	31,205	6,709
2028-2032	-	-	9,920	1,859	9,920	1,859
2033-2037	-	-	2,286	57	2,286	57
Total	$ 15,145	$ 5,570	$ 170,941	$ 92,170	$ 186,086	$ 97,740

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

Fiscal Year(s)	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 8,230	$ 1,712	$ 995	$ 328	$ 9,225	$ 2,040
2009	14,860	2,482	670	274	15,530	2,756
2010	21,154	942	704	238	21,858	1,180
2011	13,802	4,985	729	200	14,531	5,185
2012	7,542	372	719	161	8,261	533
2013-2017	19,766	999	1,386	255	21,152	1,254
2018-2022	1,110	75	216	11	1,326	86
Total	$ 86,464	$ 11,567	$ 5,419	$ 1,467	$ 91,883	$ 13,034

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

Fiscal Year(s)	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2008	$ 5,893	$ 8,332	$ 2,726	$ 1,261	$ 8,619	$ 9,593
2009	5,907	8,145	2,388	1,132	8,295	9,277
2010	6,016	7,933	2,221	1,009	8,237	8,942
2011	6,191	7,697	1,661	924	7,852	8,621
2012	6,250	7,451	1,604	578	7,854	8,029
2013-2017	35,343	32,608	6,132	3,155	41,475	35,763
2018-2022	44,837	22,603	6,687	1,744	51,524	24,347
2023-2027	56,958	10,112	922	403	57,880	10,515
2028-2032	5,337	232	1,041	128	6,378	360
Total	$ 172,732	$ 105,113	$ 25,382	$ 10,334	$ 198,114	$ 115,447

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 2007, 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, 2007
(In Thousands)

General Fund	$ 399,678
Special Revenue Funds:	
Game and Fish Fund	$ 3
Trunk Highway Fund	53,752
Natural Resources Funds	10
Maximum Effort School Loan Fund	2,264
Miscellaneous Special Revenue Fund	370
Total Special Revenue Funds	$ 56,399
Capital Projects Funds:	
Building Fund	$ 37,502
Total Operating Transfers to Debt Service Fund	$ 493,579

General Obligation Bond Issues

On August 1, 2006, $289,450,000 in general obligation state various purpose bonds and $55,550,000 in general obligation state trunk highway bonds were issued at a true interest rate of 4.35 percent and $3,500,000 in general obligation Rural Finance Authority bonds were issued at a true interest rate of 5.46 percent. On November 1, 2006, $327,000,000 in general obligation state various purpose bonds and $73,000,000 in general obligation state trunk highway bonds were issued at a true interest rate of 4.11 percent. On April 25, 2007, $264,050,000 in general obligation advance refunding bonds were issued at a true interest rate of 3.77 percent. During fiscal year 2007, $604,095,000 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 $19,102,000, which resulted in an economic gain of $14,905,000. The balance outstanding for all extinguished debt as of June 30, 2007, was $273,770,000, 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, 2007 Outstanding Amount	Refunded Bond Call Date
April 25, 2007	$ 97,868	$ 101,470	$ 101,470	August 1, 2008
April 25, 2007	$ 78,992	$ 81,900	$ 81,900	June 1, 2009
April 25, 2007	$ 87,190	$ 90,400	$ 90,400	November 1, 2009

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2007. 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, 2007
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 1,051	$ 444,270	3.00 – 6.00
State Operated Community Services	-	3,151	3.75 – 7.56
State Transportation	-	138,664	3.00 – 6.38
Waste Management	-	2,190	4.00 – 6.00
Water Pollution Control	-	34,570	3.00 – 6.00
Maximum Effort School Loan	-	73,200	4.00 – 6.00
Reinvest in Minnesota	-	60	4.00 – 6.00
Rural Finance Authority	-	66,100	3.50 – 7.05
Refunding Bonds	-	853,612	1.50 – 5.40
Municipal Energy Building	-	875	3.00 – 6.00
Game and Fish Building	-	8	1.50 – 5.00
Trunk Highway	19,975	534,955	1.50 – 5.50
Airport Facilities	-	35,815	5.30 – 7.95
Landfill	-	5,340	4.25 – 6.00
Various Purpose	1,299,690	1,786,780	3.00 – 5.62
Total	$ 1,320,716	$ 3,979,590	

Capital Leases

In 2006, 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 $42,618,000 were from local government entities to finance certain trunk highway projects. In addition, $25,970,000 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

On July 26, 2006, $15,145,000 of revenue bonds were issued to provide grants to school districts located in the state's taconite assistance area (as defined in statute) and for bond administrative costs. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the Commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds, secured by the pledge of appropriations of the annual distribution of taconite production tax revenues of the Iron Range Resources and Rehabilitation Fund and the D. J. Johnson Economic Protection Trust Fund (special revenue funds). The interest rates on the bonds are 4.00% (7 years) and 4.50% (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014 are subject to optional redemption.

The state is authorized by Minnesota Statutes, Section 403.275 and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, $35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. Payments of principal and interest will be made from 911 fee revenues of the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) 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 February 1, 2007, MnSCU issued revenue bonds in the amount of $43,070,000 in three series, A, B, and C, of $33,770,000, $5,980,000, and $3,320,000 and terms through April 26, 2026, October 1, 2019, and October 1, 2026, respectively. The Bond series 2007A, 2007B, and 2007C bear interest rates of 4.00% - 4.50%, 3.75% - 4.25%, and 5.25% - 5.75%, respectively. Bond series 2007A, 2007B, and 2007C maturing on and after October 1, 2016, October 1, 2007, and October 1, 2016, respectively, are subject to optional redemption.

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, 2007 Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 2,845	October 1, 2012

Claims

Municipal solid waste landfill liability of $195,436,000 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 $51,400,000 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 $91,812,000 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 2007.

The remaining claim amount of $529,600,000 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 2050 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $254,937,000 and $12,404,000, 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 $107,908,000 and $5,855,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2007, 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 2007, 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
2008	$ 575	$ 1,509
2009	600	1,478
2010	625	1,446
2011	675	1,413
2012	700	1,376
2013-2017	4,150	6,254
2018-2022	5,550	4,925
2023-2027	7,475	3,086
2028-2032	5,725	701
Total	$ 26,075	$ 22,188

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 revenue bonds outstanding on June 30, 2007, net of unamortized premium, was $2,398,988,000.

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 $1,034,273,000 in general obligation bonds outstanding, net of unamortized premium, and $9,813,000 of revenue bonds outstanding on December 31, 2006.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2007, the principal amount of revenue bonds outstanding was $154,259,000 and the principal amount of general obligation bonds outstanding was $375,953,000.

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, 2007, the outstanding principal of revenue bonds was $557,000,000.

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, 2007, net of unamortized premium, was $913,969,000.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2007, the principal amount of revenue bonds outstanding was $18,720,000.

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

	U of M		MC[1]	
Fiscal Year(s)	Principal	Interest	Principal	Interest
2008	$ 113,529	$ 31,773	$ 87,192	$ 36,796
2009	106,879	20,207	96,499	34,030
2010	33,230	11,551	70,520	30,711
2011	33,565	8,170	64,224	27,940
2012	29,450	4,762	59,898	25,420
2013-2017	10,050	12,162	284,246	93,090
2018-2022	12,700	9,746	251,780	43,041
2023-2027	16,150	6,671	102,070	7,137
2028-2032	20,400	2,777	-	-
	$ 375,953	$ 107,819	$ 1,016,429	$ 298,165
Unamortized Discounts/Premiums and Issuance Costs	-	-	17,844	-
Total	$ 375,953	$ 107,819	$ 1,034,273	$ 298,165

[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
2008	$ 4,204	$ 7,921	$ 525,475	$ 103,395	$ 890	$ 494
2009	5,294	6,835	42,805	89,236	935	449
2010	5,524	6,601	48,705	87,396	985	402
2011	5,669	6,341	46,650	85,424	1,035	351
2012	5,564	6,086	48,155	83,365	1,090	298
2013-2017	28,484	26,670	269,395	380,709	4,980	563
2018-2022	33,954	19,659	282,415	315,920	-	-
2023-2027	42,919	10,686	337,605	242,520	-	-
2028-2032	22,647	1,273	404,065	149,920	-	-
2033-2037	-	-	347,210	53,641	-	-
2038-2042	-	-	36,915	3,105	-	-
2043-2047	-	-	3,660	459	-	-
2048-2053	-	-	135	3	-	-
	$ 154,259	$ 92,072	$ 2,393,190	$ 1,595,093	$ 9,915	$ 2,557
Unamortized Discounts/Premiums and Issuance Costs	-	-	5,798	-	(102)	-
Total	$ 154,259	$ 92,072	$ 2,398,988	$ 1,595,093	$ 9,813	$ 2,557

[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
2008	$ -	$ 25,450	$ 44,505	$ 43,415	$ 1,810	$ 1,097
2009	-	25,450	49,030	41,201	1,825	998
2010	-	25,450	48,300	38,837	1,910	891
2011	-	25,450	53,490	36,707	1,780	779
2012	-	25,450	55,455	34,125	1,180	689
2013-2017	-	127,248	303,840	127,225	6,430	2,319
2018-2022	62,240	125,832	270,320	53,686	3,785	540
2023-2027	126,067	105,196	64,830	5,193	-	-
2028-2032	162,833	69,644	-	-	-	-
2033-2037	150,593	32,240	-	-	-	-
2038-2041	55,267	4,622	-	-	-	-
	$ 557,000	$ 592,032	$ 889,770	$ 380,389	$ 18,720	$ 7,313
Unamortized Discounts/Premiums and Issuance Costs	-	-	24,199	-	-	-
Total	$ 557,000	$ 592,032	$ 913,969	$ 380,389	$ 18,720	$ 7,313

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.

Office of Higher Education

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, tax-exempt Series 2005B bonds, and tax-exempt Series 2006 bonds are reset every 7, 7, 7, 28, 35, 28, 35, 28, 35, 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, 2007, for the Series 1999A bonds was 5.32 percent. The interest rates as of June 30, 2007, for the Series 2002A and 2002B bonds were 5.05 percent and 3.90 percent, respectively. The interest rates as of June 30, 2007, for the Series 2003A and 2003B bonds were 5.24 percent, and 3.90 percent, respectively. The interest rates as of June 30, 2007, for the Series 2004A and 2004B bonds were 5.23 percent and 3.82 percent, respectively. The interest rate as of June 30, 2007, for the Series 2005A and 2005B bonds was 5.28 percent and 3.96 percent, respectively. The interest rate as of June 30, 2007, for the Series 2006 bonds was 3.80 percent.

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 $179,520,000 outstanding as of June 30, 2007. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

Public Facilities Authority had $292,380,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2007.

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, 2007, cumulative expenditures of about $271 million have been disbursed by the Remediation and the Building funds. Estimates show that the total of all payments for the program may reach $596 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, 2007
(In Thousands)

	Giants Ridge	911 Services	Minnesota State Colleges and Universities (MnSCU) Revenue Fund	Vermilion Residence Hall	Vermilion Modular Housing	Itasca Residence Halls
Condensed Statement of Net Assets						
Assets:						
Current Assets	$ 5,435	$ 24,833	$ 63,652	$ 355	$ 27	$ 19
Restricted Assets	1,627	-	106,946	-	146	346
Capital Assets	21,118	-	128,061	1,289	782	3,901
Total Assets	$ 28,180	$ 24,833	$ 298,659	$ 1,644	$ 955	$ 4,266
Liabilities:						
Current Liabilities	$ 1,319	$ 4,075	$ 28,508	$ 8	$ 89	$ 128
Noncurrent Liabilities	13,159	34,637	127,813	-	355	2,245
Total Liabilities	$ 14,478	$ 38,712	$ 156,321	$ 8	$ 444	$ 2,373
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 8,872	$ -	$ 85,557	$ 1,289	$ 427	$ 1,581
Restricted	-	-	56,781	-	74	346
Unrestricted	4,830	(13,879)	-	347	10	(34)
Total Net Assets	$ 13,702	$ (13,879)	$ 142,338	$ 1,636	$ 511	$ 1,893
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets						
Operating Revenues - Customer Charges	$ 4,047	$ 49,527	$ 76,856	$ 464	$ 227	$ 347
Depreciation Expense	(1,165)	-	(8,043)	(66)	(31)	(119)
Other Operating Expenses	(5,293)	(15,052)	(60,778)	(252)	(114)	(201)
Operating Income (Loss)	$ (2,411)	$ 34,475	$ 8,035	$ 146	$ 82	$ 27
Nonoperating Revenues (Expenses):						
Interest Income	$ 157	$ 1,061	$ 6,217	$ 12	$ 7	$ 17
Interest Expense	(1,000)	(939)	(4,663)	(11)	(27)	(132)
Other	(2)	(14,978)	(78)	-	-	-
Transfers-In (Out)	3,782	(42,970)	-	15	-	205
Change in Net Assets	$ 526	$ (23,351)	$ 9,511	$ 162	$ 62	$ 117
Beginning Net Assets	13,176	9,472	132,827	1,474	449	1,776
Ending Net Assets	$ 13,702	$ (13,879)	$ 142,338	$ 1,636	$ 511	$ 1,893
Condensed Statement of Cash Flows						
Net Cash Provided (Used) By:						
Operating Activities	$ (1,267)	$ 33,700	$ 15,423	$ 109	$ 93	$ 158
Noncapital Financing Activities	3,782	(22,651)	-	-	-	-
Capital and Related Financing Activities	(2,312)	-	23,744	(303)	(117)	(60)
Investing Activities	158	1,016	5,567	11	7	17
Net Increase (Decrease)	$ 361	$ 12,065	$ 44,734	$ (183)	$ (17)	$ 115
Beginning Cash and Cash Equivalents	$ 4,692	$ 7,994	$ 95,361	$ 518	$ 182	$ 233
Ending Cash and Cash Equivalents	$ 5,053	$ 20,059	$ 140,095	$ 335	$ 165	$ 348

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.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.
- 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

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, 2007	$ 227,139
St. Paul Teachers Retirement Fund	June 30, 2006	$ 419,701
Local Police and Fire Fund [1]	December 31, 2006	$ 101,927

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

Component Units

As part of its operations, Metropolitan Council (MC) enters into contracts for various purposes including construction projects and transit services, among others. The majority of MC's contracts are renegotiated annually with terms generally coinciding with the calendar year. However, some of the contracts span several years. Unpaid commitments for transit services totaled approximately $45.4 million as of December 31, 2006. These commitments will be paid from the Metro Transit Bus enterprise fund. Future commitments for Metro Transit Light Rail enterprise fund contracts of approximately $9.3 million will be paid from the Metro Transit Light Rail fund. Future commitments for regional transit services are approximately $108.4 million as of December 31, 2006. These commitments will be paid from Regional Transit special revenue funds. Future commitments for Environmental Services enterprise fund construction contracts totaled approximately $48.9 million as December 31, 2006. These commitments will be paid from the Environmental Services enterprise fund. Management fully expects that it will be able to fulfill its contractual obligations for these commitments.

Since January 18, 2000, 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, 2006, was approximately $3.7 million.

National Sports Center Foundation (NSCF), 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.

During 2006, the NSCF began construction on a four sheet ice arena expansion to the Super Rink. This expansion is expected to cost $10,500,000 and is being financed by $6,600,000 of revenue bonds, in addition to grants and contributions from other parties, and proceeds from the sale of the Columbia Arena. Once construction is complete, the NSCF will be paying approximately $42,000 per month through 2026 in debt service. In addition to the monthly debt service, the NSCF is required to make monthly payments of $832 into a reserve account to be used for capital improvements of the Super Rink.

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 maintenance facility. In May 1995, the state issued $47,670,000 of revenue bonds to finance the construction and equipping of an aircraft maintenance facility in Duluth, with Northwest Airlines, Inc. (NWA) as the lessee. The bonds were structured so that the initial bonds, together with expected later refunding bond issuances, would provide financing for the facility over a 30-year period.

NWA used the facility for aircraft maintenance. When NWA's mechanics went on strike in August 2005, the maintenance facility was closed. NWA filed for bankruptcy in September 2005.

In May 2007, the Commissioner of Finance on behalf of the state of Minnesota, the city of Duluth, the Duluth Economic Development Authority, St. Louis County and ALLETE, Inc. entered into a settlement with NWA regarding the maintenance facility.

The agreement provided the state with general unsecured claims in NWA's bankruptcy case that were sold by the state for an amount sufficient to fully redeem the outstanding state bonds. Following NWA's bankruptcy filing, the city of Duluth, St. Louis County and ALLETE made debt service payments on the bonds and under the terms of the settlement, those amounts were also to be repaid from the proceeds on the sale of the claims.

Under the terms of the original financing agreements, NWA had provided certain assets as collateral securing its obligations on the bonds. The terms of the settlement required the state to return the collateral to NWA when the bonds were redeemed.

In July 2007, the state redeemed the remaining outstanding principal balance on the bonds of $35,815,000 and the city of Duluth and St Louis County were repaid. The state then returned the collateral to NWA.

The Duluth Economic Development Authority owns the maintenance facility debt free and intends to market the property to other potential tenants.

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, 2007
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Debt Service	$ 471,990	$ -	$ -	$ 471,990
Transportation	288,723	430,242	-	718,965
Environmental Resources	-	631,784	7,328	639,112
Economic and Workforce Development	-	62,783	4,830	67,613
School Aid - Nonexpendable	721,173	-	-	721,173
School Aid - Expendable	15,690	73,885	-	89,575
Health & Human Services	-	-	27,942	27,942
Unemployment Benefits	-	-	693,189	693,189
State Colleges and Universities	-	-	318,397	318,397
Other Purposes	-	-	13,674	13,674
Total Restricted Net Assets	$ 1,497,576	$ 1,198,694	$ 1,065,360	$ 3,761,630

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, 2007
(In Thousands)

	General	Federal	Nonmajor Governmental
Fund Balances:			
Reserved for Encumbrances	$ 108,754	$ -	$ 219,348
Reserved for Inventory	-	-	21,568
Reserved for Long-Term Receivables	47,231	40	237,544
Reserved for Long-Term Commitments	-	-	342,944
Reserved for Trust Principal	-	-	1,191,878
Reserved for Other	-	7,288	-
Total Reserved Fund Balances	$ 155,985	$ 7,328	$ 2,013,282
Unreserved Fund Balances:			
Designated for Appropriation Carryover	$ 38,832	$ -	$ 160,301
Budgetary Reserve	1,085,290	-	-
Designated for Fund Purposes	-	-	1,699,322
Total Designated Fund Balance	$ 1,124,122	$ -	$ 1,859,623
Undesignated	-	-	249,236
Total Unreserved Fund Balance	$ 1,124,122	$ -	$ 2,108,859
Total Fund Balance	$ 1,280,107	$ 7,328	$ 4,122,141

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 Other of $7,288,000 in the Federal Fund consists 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, 2007
(In Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total
Designated For:				
Public Safety and Corrections	$ 31,635	$ -	$ -	$ 31,635
Transportation	453,563	-	-	453,563
Environmental Resources	162,697	-	-	162,697
Economic and Workforce Development	132,272	-	-	132,272
General Education	7,164	-	15,690	22,854
Higher Education	2,847	-	-	2,847
Health & Human Services	119,676	-	-	119,676
General Government	65,388	704,800	-	770,188
Intergovernmental Aids	3,590	-	-	3,590
Total	$ 978,832	$ 704,800	$ 15,690	$ 1,699,322

Deficit Equity Balances

A $2,570,000 deficit total fund balance in the Building Fund (capital projects fund) is a result of a delayed bond sale. The bond sale occurred after the end of the fiscal year.

A $13,879,000 deficit total net asset balance in the 911 Services Fund (enterprise fund) is a result of revenue bonds issued for grants and improvements to the state's emergency communication system. The deficit will be resolved through future 911 fee revenues.

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 auto, liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All state agencies with vehicles 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 $1,500,000. The reinsurance program provides coverage up to $1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach

$4,000,000 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 $1,600,000. 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 2007, the Worker's Compensation Program experienced higher costs due mainly to the increasing cost of medical care. The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits, related to the reported claim.

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. Beginning in fiscal year 1998, medical benefits, provided through PEIP, became a self-insured program.

PEIP's membership as of June 30, 2007, was 1,600 members and their dependents. The members of the pool include 15 school districts, 50 cities/townships, 3 counties, and 17 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 $80,000.

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, 2007, and 2006:

Self-Insured Claim Liabilities
As of June 30, 2007 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/06	$ 10,073	$ 3,237	$ 3,643	$ 9,667
Fiscal Year Ended 6/30/07	$ 9,667	$ 3,399	$ 4,006	$ 9,060
Tort Claims [1]				
Fiscal Year Ended 6/30/06	$ -	$ 890	$ 890	$ -
Fiscal Year Ended 6/30/07	$ -	$ 4,132	$ 4,132	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/06	$ 116,157	$ 12,694	$ 14,035	$ 114,816
Fiscal Year Ended 6/30/07	$ 114,816	$ 16,695	$ 17,748	$ 113,763
State Employee Insurance Plans				
Fiscal Year Ended 6/30/06	$ 38,303	$ 427,447	$ 427,818	$ 37,932
Fiscal Year Ended 6/30/07	$ 37,932	$ 474,718	$ 472,814	$ 39,836

[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 2007	2006
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 1,125	$ 1,695
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	11,206	12,551
Increases (Decreases) in Provision for Insured Events of Prior Years	111	(455)
Total Incurred Claims and Claim Adjustment Expenses	$ 11,317	$ 12,096
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 10,008	$ 11,437
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,224	1,229
Total Payments	$ 11,232	$ 12,666
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 1,210	$ 1,125

Component Units

Metropolitan Council

Metropolitan Council (MC) is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and 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 5.25 percent. The self-insurance retention limit for workers' compensation is $1,600,000 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 using a discount rate of 6 percent.

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, 2005, and 2006 or June 30, 2006, and 2007, 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 12/31/05	$ 18,509	$ 5,436	$ 6,804	$ 17,141
Fiscal Year Ended 12/31/06	$ 17,141	$ 7,950	$ 7,759	$ 17,332
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/06	$ 6,306	$ 2,556	$ 2,133	$ 6,729
Fiscal Year Ended 6/30/07	$ 6,729	$ 1,533	$ 1,772	$ 6,490
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/06	$ 9,000	$ 676	$ 2,676	$ 7,000
Fiscal Year Ended 6/30/07	$ 7,000	$ 4,595	$ 3,642	$ 7,953
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/06	$ 14,453	$ 166,635	$ 165,240	$ 15,848
Fiscal Year Ended 6/30/07	$ 15,848	$ 176,792	$ 178,887	$ 13,753

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, 2007 (In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ 1,280,107
Less: Reserved Fund Balance	155,985
Less: Designated Fund Balance	1,124,122
Undesignated Fund Balance	$ -
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (473,970)
Tax Refunds Payable	501,368
Human Services Receivable	(29,625)
Deferred Revenue	25,782
Escheat Asset	(8,943)
Other Receivables	(35,277)
Permanent School Fund Reimbursement	(3,441)
Investments at Market	(6,691)
Expenditure Accruals/Adjustments:	
Medical Assistance	384,645
Human Services Grants Payable	47,926
Education Aids	650,366
Police and Fire Aid	83,004
Fund Structure Differences:	
Terminally Funded Pension Plans	8,172
Perspective Differences:	
Reserve for Long-Term Advances	1,750
Designated for Appropriation Carryover and Budgetary Reserve	(27,370)
Budgetary Basis:	
Undesignated Fund Balance	$ 1,117,696

Note 21 – 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, 2006, were $761,000 and for the fiscal year ending June 30, 2007, are also $761,000. A material number of tort claims arising out of the Interstate 35W bridge collapse for damages are likely. The current 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. For tort claims arising in Minnesota on or after January 1, 2008, the maximum limits are $400,000 for any one claim and $1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after January 1, 2009, the maximum limits are $500,000 for any one claim and $1,500,000 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 $15 million 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 $15 million. Liability arising out of decisions unfavorable to the State may impact the State's Trunk Highway Fund.

   b. *Administrative Services Provided by Public School Personnel - Disallowance of Federal Funding.* On May 11, 2007, the Center for Medicare/Medicaid Services (CMS) notified the Department of Human Services (DHS) that it was disallowing $9.7 million in federal financial participation for school-based administrative costs in Minnesota from July 10, 2003, through June 30, 2004. The disallowance states that DHS used an improper "Medicaid Eligibility Ratio" in reporting costs. Specifically, CMS states that DHS's ratio improperly included children and adults, instead of children only. DHS believes that its reporting was consistent with a methodology that CMS had approved in the past, and further believes that revising the methodology to eliminate the data for services to adults would increase, rather than decrease, the federal portion. DHS is submitting a letter of appeal to CMS.

   c. *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 Federal Energy Regulatory Commission (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 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 been tentatively set for trial in spring 2008.

   d. *Kracum, et al. v. McCormack, et al.* (U.S. District Court). Plaintiffs' claim on behalf of themselves and other Minnesota residents that defendants, current and former employees of the Minnesota Department of Public Safety (DPS), violated the federal Driver's Privacy Protection Act by causing advertisements to be placed in envelopes containing official licensure correspondence.

Plaintiffs also allege that defendants violated 42 U.S.C. § 1983 by invading plaintiffs' privacy by the same conduct. The case was filed May 1, 2007, and a class has not been certified. The DPS estimates that a decision favorable to plaintiffs would result in damages greater than $15 million.

e. *In the Matter of the Commission Inquiry Regarding Potential Proscribed Ex Parte Contact Regarding Commissioner Scott; In the Matter of the Minnesota Department of Commerce Against Qwest Corporation Regarding Unfiled Agreement; In the Matter of the Complaint of A T & T Communications of the Midwest, Inc. against Qwest Corporation* (Minnesota Court of Appeals). The Public Utilities Commission (PUC) required Qwest to pay a penalty of $25,955,000 for failing to make public and seek PUC approval for interconnection agreements entered into with competitive local exchange carriers in a decision upheld by the U.S. District Court and the Eighth Circuit Court of Appeals. Subsequently, the PUC investigated allegedly improper communications between a former PUC commissioner and a former senior regulatory counsel with A T & T and concluded the penalty determination was reasonable and not the result of undue influence. Qwest appealed. The Court of Appeals affirmed the PUC's determination that the alleged communications did not constitute impermissible ex parte communications as supported by substantial evidence but vacated the penalty and remanded for re-deliberation of the penalty on grounds that record indicates the penalty was at least partially the result of improper influence. Qwest and the PUC have agreed to place the amount of the penalty in a special account in the State Treasury pending further proceeding before the PUC.

f. *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 $15 million. The deadline for submitting motions for summary judgment has been set for November 2007. Trial is currently scheduled for February 2008.

g. *Medical Assistance Supplemental Payments to Government Owned Nursing Facilities.* The federal Centers for Medicaid and Medicare Services ("CMS") disapproved a Minnesota Medicaid state plan amendment that provides for increased supplemental payments to local government owned nursing homes. In addition, CMS has disallowed and seeks to recover the federal share of the nursing homes' total supplemental payments through a separate administrative proceeding. If CMS is successful in both the disapproval litigation and its disallowance of the supplemental payments, the State would lose federal financial participation of approximately $11 million per year for FY 2006 and 2007 and $1.5 million per year for FY 2003, 2004 and 2005. The Department of Human Services (DHS) challenged the disapproval and disallowance. 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. On July 10, 2006, the CMS Administrator affirmed the disapproval of the State plan amendment. On July 31, 2007, the Eighth Circuit Court of Appeals denied Minnesota's petition and affirmed the final determination of the Secretary of Health and Human Services disapproving the state plan amendment increasing the county nursing homes' annual supplemental payments and thus reducing federal participation by $1.5 million per year for FY 2003 thru FY2007. Future federal payments to DHS will be adjusted to reflect this determination. DHS has administratively challenged the disallowance of $9.5 million -- the federal share of the supplemental payments that are part of Minnesota's approved state medicaid plan for FY 2006 and intends to challenge the disallowance of the $9.5 million federal share for FY 2007. If CMS is successful and Minnesota loses its appeals, CMS will withhold the disallowed amounts from Minnesota's future medicaid grant.

h. *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 $15 million. Trial is currently scheduled for June 2008.

i. *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 $15 million. Cross-motions for summary judgment were filed in July 2007.

j. *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. Plaintiffs are seeking declaratory and injunctive relief prohibiting enforcement and collection of the tax. The Department estimates a determination in plaintiffs' favor could result in revenue collection losses of $30 million when applied to plaintiffs and other railroad common carriers operating in Minnesota that paid the fuel tax and have timely filed claims for refunds. On August 22, 2006, the United States District Court filed a decision rejecting plaintiffs' challenges and upholding enforcement and collection of the tax. On November 6, 2007, the Eighth Circuit Court of Appeals reversed the decision and remanded the case to the District Court to enjoin the Commissioner from continuing to enforce the tax. The Department will file a petition to the Eighth Circuit for rehearing en banc.

Note 22 – Subsequent Events

Primary Government

On August 1, 2007, the I-35W bridge over the Mississippi River in Minneapolis collapsed. The cost of the bridge collapse and related impacts is approximately $400 million. Mn/DOT has received commitments of $178.5 million from the Federal Highway Administration (FHWA) Emergency Relief program, which provides for the repair and restoration of highway facilities suffering loss from natural disasters or catastrophic failures. Congress has authorized, but not yet appropriated an additional $195 million in Emergency Relief funds for the response to this event. Construction of the new bridge, which began in October 2007, is expected to be complete by the end of December 2008.

On September 19, 2007, the Minnesota Department of Transportation (Mn/DOT) awarded a contract in the amount of $233,763,000 for reconstructing the bridge to a consortium of contractors led by Flatiron Constructors and Manson Construction Company.

On September 12, 2007, a bill resulting from a special session was signed appropriating $157 million of disaster relief funding for the flooding in the southeastern counties in Minnesota. The primary sources of the funds are $72 million from the General Fund and $56 million in general obligation bonds. The funds will be used to help individuals and businesses, and rebuild public infrastructure including roads and bridges.

On August 1, 2007, the state sold $8,000,000 of general obligation bonds at a true interest rate of 5.14 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 August 1, 2007, the state sold $656,000,000 of general obligation various purpose bonds and $14,000,000 general obligation state trunk highway bonds at a true interest rate of 4.30 percent.

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 2,900 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
2006	3.37	3.21
2005	3.37	3.22
2004	3.30	3.14

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,924 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	2006	2005	2004
Fair to Good	96.8%	96.3%	96.1%

All Other Systems	2006	2005	2004
Fair to Good	95.3%	95.2%	94.8%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the year ended June 30, 2007 (in thousands):

		Costs to be Capitalized			Maintenance of System			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2007	$ 148,320	$ 480,900	$ 629,220	$ 63,835	$ 223,476	$ 287,311	$ 916,531
Actual	2007	$ 150,497	$ 253,040	$ 403,537	$ 15,125	$ 312,567	$ 327,692	$ 731,229

Due to system limitations, bridge and pavement costs are combined for the years ended June 30, 2006, 2005, 2004, and 2003. The state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" (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
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

[(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	SPRF
Actuarial Valuation Date	2006[1]	7/1/2006	7/1/2006	7/1/2006	7/1/2006
	2005	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
Actuarial Value of Plan Assets	2006	$ 535,357	$ 151,850	$ 48,504	$ 618,990
	2005	$ 503,573	$ 144,465	$ 45,523	$ 601,220
	2004	$ 486,617	$ 138,948	$ 46,155	$ 594,785
Actuarial Accrued Liability	2006	$ 647,480	$ 202,301	$ 81,361	$ 641,479
	2005	$ 546,118	$ 191,414	$ 81,836	$ 566,764
	2004	$ 524,215	$ 190,338	$ 83,197	$ 545,244
Total Unfunded Actuarial Liability (Asset)	2006	$ 112,123	$ 50,451	$ 32,858	$ 22,489
	2005	$ 42,544	$ 46,949	$ 36,314	$ (34,456)
	2004	$ 37,598	$ 51,390	$ 37,042	$ (49,541)
Funded Ratio[2]	2006	83%	75%	60%	96%
	2005	92%	75%	56%	106%
	2004	93%	73%	55%	109%
Annual Covered Payroll	2006	$ 145,879	$ 36,529	$ 2,894	$ 57,765
	2005	$ 132,335	$ 35,941	$ 3,014	$ 55,142
	2004	$ 133,172	$ 34,683	$ 3,815	$ 51,619
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2006	77%	138%	1135%	39%
	2005	32%	131%	1204%	(62%)
	2004	28%	148%	971%	(96%)

[1]The July 1, 2006, Annual Valuation Report is the most recently issued report available.

[2]Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

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

	Fiscal Year Ended (In Thousands)									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
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	$ 13,219
Ceded	195	624	1,031	1,972	2,243	2,321	2,231	1,736	1,491	1,347
Net Earned	$ 2,369	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137	$ 20,533	$ 17,441	$ 13,451	$ 11,872
2. Unallocated Expenses	$ 538	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528	$ 2,296	$ 1,904	$ 1,638	$ 1,547
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	$ 11,206
Ceded	91	171	772	760	2,513	1,570	1,980	1,913	1,382	1,782
Net Incurred	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424
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	$ 8,226
One Year Later	1,849	5,817	9,240	15,908	18,091	17,572	17,367	14,141	11,282	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764	14,139		
Three Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764			
Four Years Later	1,850	5,818	9,243	15,963	18,034	17,579				
Five Years Later	1,850	5,818	9,243	15,963	18,034					
Six Years Later	1,850	5,818	9,243	15,963						
Seven Years Later	1,850	5,818	9,243							
Eight Years Later	1,850	5,818								
Nine 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	$ 1,782
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	$ 9,424
One Year Later	1,854	5,828	9,253	15,935	18,114	17,595	17,385	14,152	11,294	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764	14,139		
Three Years Later	1,850	5,818	9,243	15,963	18,034	17,579	17,764			
Four Years Later	1,850	5,818	9,243	15,963	18,034	17,579				
Five Years Later	1,850	5,818	9,243	15,963	18,034					
Six Years Later	1,850	5,818	9,243	15,963						
Seven Years Later	1,850	5,818	9,243							
Eight Years Later	1,850	5,818								
Nine 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	$ (447)	$ 125	$ -

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.

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APPENDIX B

State General Obligation
Long-Term Debt
(Unaudited)

General Obligation Bonds Outstanding as of the date of issuance of the Bonds

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of the date of issuance of the Bonds.

GENERAL OBLIGATION BONDS OUTSTANDING AS OF THE DATE OF ISSUANCE OF THE BONDS

($ in Thousands)

Category	Type	Principal Amount	
1	Building	$ 322,114	
	Transportation	150,669	
	Pollution Control	29,965	
	Waste Management	1,880	
	Refunding Bonds	695,388	
	Reinvest in Minnesota	15	
	Landfill	4,360	
	Infrastructure Development Bonds	248,011	
	Various Purpose	2,023,075	
	Total Category 1		$3,475,477
2	School Loan	$ 58,095	
	School Loan Refunding	14,525	
	Municipal Energy Building	245	
	Rural Farm Authority	49,600	
	Game and Fish Building	3	
	Total Category 2		$ 122,468
3	Trunk Highway	$ 503,500	
	Total Category 3		$ 503,500
4	State Sports & Health Club Tax Bonds Refunding Bonds	120	
	Total Category 4		$ 120
	Total Outstanding August, 2008 — Previous Issues(A)		$4,101,565
	Plus Series 2008A Bonds		275,000
	Plus Series 2008B Bonds		33,500
	Plus Series 2008C Bonds		155,415
	Less Bonds Refunded by Series 2008C Bonds(B)		(156,100)
	Total Outstanding date of the Bonds — Including These Issues		$4,409,380

(A) Excludes all bonds previously refunded.
(B) See Appendix D for detail of bonds to be 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

August 5, 2008
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Bonds Dated August 5, 2008	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	478,535.0	478,525.0	10.0	$ 0.0
Building	X1997, Ch. 2	37,432.0	37,335.0	0.0	$ 97.0
Building	1999, Ch. 240	439,437.0	438,865.0	0.0	$ 572.0
Various Purpose	2000, Ch. 492	527,901.9	514,830.0	1,000.0	$ 12,071.9
Various Purpose	X2001, Ch. 12	116,930.3	115,125.0	300.0	$ 1,505.3
Various Purpose	2002, Ch. 374	74,441.7	71,935.0	1,225.0	$ 1,281.7
Various Purpose	2002, Ch. 393	601,397.2	594,605.0	2,400.0	$ 4,392.2
Various Purpose	X2002, Ch. 1	15,451.6	14,430.0	490.0	$ 531.6
Trunk Highway	X2003, Ch. 19, Art.3	400,400.0	399,250.0	0.0	$ 1,150.0
Trunk Highway	X2003, Ch. 19, Art.4	110,110.0	105,700.0	0.0	$ 4,410.0
Various Purpose	X2003, Ch. 20	232,844.0	211,310.0	3,300.0	$ 18,234.0
Various Purpose	2005, Ch. 20	942,980.0	822,079.0	21,000.0	$ 99,901.0
Various Purpose	2006, Ch. 258	1,002,863.0	587,800.0	88,375.0	$ 326,688.0
Rural Finance Authority	2007, Ch. 16	30,000.0	12,500.0	4,500.0	$ 13,000.0
Various Purpose	X2007, Ch. 2	56,255.0	0.0	27,000.0	$ 29,255.0
Trunk Highway	X2007, Ch. 2	20,020.0	0.0	13,500.0	$ 6,520.0
Trunk Highway	2008, Ch. 152	1,801,800.0	0.0	20,000.0	$1,781,800.0
Transportation	2008, Ch. 152	60,060.0	0.0	15,000.0	$ 45,060.0
Various Purpose	2008, Ch. 179	801,022.0	0.0	110,000.0	$ 691,022.0
Various Purpose	2008, Ch. 365	105,500.0	0.0	400.0	$ 105,100.0
Totals		$8,649,384.4	$5,198,264.0	$308,500.0	$3,142,620.4

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 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 Department of Finance follows a debt management policy. This policy is not required or mandated by law. 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%	2.97%
June 30, 2007	2.34%	1.9%	3.03%
June 30, 2009 (est.)	2.69%	2.0%	

Of the State's general obligation bonds outstanding on June 30, 2008, 40.0 percent were scheduled to mature within five years, and 70.0 percent were scheduled to mature within ten years.

NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND FOR GENERAL OBLIGATION BONDS DEBT SERVICE

($ in Thousands)

In Fiscal Year	General Fund	All Other Funds	Transfer Total
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
2008	409,276	93,694	502,970

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.

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 2007 valuation, was estimated by the Commissioner of Revenue to be $567,598,644,000. 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
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	513,771,733	4,965,234	518,736,967	11.72
2007	556,720,268	5,073,727	561,793,995	8.30

Principal Payments in Bold Face

State of Minnesota
General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

Interest Payments in Medium Face

($ In Thousands)

	Authorization Year-Chapter	Amount Outstanding 6/30/2008	2009	2010	2011	2012	2013	2014	2015
General Fund / Various Purpose									
State Bldg - Capital Improvement									
	1989.300	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**
		1	1	0	0	0	0	0	0
	1990.610	**380**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
		135	20	18	17	15	14	12	10
	1992.558	**275**	**55**	**20**	**20**	**20**	**20**	**20**	**20**
		87	14	12	11	10	9	8	7
	1993.373	**60**	**5**	**5**	**5**	**5**	**5**	**5**	**5**
		19	3	3	2	2	2	2	1
	1994.643	**18,100**	**2,585**	**1,305**	**1,305**	**1,305**	**1,300**	**1,300**	**1,295**
		5,802	882	782	713	645	577	509	440
	1996.463	**39,120**	**6,590**	**2,770**	**2,770**	**2,765**	**2,765**	**2,765**	**2,760**
		12,298	1,903	1,662	1,516	1,370	1,224	1,078	932
	1997.246	**155**	**155**	**0**	**0**	**0**	**0**	**0**	**0**
		4	4	0	0	0	0	0	0
	1997X002	**7,205**	**525**	**525**	**525**	**525**	**530**	**535**	**535**
		2,599	365	337	309	282	254	226	197
	1998.404	**12,355**	**1,335**	**990**	**990**	**990**	**990**	**990**	**990**
		4,340	667	604	550	496	442	387	333
	1999.240	**253,570**	**20,575**	**20,575**	**18,590**	**18,590**	**18,590**	**18,590**	**18,590**
		87,858	12,645	11,578	10,542	9,574	8,611	7,643	6,670
State Muncipal Energy Bldg									
	1983.323	**175**	**55**	**55**	**25**	**25**	**15**	**0**	**0**
		17	8	5	3	1	0	0	0
	1990.610	**20**	**5**	**5**	**5**	**5**	**0**	**0**	**0**
		2	1	1	0	0	0	0	0
	1994.643	**40**	**20**	**20**	**0**	**0**	**0**	**0**	**0**
		2	2	1	0	0	0	0	0
	1996.463	**70**	**60**	**10**	**0**	**0**	**0**	**0**	**0**
		3	2	1	0	0	0	0	0
Refunding Bonds									
	16A.66	**762,960**	**108,473**	**112,253**	**97,515**	**96,915**	**78,710**	**76,195**	**66,670**
		151,911	34,987	29,469	24,225	19,496	15,284	11,504	7,978
Reinvest in Minnesota (RIM)									
	1991.354	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
		0	0	0	0	0	0	0	0
Rural Finance Authority (RFA)									
	1996.463	**10,100**	**4,500**	**3,100**	**2,500**	**0**	**0**	**0**	**0**
		719	414	236	69	0	0	0	0
	2000.492	**5,000**	**500**	**0**	**0**	**0**	**4,500**	**0**	**0**
		1,076	249	236	236	236	118	0	0

Principal Payments in Bold Face

State of Minnesota
General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

Interest Payments in Medium Face

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**
9	7	6	4	2	1	0	0	0	0	0	0	0
20	**20**	**20**	**20**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6	4	3	2	1	0	0	0	0	0	0	0	0
5	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	1	1	0	0	0	0	0	0	0	0	0	0
1,295	**1,295**	**1,295**	**1,295**	**1,295**	**645**	**445**	**120**	**20**	**0**	**0**	**0**	**0**
372	304	237	170	102	46	19	4	1	0	0	0	0
2,760	**2,760**	**2,760**	**2,760**	**2,760**	**1,025**	**780**	**190**	**140**	**0**	**0**	**0**	**0**
786	641	496	351	205	81	36	12	4	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
535	**535**	**535**	**535**	**535**	**430**	**180**	**85**	**85**	**50**	**0**	**0**	**0**
169	141	113	86	58	31	16	9	5	1	0	0	0
990	**990**	**990**	**990**	**990**	**45**	**45**	**20**	**20**	**0**	**0**	**0**	**0**
279	225	170	116	61	5	3	2	1	0	0	0	0
18,590	**18,590**	**18,590**	**18,590**	**18,590**	**13,205**	**8,860**	**2,760**	**925**	**625**	**85**	**60**	**0**
5,697	4,732	3,778	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
54,915	**35,320**	**27,050**	**8,945**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4,939	2,683	1,124	224	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**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 2009 - 2028

($ In Thousands)

	Authorization Year-Chapter	Amount Outstanding 6/30/2008	2009	2010	2011	2012	2013	2014	2015
General Fund / Various Purpose									
	2002.393	**15,000**	**10,500**	**4,500**	**0**	**0**	**0**	**0**	**0**
		578	465	113	0	0	0	0	0
	2005X003	**18,000**	**0**	**0**	**4,500**	**0**	**7,000**	**6,500**	**0**
		4,134	918	918	805	693	630	171	0
	2007.016	**12,500**	**0**	**0**	**4,000**	**0**	**8,500**	**0**	**0**
		2,458	635	635	535	435	218	0	0
Landfill									
	1994.639	**4,520**	**385**	**385**	**375**	**375**	**375**	**375**	**375**
		1,537	240	220	199	179	158	138	118
Pollution Control Bonds									
	1996.463	**2,155**	**320**	**145**	**145**	**145**	**145**	**145**	**145**
		731	104	92	84	77	69	62	54
	1997.246	**1,120**	**140**	**90**	**90**	**90**	**90**	**85**	**85**
		382	59	53	48	43	38	34	29
	1998.404	**2,300**	**185**	**185**	**185**	**180**	**180**	**180**	**180**
		759	116	106	96	87	77	68	58
	1999.240	**25,090**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**
		8,689	1,294	1,189	1,085	980	876	771	666
Various Purpose									
	2000.492	**229,314**	**18,315**	**20,320**	**18,320**	**24,825**	**21,205**	**13,460**	**13,460**
		77,220	11,272	10,283	9,291	8,186	7,013	6,126	5,427
	2001X012	**63,835**	**4,350**	**4,350**	**4,350**	**4,350**	**4,330**	**4,330**	**4,330**
		23,866	3,119	2,899	2,679	2,459	2,240	2,021	1,802
	2002.374	**57,080**	**4,075**	**4,075**	**4,075**	**4,075**	**4,060**	**3,695**	**3,700**
		21,381	2,808	2,600	2,393	2,185	1,978	1,780	1,591
	2002.393	**321,322**	**21,620**	**19,620**	**20,320**	**20,320**	**20,075**	**19,025**	**19,275**
		131,720	15,632	14,596	13,592	12,570	11,549	10,566	9,603
	2002X001	**8,690**	**505**	**505**	**505**	**505**	**505**	**505**	**505**
		3,775	423	398	373	347	322	297	272
	2003X020	**181,900**	**10,410**	**10,410**	**10,410**	**10,410**	**10,410**	**10,410**	**10,410**
		80,183	8,866	8,346	7,825	7,305	6,784	6,264	5,743
	2005.020	**697,269**	**48,509**	**48,510**	**48,505**	**46,545**	**41,145**	**37,685**	**37,685**
		302,745	33,894	31,469	29,044	26,667	24,413	22,442	20,558
	2006.258	**527,030**	**30,190**	**30,190**	**30,190**	**30,190**	**27,740**	**27,930**	**27,930**
		250,088	25,719	24,210	22,700	21,191	19,710	18,318	16,922
State Transportation									
	1984.597	**600**	**300**	**300**	**0**	**0**	**0**	**0**	**0**
		37	27	11	0	0	0	0	0
	1990.610	**140**	**20**	**10**	**10**	**10**	**10**	**10**	**10**
		44	7	6	6	5	4	4	3

Principal Payments in Bold Face

State of Minnesota
General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

Interest Payments in Medium Face

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
375	375	375	375	375	0	0	0	0	0	0	0	0
98	77	57	37	16	0	0	0	0	0	0	0	0
145	145	145	145	135	50	50	50	50	50	0	0	0
47	39	32	24	17	11	9	6	4	1	0	0	0
85	85	85	85	85	10	10	5	0	0	0	0	0
24	20	15	10	6	1	1	0	0	0	0	0	0
180	180	180	180	180	125	0	0	0	0	0	0	0
48	39	29	20	11	3	0	0	0	0	0	0	0
1,970	1,970	1,970	1,970	1,970	950	500	0	0	0	0	0	0
561	457	353	250	146	49	13	0	0	0	0	0	0
13,464	13,465	13,465	13,465	13,475	12,410	8,830	4,405	3,580	2,230	430	190	0
4,729	4,037	3,354	2,669	1,983	1,300	767	434	234	88	22	5	0
4,330	4,330	4,330	4,330	4,330	4,330	4,330	1,880	875	310	35	35	0
1,583	1,364	1,145	926	707	488	269	111	41	11	3	1	0
3,700	3,700	3,710	3,710	3,715	3,715	3,715	2,060	560	560	140	40	0
1,403	1,214	1,025	836	646	457	267	119	52	24	6	1	0
19,285	19,167	19,170	19,175	19,185	19,185	19,185	17,895	15,710	10,985	1,925	100	100
8,633	7,664	6,700	5,736	4,771	3,807	2,842	1,909	1,067	399	76	8	3
505	505	505	505	505	505	505	505	480	385	125	100	25
246	221	196	170	145	120	94	69	44	23	10	4	1
10,410	10,410	10,410	10,410	10,410	10,410	10,410	10,410	10,410	10,410	3,550	880	500
5,223	4,702	4,182	3,661	3,141	2,620	2,100	1,579	1,059	538	189	47	13
37,685	35,415	33,945	32,015	32,015	32,015	32,015	32,015	32,015	32,010	32,010	17,145	8,385
18,674	16,815	15,081	13,432	11,831	10,230	8,629	7,029	5,428	3,827	2,227	848	210
27,930	27,280	26,705	24,980	24,980	24,980	24,980	24,980	24,980	24,985	24,985	22,040	18,865
15,525	14,129	12,779	11,487	10,238	8,989	7,740	6,491	5,242	3,993	2,744	1,494	472
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
10	10	10	10	10	10	0	0	0	0	0	0	0
3	2	2	1	1	0	0	0	0	0	0	0	0

General Obligation Debt

Scheduled Debt Service for Fiscal Years 2009 - 2028

($ In Thousands)

	Authorization Year-Chapter	Amount Outstanding 6/30/2008	2009	2010	2011	2012	2013	2014	2015
General Fund / Various Purpose									
	1992.558	**1,243**	**145**	**100**	**100**	**100**	**100**	**100**	**100**
		407	64	58	52	47	42	36	31
	1993.373	**880**	**80**	**65**	**65**	**65**	**65**	**65**	**65**
		326	46	42	39	35	32	28	25
	1994.643	**7,260**	**770**	**570**	**570**	**570**	**570**	**570**	**570**
		2,536	385	349	318	287	256	225	195
	1996.463	**195**	**90**	**15**	**15**	**15**	**15**	**5**	**5**
		33	8	5	4	3	3	2	2
	1997.246	**880**	**95**	**75**	**75**	**75**	**70**	**70**	**70**
		286	46	41	37	33	29	26	22
	1997X002	**70**	**70**	**0**	**0**	**0**	**0**	**0**	**0**
		2	2	0	0	0	0	0	0
	1998.404	**350**	**25**	**25**	**25**	**25**	**25**	**30**	**30**
		128	18	17	16	14	13	12	10
	1999.240	**18,071**	**1,466**	**1,465**	**1,465**	**1,430**	**1,425**	**1,425**	**1,425**
		6,267	942	864	785	708	632	556	479
	2000.479	**5,500**	**380**	**380**	**380**	**380**	**380**	**375**	**375**
		2,031	266	247	228	209	190	171	152
	2001X012	**3,935**	**350**	**350**	**350**	**355**	**205**	**205**	**205**
		1,442	191	174	156	139	121	111	101
	2002.374	**3,930**	**265**	**265**	**265**	**260**	**245**	**245**	**245**
		1,600	198	184	170	157	143	130	118
	2002.393	**32,470**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**
		13,794	1,588	1,490	1,392	1,295	1,197	1,099	1,002
	2002X001	**3,800**	**250**	**250**	**250**	**250**	**250**	**250**	**250**
		1,501	191	178	165	152	139	126	113
	2003X020	**1,065**	**65**	**65**	**70**	**70**	**65**	**65**	**65**
		431	52	48	45	42	38	35	32
	2005.020	**35,100**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**
		16,460	1,720	1,625	1,530	1,435	1,340	1,245	1,150
	2006.258	**38,500**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**
		18,788	1,888	1,788	1,688	1,588	1,488	1,388	1,288
Waste Management									
	1990.610	**110**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
		32	6	5	5	4	3	3	2
	1992.558	**910**	**65**	**65**	**65**	**65**	**65**	**65**	**65**
		319	44	41	37	34	31	28	24
	1996.463	**930**	**100**	**75**	**75**	**75**	**75**	**75**	**75**
		287	46	42	38	34	30	26	22
General Fund / Various Purpose	*Subtotals*	**3,432,684**	**307,363**	**296,843**	**281,850**	**274,750**	**264,600**	**236,130**	**220,350**
		1,243,8		150,283	135,652	121,749	108,340	95,675	84,181
Sports & Health									

Principal Payments in Bold Face

State of Minnesota
General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

Interest Payments in Medium Face

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
100	**98**	**95**	**95**	**95**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**
26	20	15	10	5	1	0	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**25**	**25**	**25**	**10**	**0**	**0**	**0**	**0**
21	18	14	11	7	4	2	1	0	0	0	0	0
570	**570**	**570**	**570**	**570**	**115**	**90**	**15**	**0**	**0**	**0**	**0**	**0**
164	133	102	71	40	8	3	0	0	0	0	0	0
5	**5**	**5**	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
2	1	1	1	1	0	0	0	0	0	0	0	0
70	**70**	**70**	**70**	**70**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
18	14	10	7	3	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
30	**30**	**30**	**25**	**25**	**10**	**10**	**5**	**0**	**0**	**0**	**0**	**0**
8	7	5	4	2	1	1	0	0	0	0	0	0
1,425	**1,425**	**1,425**	**1,425**	**1,425**	**510**	**190**	**65**	**65**	**15**	**0**	**0**	**0**
402	326	250	175	99	30	12	6	2	0	0	0	0
370	**370**	**365**	**365**	**365**	**365**	**365**	**90**	**90**	**85**	**20**	**0**	**0**
133	115	96	78	60	42	23	12	8	3	1	0	0
205	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**205**	**70**	**0**	**0**	**0**
91	80	70	60	50	39	29	19	9	2	0	0	0
245	**245**	**245**	**245**	**245**	**245**	**245**	**245**	**50**	**50**	**50**	**30**	**0**
105	92	79	67	54	41	28	16	8	6	3	1	0
1,940	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,940**	**1,690**	**790**	**790**	**50**	**50**
904	807	709	611	514	416	318	221	130	68	28	4	1
250	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**50**	**0**	**0**	**0**	**0**
100	87	74	61	48	35	22	9	1	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**5**	**5**	**5**	**0**
28	25	22	19	15	12	9	6	2	1	0	0	0
1,900	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**	**650**	**250**
1,055	960	865	770	675	580	485	390	295	200	105	29	6
2,000	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**1,500**	**1,000**
1,188	1,088	988	888	788	688	588	488	388	288	188	88	25
10	**10**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2	1	1	0	0	0	0	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**0**	**0**	**0**	**0**	**0**	**0**
21	18	15	11	8	5	2	0	0	0	0	0	0
75	**75**	**75**	**75**	**75**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
18	14	10	6	2	0	0	0	0	0	0	0	0
208,604	**185,970**	**175,660**	**153,900**	**144,960**	**131,765**	**122,210**	**104,190**	**95,975**	**87,515**	**68,050**	**42,825**	**29,175**
73,338	63,322	54,204	45,881	38,317	31,147	24,777	19,097	14,082	9,495	5,606	2,529	729

General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

($ In Thousands)

	Authorization Year-Chapter	Amount Outstanding 6/30/2008	2009	2010	2011	2012	2013	2014	2015
Sports & Health									
Refunding Bonds									
	16A.66	**260**	**140**	**120**	**0**	**0**	**0**	**0**	**0**
		13	10	3	0	0	0	0	0
Sports & Health	*Subtotals*	**260**	**140**	**120**	**0**	**0**	**0**	**0**	**0**
		13	10	3	0	0	0	0	0
Game & Fish									
Refunding Bonds									
	16A.66	**5**	**3**	**3**	**0**	**0**	**0**	**0**	**0**
		0	0	0	0	0	0	0	0
Game & Fish	*Subtotals*	**5**	**3**	**3**	**0**	**0**	**0**	**0**	**0**
		0	0	0	0	0	0	0	0
Trunk Highway									
Trunk Highway Bonds									
	2000.479	**70,850**	**5,105**	**5,105**	**5,105**	**5,105**	**5,095**	**5,095**	**5,095**
		25,148	3,491	3,229	2,965	2,703	2,442	2,180	1,916
	2002X001	**8,085**	**505**	**505**	**505**	**505**	**505**	**505**	**505**
		3,236	392	366	341	316	291	265	240
	2003X018	**85,005**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**
		34,224	4,119	3,855	3,591	3,326	3,062	2,798	2,534
	2003X019	**353,055**	**21,655**	**21,655**	**21,655**	**21,655**	**20,020**	**19,940**	**19,940**
		154,282	17,197	16,114	15,032	13,949	12,889	11,890	10,893
Trunk Highway	*Subtotals*	**516,995**	**32,550**	**32,550**	**32,550**	**32,550**	**30,905**	**30,825**	**30,825**
		216,890	25,199	23,564	21,929	20,294	18,684	17,133	15,583
IDF - Infrastructure Development									
State Bldg - Capital Improvement									
	1994.643	**2,220**	**895**	**125**	**120**	**120**	**120**	**120**	**120**
		473	92	66	60	54	47	41	35
	1996.463	**21,995**	**3,430**	**1,665**	**1,660**	**1,660**	**1,660**	**1,660**	**1,660**
		6,649	1,077	946	858	770	682	594	505
	1998.404	**36,295**	**2,900**	**2,745**	**2,745**	**2,745**	**2,745**	**2,745**	**2,745**
		12,494	1,825	1,677	1,532	1,388	1,245	1,101	956
Various Purpose									
	2000.492	**84,196**	**6,025**	**6,025**	**6,025**	**6,025**	**6,025**	**6,025**	**6,025**
		30,298	4,171	3,861	3,549	3,239	2,930	2,620	2,308
	2002.393	**91,040**	**5,930**	**5,930**	**5,930**	**5,930**	**5,930**	**5,930**	**5,930**
		35,987	4,531	4,226	3,921	3,615	3,310	3,005	2,700
	2003X020	**19,040**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**
		7,616	922	863	803	744	684	625	565
IDF - Infrastructure Development	*Subtotals*	**254,786**	**20,370**	**17,680**	**17,670**	**17,670**	**17,670**	**17,670**	**17,670**
		93,517	12,619	11,639	10,723	9,810	8,899	7,985	7,068
Maximum Effort									
Refunding Bonds									

General Obligation Debt

Scheduled Debt Service for Fiscal Years 2009 - 2028

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**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**	**3,595**	**770**	**120**	**45**	**45**	**0**	**0**
1,652	1,391	1,134	876	618	361	142	32	9	4	2	0	0
505	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**505**	**5**	**0**	**0**	**0**
215	190	164	139	114	89	63	38	13	0	0	0	0
5,285	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**5,285**	**185**	**185**	**75**	**0**
2,269	2,005	1,741	1,477	1,212	948	684	420	155	19	9	2	0
19,940	**19,565**	**19,110**	**19,050**	**19,050**	**19,050**	**19,050**	**19,050**	**19,050**	**17,600**	**11,600**	**3,770**	**650**
9,896	8,899	7,932	6,978	6,026	5,073	4,121	3,168	2,216	1,299	569	127	16
30,825	**30,450**	**29,995**	**29,935**	**29,935**	**29,935**	**28,435**	**25,610**	**24,960**	**17,835**	**11,830**	**3,845**	**650**
14,032	12,485	10,971	9,469	7,969	6,471	5,010	3,657	2,392	1,322	581	129	16
120	**120**	**120**	**120**	**120**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
28	22	16	9	3	0	0	0	0	0	0	0	0
1,660	**1,660**	**1,660**	**1,660**	**1,660**	**275**	**25**	**0**	**0**	**0**	**0**	**0**	**0**
417	329	242	154	66	8	1	0	0	0	0	0	0
2,745	**2,745**	**2,745**	**2,745**	**2,745**	**2,100**	**1,000**	**100**	**0**	**0**	**0**	**0**	**0**
810	666	526	384	242	108	30	3	0	0	0	0	0
6,021	**6,020**	**6,015**	**6,015**	**6,015**	**5,745**	**4,475**	**1,470**	**245**	**0**	**0**	**0**	**0**
1,996	1,686	1,380	1,073	766	461	202	51	6	0	0	0	0
5,925	**5,925**	**5,920**	**5,920**	**5,920**	**5,920**	**5,920**	**5,800**	**2,280**	**0**	**0**	**0**	**0**
2,394	2,089	1,784	1,480	1,175	870	565	263	57	0	0	0	0
1,190	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**0**	**0**	**0**	**0**
506	446	387	327	268	208	149	89	30	0	0	0	0
17,661	**17,660**	**17,650**	**17,650**	**17,650**	**15,230**	**12,610**	**8,560**	**3,715**	**0**	**0**	**0**	**0**
6,151	5,239	4,334	3,428	2,521	1,655	947	406	93	0	0	0	0

State of Minnesota
General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

($ In Thousands)

	Authorization Year-Chapter	Amount Outstanding 6/30/2008	2009	2010	2011	2012	2013	2014	2015
Maximum Effort									
	16A.66	**19,275**	**4,750**	**4,710**	**3,745**	**3,545**	**1,510**	**1,015**	**0**
		1,971	794	558	346	179	73	20	0
School Loans									
	2000.492	**11,375**	**805**	**805**	**805**	**805**	**805**	**805**	**805**
		4,056	553	512	472	431	391	350	310
	2001X012	**14,880**	**930**	**930**	**930**	**930**	**930**	**930**	**930**
		5,952	721	674	628	581	535	488	442
	2002.393	**10,045**	**620**	**620**	**620**	**620**	**620**	**620**	**620**
		4,072	487	456	425	394	363	332	301
	2005.020	**17,375**	**900**	**900**	**900**	**900**	**900**	**900**	**900**
		8,396	846	801	756	711	666	621	576
	2006.258	**7,400**	**370**	**370**	**370**	**370**	**370**	**370**	**370**
		3,700	361	342	324	305	287	268	250
Maximum Effort	*Subtotals*	**80,350**	**8,375**	**8,335**	**7,370**	**7,170**	**5,135**	**4,640**	**3,625**
		28,146	3,762	3,344	2,951	2,602	2,315	2,080	1,878
Grand Totals - Principal		**4,285,080**	**368,800**	**355,530**	**339,440**	**332,140**	**318,310**	**289,265**	**272,470**
Grand Totals - Interest		1,582,434	207,051	188,833	171,255	154,455	138,237	122,874	108,710

General Obligation Debt
Scheduled Debt Service for Fiscal Years 2009 - 2028

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0
805	**805**	**805**	**805**	**800**	**800**	**800**	**120**	**0**	**0**	**0**	**0**	**0**
269	229	188	147	107	67	26	3	0	0	0	0	0
930	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**930**	**0**	**0**	**0**	**0**
395	349	302	256	209	163	116	70	23	0	0	0	0
620	**620**	**620**	**620**	**620**	**620**	**620**	**615**	**620**	**130**	**0**	**0**	**0**
270	239	208	177	146	115	84	53	22	3	0	0	0
900	**900**	**900**	**900**	**900**	**900**	**900**	**900**	**900**	**900**	**900**	**800**	**375**
531	486	441	396	351	306	261	216	171	126	81	39	9
370	**370**	**370**	**370**	**370**	**370**	**370**	**370**	**370**	**370**	**370**	**370**	**370**
231	213	194	176	157	139	120	102	83	65	46	28	9
3,625	**3,625**	**3,625**	**3,625**	**3,620**	**3,620**	**3,620**	**2,935**	**2,820**	**1,400**	**1,270**	**1,170**	**745**
1,697	1,515	1,334	1,152	971	789	608	444	300	194	128	67	19
260,715	**237,705**	**226,930**	**205,110**	**196,165**	**180,550**	**166,875**	**141,295**	**127,470**	**106,750**	**81,150**	**47,840**	**30,570**
95,218	82,561	70,843	59,931	49,778	40,062	31,342	23,603	16,867	11,011	6,314	2,725	764

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APPENDIX C

Obligations of State Agencies and Contingent Liabilities

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of August 1, 2008, 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 August 1, 2008:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: August 1, 2008

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 08/01/2007 (in thousands)
Rental Housing	25	2.40% to 6.60%	2008-2047	$ 476,615	$ 194,880
Residential Housing Finance	53	2.50% to 6.51%	2007-2038	1,819,615	1,733,965
Single Family Mortgage	56	2.70% to 8.05%	2008-2035	1,278,885	279,345
	134			$3,575,115	$2,208,190

The payment of principal and interest on obligations of the Agency as shown above may be made, if necessary, from the MHFA's General Reserve Account.

University of Minnesota. The University of Minnesota was established by Territorial Laws 1851, Chapter 3, adopted by the legislative assembly of the Territory of Minnesota. Pursuant to authorization by Congress on February 26, 1857, the voters of the State approved and adopted a State constitution on October 13, 1857. The State was admitted to the union by act of Congress passed on May 11, 1858.

The State Constitution confirmed and fixed the existence of the University as a separate institution of the State, having all rights, immunities, franchises and endowments previously granted or confirmed, and all lands and donations thereafter given to it. The University is governed by a board of twelve regents who are elected by the Legislature, and is dependent upon appropriations by the Legislature to pay much of its instructional costs. The regents are a body corporate with the right to sue and be sued and to make contracts.

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of August 1, 2008 will be $759,286,521. 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 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 August 1, 2008, MOHE will have $527,000,000 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 August 1, 2008, the MnSCU will have $139,110,000 tax exempt bonds and $17,385,000 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 $3,561,541 and the other for $14,180,000. 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 August 1, 2008, the MHEFA will have $750,837,754 principal amount of bonds outstanding. Each issue is payable solely from and secured by a first lien on the revenues of the project financed, reserve funds and a guarantee of the institution for which the project is financed.

Minnesota State Armory Building Commission (MSABC). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed $15,000,000. As of August 1, 2008, the MSABC will have $5,881,600 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 Rural Finance Authority (RFA). In 1986 the Legislature created the Minnesota Rural Finance Authority and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of August 1, 2008, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Finance and Employee Relations is authorized to issue up to $171.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $158.1 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 August 1, 2008, the RFA had issued $34,910,000 of revenue bonds, including bonds of this issue, for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 and amended in 1994 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of August 1, 2008, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $842,755,000, Drinking Water Revenue Bonds, $147,205,000, and Transportation Revenue Bonds, $32,755,000, for a total outstanding amount of $1,022,715,000. 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, excluding bonds issued under Minnesota Statutes, Section 446.087.

Chapter 446A was amended in 2008 to create the Credit Enhanced Bond Program (446A.087). Minnesota counties and cities that have received grant funding from certain state programs may apply to MPFA for a limited state guarantee of bond payments on general obligation bonds issued to MPFA. If a county or city issuer is unable to make a debt service payment on bonds enrolled in the program, the state will make the payment, provided that funds are available in the State General Fund. If the State pays part or all of a bond payment, the issuer's full faith and credit pledge on the bonds automatically becomes a full faith and credit pledge to repay the State, with interest. The amount of debt outstanding under section 446A.087 must not exceed $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 August 1, 2008, MAEDB will have outstanding $15,085,000 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 $420,261,085 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 August 1, 2008 the IRRRA will have $12,885,000 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. NAI filed for bankruptcy on September 14, 2005. All of the revenue bonds outstanding were secured by the State's full faith and credit. In April 2007, the Commissioner of Finance agreed to enter into a settlement with Northwest Airlines regarding the Northwest Maintenance Facility at the Duluth Airport. The terms of the settlement required the State to return certain collateral to Northwest Airlines. In exchange, the State received general unsecured claims in the Northwest Airlines bankruptcy case which were sold for an amount sufficient to fully redeem the nearly $36 million of outstanding State revenue bonds. All the outstanding revenue bonds were called for redemption on July 16, 2007.

The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of state revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Finance sold $29,000,000 of the revenue bonds in June 2000. As of August 1, 2008, there will be $25,500,000 of Minnesota State Retirement System bonds outstanding.

The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of state revenue bonds. These revenue bonds are 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 2007 Legislature authorized an additional $186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is 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 August 1, 2008 there will be $32,410,000 of the 911 Revenue Bonds outstanding. The Commissioner currently anticipates the sale of an additional $40 million in the fall of 2008 to finance the continued funding of Phase 3 and the initial funding of the 2007 authorization.

State Standing Appropriations

Below is a description of standing appropriations from the General Fund. Pursuant to Minnesota law, each of these standing appropriations may be reduced or repealed entirely by a majority vote of the legislature and is subject to unallotment under Minnesota Statutes, Section 16A.152.

University of Minnesota. The Minnesota Legislature has approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the "U of M"). In 2006, the legislature appropriated from the General Fund $10.25 million in each of not more than 25 years, beginning in 2008, to the U of M for the payment of revenue bonds issued by the U of M to finance the approximately $280 million stadium. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M.

The Minnesota Legislature has approved State financial assistance for up to four biomedical science research facilities for the U of M. In 2008, the Legislature appropriated from the General Fund amounts ranging from $850,000 to $15.55 million in each year beginning in 2010, for up to 25 years after certification of the last facility, to the U of M for the payment of revenue bonds issued by the U of M to finance the facilities. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M.

Minnesota Housing Finance Agency (MHFA). The Minnesota Legislature created a program to finance the construction, acquisition, preservation, and rehabilitation of permanent supportive housing for individuals and families who are homeless or at risk of homelessness. In 2008, the legislature appropriated from the General Fund up to $2.4 million per year in each of 20 years, beginning in 2009, to MHFA for the payment of qualified 501(c)(3) bonds issued by MHFA for affordable housing.

EQUIPMENT FINANCING

The Commissioner of Finance is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of June 30, 2008, principal in the amount of $18,164,927 was outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent of moneys appropriated from time to time for this purpose.

Various State agencies, with the Commissioner of Finance's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of June 30, 2008, principal in the amount of $3,783,746 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 August 1, 2008, $6,630,000 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 $168,205,000 will be outstanding, on August 1, 2008. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above.

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 and intermediate school district certificates of indebtedness issued under Minnesota Statutes, Section 126C.52, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40 Subdivision 6, and school district and intermediate school district general obligation bonds, in the event that the school district or intermediate 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 or intermediate school district are required to be repaid by it with interest, by a reduction in state aid payable to the school district or intermediate school district or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

Under Minnesota Statutes, Section 126C.52, school districts and intermediate school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of June 30, 2008, there were approximately $196 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 and intermediate 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 and intermediate 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 ten years, and are payable from school district and intermediate 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 such school districts, but are payable from taxes levied annually in amounts necessary to pay the amounts due thereunder.

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate 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 June 30, 2008 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 Current Biennium the total amount of principal and interest outstanding as of June 30, 2008 is about $1.5 billion, with the maximum amount of principal and interest payable in any one month being $524 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 or intermediate 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 and intermediate school districts.

CITY AND COUNTY CREDIT ENHANCEMENT PROGRAM

Minnesota Statutes, Section 446A.086 (formerly Section 373.45), established a county bond credit enhancement program. The 2008 Legislature expanded the program to include cities and additional county bonds. The new program is effective August 1, 2008. The law authorizes and directs the Commissioner, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Minnesota Public Facilities Authority ("MPFA") to pay debt service coming due on county general obligation bonds, bonds to which the general obligation of a county has been pledged, and certain lease obligations, to provide funds for the construction of (i) jails, (ii) correctional facilities, (iii) law enforcement facilities, (iv) social services and human services facilities; (v) solid waste facilities; or (vi) qualified housing development projects. The expanded program now includes city or county general obligation bonds to provide funds for the construction, improvement, or rehabilitation of (i) wastewater facilities, (ii) drinking water facilities, (iii) stormwater facilities, or (iv) any publicly owned building or infrastructure improvement that has received partial funding from grants awarded by the Commissioner of Employment and Economic Development related to redevelopment, contaminated site cleanup, bioscience, small cities development programs, and rural business infrastructure programs, for which bonds are issued by the MPFA under Minnesota Statutes, Section 446A.087.[1]

To be eligible for the program, a city or county must have entered into an agreement with the MPFA, which requires notifications to the MPFA by the city or county or paying agent when funds are not sufficient to timely pay all or a portion of debt service on obligations issued under the program. The MPFA must notify the Commissioner of potential defaults, and the Commissioner then must issue a warrant and authorize the MPFA to pay to the bondholders or paying agent the amount necessary to pay in full debt service on credit-enhanced bonds when due. The law appropriates annually from the General Fund to the MPFA the amounts needed to pay any warrants issued by the Commissioner for this purpose. The amount of debt outstanding under this program may not exceed $500 million.

The amounts paid on behalf of any city or county are required to be repaid to the State 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 MPFA, or will be made mandatory by the MPFA if the State is not repaid in full by November 30 of the following calendar year.

As of June 30, 2008, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately $317 million. More bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the bonds enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of June 30, 2008, is $29.0 million with the maximum amount of principal and interest payable in any one month being $10.9 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 on behalf of cities or counties 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 cities or counties.

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(1) See "Minnesota Public Facilities Authority (MPFA)" on p. 3 of Appendix C for more information on MPFA bonds that may be credit enhanced under this program

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APPENDIX D

I. Project Description

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose.[1]

($ in Thousands)

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
2000, Chapter 492				
	Administration, Department of	Statewide	Statewide CAPRA	10,000
	Corrections, Department of	Stillwater	MCF-STW — Conversion to Health Services	1,800
	Corrections, Department of	Lino Lakes	MCF-LL — H-Building Remodel, Phase III	3,400
	Corrections, Department of	Bayport	Storm Sewer Project	2,680
	Human Services, Department of	St. Peter	SPRTC — Upgrade Shantz & Pextons Bldgs.	7,200
	Natural Resources, Department of	Two Harbors	Two Harbors Marina	1,000
	Natural Resources, Department of	Systemwide	Trail Acq. Dev. — Paul Bunyan Trail	1,750
	Natural Resources, Department of	Systemwide	State Park and Rec Area Acquisition	500
	Natural Resources, Department of	Systemwide	State Park & Rec Area Bldg Rehab	1,900
	Natural Resources, Department of	Systemwide	State Park & Rec Betterm't Rehab	1,500
	Natural Resources, Department of	Systemwide	Flood Hazard Mitigation Grants	14,000
	Natural Resources, Department of	Beltrami County	Big Bog State Rec Area	2,017
	Veterans Homes Board	Statewide	Asset Preservation	3,000
	Water & Soil Resources Board	Statewide	RIM Reserve — Habitat, Soil Cons, Water Quality	20,000
	Water & Soil Resources Board	Statewide	Local Gov't Roads Wetland Banking	2,300
	Water & Soil Resources Board	Statewide	RIM Reserve Reserve Programs (Non-CREP)	1,000
X2001, Chapter 12				
	WSRB	Statewide	Conservation Reserve Enhancement Program (CREP)	51,487
	DOA	Capitol Complex	State Office Building Exterior-Tuckpointing	2,200
	DOA	Capitol Complex	Capitol – Electrical Utility Infrastructure	1,200
2002, Chapter 374				
	BWSR	Systemwide	Local Road Replacement	300
	Administration	Statewide	2000 Asset Preservation	350
	Administration	Statewide	2000 Property Acquisition	450
	CAAPB	Capitol Complex	HHH Memorial	250
	Human Services	Systemwide	1998 Asset Preservation	1,500
2002, Chapter 393				
	MNSCU	Moorhead	Science Building	18,955
	DCFL	Red Lake	Red Lake Additions and Renovations	12,400
	MN State Academies	Faribault	Asset Preservation	1,500
	DNR	Statewide	Statewide Asset Preservation	2,600
	DNR	Statewide	Field Office Renovation and Improvement	1,000
	DNR	Statewide	State Park Initiative	23,500
	DNR	Statewide	Metro Regional Parks	6,000
	DNR	Statewide	Forest Roads and Bridges	1,200

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	DNR	Statewide	Luce Line	300
	DNR	Statewide	Douglas Trail	300
	DNR	Statewide	Willard Munger Trail	300
	DNR	Statewide	Well Sealing	600
	DNR	Statewide	Dam Repair, Reconstruction and Removal	650
	DNR	Statewide	Flood Hazard Mitigation Grants	30,000
	DNR	Statewide	RIM Critical Habitat	1,000
	Administration	Statewide	Statewide CAPRA	14,000
	Administration	Capitol Complex	Electrical Work	3,231
	Administration	St. Paul	New State Buildings	60,000
	Military Affairs	Systemwide	Asset Preservation and Kitchen Repair	2,500
	Military Affairs	Systemwide	ADA improvements	357
	Military Affairs	Systemwide	Facility Life Safety	1,000
	Transportation	Systemwide	Local Bridge Assistance	45,000
	Metropolitan Council	Metro	Northwest Metro Busway	20,000
	DHS	Systemwide	Systemwide Roof Replacement	2,789
	DHS	Systemwide	Systemwide Asset Preservation	4,000
	DHS	Systemwide	Systemwide Building Demolition	2,750
	DHS	Fergus Falls	Upgrade Program Facilities	3,000
	DHS	St. Peter	Convert Power to Low Pressure	3,619
	Vets Home	Hastings	Building Preservation	8,553
	Corrections	Lino Lakes	416 Bed Offender Housing	4,160
X2002, Chapter 1				
	Public Safety	Statewide	State and Local match of federal disaster assistance fund	8,300
	DTED	Statewide	Grant Flood Damage of Publicly Owned Property	2,000
	Finance	Statewide	Bond Sale Expense	115
X2003, Chapter 20				
	UofM	Minneapolis	Teaching & Technology Ctr	3,000
	UofM	Morris	Social Science Building	8,600
	MnSCU	Bemidji	Colocation BSU & NWTC	1,000
	MnSCU	Dakota	Information Tech & Telecommunication Ctr	500
	MnSCU	Inver Hills	One Stop Student Services Shop — Design	500
	MnSCU	Worthington	One Stop Student Services Shop	6,300
	MnSCU	Virginia	Science Lab/Resource Center/Classrooms	5,496
	MnSCU	Moorhead	NWTC-Allied Health and Applied Tech lab — Design	400
	MnSCU	Willmar	Ridgewater — Chemistry/Physics/Biology Labs	2,880
	MnSCU	Winona	TC — Student Service Area and Workforce Ctr	580
	MnSCU	SWSU	Library and New Entrance	9,200
	MnSCU	St. Cloud	SU-Centennial Hall Renovation	10,000
	CFL	Statewide	Library Access Grants	1,000
	CFL	St. Paul	Paul & Sheila Wellstone Community Ctr — Grant	5,000
	CFL	Moorhead	Trollwood Performing Arts School — Grant	5,500
	DNR	Systemwide	State Trail Acquisition & Development — Goodhou Pioneer Tr	475
	DNR	Systemwide	Stream Protection and Restoration	500
	DNR	Statewide	Scientific & Natural Area — Acquisition & Improvement	2,000
	DNR	Statewide	Native Prairie Bank Easements	1,000
	DNR	Statewide	Flood Hazard Mitigation Grants	3,000
	BWSR	Statewide	RIM Conservation Easements	1,000
	BWSR	Statewide	Wetland Replacement — Land Acquisition	2,700
	BWSR	Statewide	Lazarus Creek — MN River Basin Floodwater Retention Grant	1,400
	BWSR	Stillwater	Brown's Creek — Grant	1,300
	Arts	Minneapolis	Children's Theatre Company — Grant	5,000
	Arts	Minneapolis	Guthrie Theater — Grant	25,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Met Cncl	Systemwide	Northwest Busway Corridor — Design	1,000
	Health	Duluth	Community Dental Clinic	775
	DTED	Systemwide	Wastewater Infrastructure Program	15,000
	DTED	Statewide	Greater MN Business Development Grant Program	7,500
	DTED	St. Paul	Phalen Boulevard Land Acquisition — Grant	4,000
	DHS	Statewide	County & Local Preservation Grants	300
	DHS	Jackson	Fort Belmont — Grant	200
	DOF	Statewide	Bond Sale Expense	236
2005, Chapter 20				
	UofM	Systemwide	HEAPR	40,000
	UofM	Duluth	Life Science	10,100
	UofM	Duluth	Rec Sports Center	8,700
	UofM	Morris	District Facilities	5,800
	UofM	Minneapolis	TC Kolthoff Hall	17,400
	UofM	Minneapolis	TC Education Science	14,500
	UofM	St. Paul	Academic Health Center	11,600
	UofM	Grand Rapids	Research and Outreach	283
	MnSCU	Systemwide	HEAPR	41,500
	MnSCU	Anoka CC	Cambridge Academic Building Addition	10,483
	MnSCU	Bemidji	Bridgeman Hall	10,863
	MnSCU	Central Lakes TC	Heavy Equipment/Music	5,953
	MnSCU	Century College	Technology Center	4,888
	MnSCU	Century College	New Science and Library Design	1,000
	MnSCU	Dakota TC	Info & Telecom Renovation	7,387
	MnSCU	Fond du Lac CTC	Library design	635
	MnSCU	Inver Hills CC	CC Student Services	6,045
	MnSCU	Lake Superior	Academic and Student Services	11,243
	MnSCU	Minneapolis	CTC Health and Science Lab	900
	MnSCU	Winona	Student Services/Nursing	3,802
	MnSCU	Fergus Falls	Instruction, Fine Arts	7,604
	MnSCU	Moorhead	Science and Trades Addit	7,061
	MnSCU	Mankato	Science/Trafton Hall	2,560
	MnSCU	Moorhead	Hagen Hall Science Renovation	10,477
	MnSCU	Moorhead	McLean Hall Renov Design	500
	MnSCU	Northland CTC	Workforce Addition, Nursing Renov	2,156
	MnSCU	Riverland CTC	Science Lab Renovations	5,540
	MnSCU	Rochester CTC	Health Science Renovation	12,759
	MnSCU	St. Cloud	State Centennial Renovation	3,150
	MnSCU	St. Cloud	State Brown Science and Math Design	900
	MnSCU	St. Cloud	Tech Workforce Center Addition	15,056
	MnSCU	St. Paul	Construction Trades Renovation	10,993
	MnSCU	South Central TC	Tech Applied Lab	5,157
	MnSCU	Winona	Pasteur Hall Science Facility	11,118
	MnSCU	Systemwide	Science Renovations	6,668
	MnSCU	Systemwide	Workforce Classrooms	3,083
	MnSCU	Systemwide	Technology Upgrade	1,019
	MnSCU	Systemwide	Demolition	1,625
	MnSCU	Systemwide	Program Consolidation	1,173
	MnSCU	Systemwide	Land Acquisition	300
	Ctr for Arts Educ		Asset Preservation	558
	Ctr for Arts Educ		Beta Building Demolition	525
	Education	Red Lake	Maximum Effort School Loan	18,000
	Education	East Metro	Magnet School	1,083
	Education	Statewide	Library Capital Improvement Grants	1,000
	Education	Statewide	Early Childhood Facilities	500
	MN State Academies	Systemwide	Asset Preservation	4,255
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	27,000
	Natural Resources	Statewide	Dam Repair/Reconstruction/Removal	2,000
	Natural Resources	Statewide	Rim Critical Habitat Match	2,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Natural Resources	Statewide	RIM Wildlife Area Acquisition	10,000
	Natural Resources	Systemwide	Fisheries Acquisition and Improvement	1,050
	Natural Resources	Systemwide	Water Access/Fishing Piers	2,000
	Natural Resources	Red River	Canoe and Boating Routes	300
	Natural Resources	Statewide	Stream Protection	500
	Natural Resources	Systemwide	Reforestation	2,000
	Natural Resources	Statewide	Metro Greenways	500
	Natural Resources	Systemwide	Native Prairie Bank Easements	1,000
	Natural Resources	Systemwide	SNA Acquisition	7,910
	Natural Resources	Statewide	County Forest Reforestation	1,000
	Natural Resources	Systemwide	Fish Hatchery Improvements	1,700
	Natural Resources	Systemwide	RIM Wildlife Management Area Development	600
	Natural Resources	Systemwide	State Forest Land Acquisition	1,500
	Natural Resources	Systemwide	Forest Roads and Bridges	300
	Natural Resources	Systemwide	State Park Acquisition	2,500
	Natural Resources	Systemwide	State Park Building Development	1,800
	Natural Resources	Statewide	Local Initiative Grants	1,000
	Natural Resources	Lake Superior	Safe Harbors	2,000
	Natural Resources	Statewide	Asset Preservation	2,000
	Natural Resources	Systemwide	Field Office Renovations	300
	PCA	Statewide	Closed Landfill	10,000
	OEA	Statewide	Capital Assistance Program	4,000
	BWSR	Statewide	RIM Reserve and CREP	23,000
	BWSR	Statewide	Local Government Road Wetland Replacement	4,362
	BWSR	Statewide	Area 2 Minn River Flooding	500
	Agriculture	Statewide	Water Management Research Partnership	619
	Agriculture	Statewide	Joint Plant Pathology Research Facility	3,300
	MN Zoo	Apple Valley	Gateway of the North — New Exhibit	20,640
	MN Zoo	Apple Valley	Asset Preservation	2,000
	Administration	Statewide	CAPRA	3,000
	Administration	Statewide	Asset Preservation- Admin Properties	2,500
	Administration	Statewide	Parking	1,779
	CAAPB	St. Paul	Capitol Restoration Design	1,200
	CAAPB	St. Paul	Capitol Building Repair	1,170
	Military Affairs	Systemwide	Asset Preservation	3,000
	Military Affairs	Systemwide	Facility Life Safety	1,000
	Veteran's Affairs	St. Paul	WWII Monument	670
	Public Safety	Blue Earth	Fire and Police Station	642
	Transportation	Statewide	Local Bridge Replacement	40,000
	Transportation	Statewide	Local Road Improvement Grants	10,000
	Transportation	Statewide	Port Development	2,000
	Transportation	Systemwide	Northstar Commuter Rail	37,500
	Transportation	New Brighton	Rail Service Improvement Grants	2,500
	Transportation	Duluth	Aerial Lift Bridge	1,000
	Transportation	St. Paul	Holman Field Flood Protection	1,000
	Met Council	Minneapolis	Cedar Avenue Bus Rapid Transit	10,000
	Met Council	Minneapolis	Central Corridor	5,250
	Met Council	Hastings	Red Rock Corridor	500
	Met Council	St. Paul	Rush Line Corridor	500
	Met Council	Metropolitan	Regional Parks	14,664
	Human Services	St. Peter	New Facilities Sex Offender Program	3,259
	Human Services	St. Peter	Forensic Nursing Facility	8,600
	Human Services	Systemwide	Redevelopment/Demolition	9,000
	Human Services	Willmar	Regional Treatment Center Retrofit	900
	Human Services	Systemwide	Roof Repair	1,014
	Human Services	Systemwide	Asset Preservation	3,000
	Human Services	Systemwide	RTC Grave Markers	300
	Vet's Home Board	Systemwide	Asset Preservation	4,000
	Vet's Home Board	Luverne	Dementia Wander Area	306
	Vet's Home Board	Minneapolis	Adult Day Care	1,031

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Vet's Home Board	Willmar	Vets Home Predesign	100
	Corrections	Faribault	MCF Expansion	84,844
	Corrections	Stillwater	MCF 150 Bed Segregation Unit	3,500
	Corrections	Willow River	MCF Activities Building	2,000
	Corrections	Moose Lake	MCF CIP Expansion	350
	Corrections	Systemwide	Asset Preservation	8,000
	DEED	Statewide	US EPA Drinking Water/ Wastewater	14,380
	DEED	Statewide	Wastewater Infrastructure Funding	29,900
	DEED	Statewide	Total Maximum Daily Load Grants	2,000
	DEED	Austin	Flood Damage	2,000
	DEED	Bursnville	Water Treatment	3,000
	DEED	Crookston	Emergency Riverbank Protection	2,500
	DEED	Worthington	Lewis and Clark Rural Water System	2,000
	DEED	Roseau	Infrastructure Repair and Improvements	13,220
	DEED	Statewide	Rural Infrastructure	10,000
	DEED	Statewide	Redevelopment Grants	15,000
	DEED	Statewide	Bioscience Development	18,500
	DEED	Buffalo Lake	Maintenance Garage/Street Repair	690
	DEED	Detroit Lakes	Regional Pavillion	283
	DEED	Hibbing	Laurentian Energy Authority	2,000
	DEED	Minneapolis	Minnesota Planetarium	22,000
	DEED	Minneapolis	Shubert Theater	1,000
	DEED	Moorhead	Heritage Hjemkomst	1,000
	DEED	Big Island	Veteran's Camp	2,000
	DEED	Rochester	U of M/Mayo Biotech Research Facility	21,726
	DEED	St. Paul	Phalen Boulevard	4,000
	Housing Finance	Statewide	Permanent Supportive Housing Loans	12,000
	Housing Finance	Hennepin	County Housing	350
	Historical Society	Systemwide	Historic Sites Asset Preservation	4,000
	Historical Society	St. Paul	Fort Snelling Revitalization	1,000
	Historical Society	Statewide	County and Local Preservation Grants	1,000
	Finance	Statewide	Bond Sale Expenses	884
2006, Chapter 258				
	U of M	Systemwide	HEAPR	30,000
	U of M	Duluth	Labovitz School of Business	15,333
	U of M	Minneapolis	Carlson School of Management Expansion	26,600
	U of M	Minneapolis	Medical Research Building Phase 1	40,000
	U of M	Systemwide	Regional Centers and Stations	1,000
	U of M	Morrris	West Central Reasearch and Outreach	2,500
	U of M	Willmar	Poultry Testing Lab	300
	MnSCU	Systemwide	HEAPR	40,000
	MnSCU	Alexandria	TC Law Enforcement Ctr	400
	MnSCU	Bemidji	SU Sattgast Science Addition	700
	MnSCU	Maplewood	CTC New Science/Library Building	19,900
	MnSCU	Cloquet	TCC Library Addition and Cultural CTR	12,390
	MnSCU	Inver Grove Heights	CC Classrooms	700
	MnSCU	Duluth	CTC Health and Science Center	420
	MnSCU	St. Paul	SU Smart Classroom Center	300
	MnSCU	Minneapolis	MCTC Co-Located Law Enforcement CTR	350
	MnSCU	Minneapolis	CTC Science and Health Renovation	18,874
	MnSCU	Red Wing	MSC SETC Student Services, LRC	4,855
	MnSCU	Mankato	SU New Science Trafton Addition	32,900
	MnSCU	Moorhead	SU Lommen Hall Addition and Renovation	300
	MnSCU	Moorhead	SU MacLean Renovation	9,680
	MnSCU	Bloomington	CC Classroom Renovation	5,125
	MnSCU	Brooklyn Park	Business and Tech Addition	350
	MnSCU	East Grand Forks	CTC Nursing and Library	300
	MnSCU	Eveleth	NHED Industrial Shop	300
	MnSCU	St. Cloud	SU Math and Science Addition	14,000
	MnSCU	St. Cloud	SU Riverview Hall	4,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	MnSCU	St. Paul	Transportation and Applied Tech Lab	3,000
	MnSCU	Marshall	SU Science & HRI Lab	300
	MnSCU	Winona	SU Maxwell Hall	11,186
	MnSCU	Winona	SU Memorial Hall Expansion	400
	MnSCU	Systemwide	Demolition	1,660
	MnSCU	Systemwide	Science Lab and Workforce Initiatives	5,140
	MnSCU	Systemwide	Property Acquisition	3,400
	PCAE	Statewide	Asset Preservation	1,051
	Education	Nett Lake	Facility Construction	10,700
	Education	Statewide	Library Improvement Grants	1,000
	Education	Minneapolis	MacPhail Music School	5,000
	Education	Statewide	Early Childhood Facilities	500
	MSA	Faribault	Asset Preservation	2,509
	MSA	Faribault	MSAD Frechette Renovation	25
	Natural Resources	Statewide	Statewide Asset Preservation	2,000
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	25,000
	Natural Resources	Statewide	Dam Repair	2,250
	Natural Resources	Statewide	Stream Protection	2,000
	Natural Resources	Statewide	Water Access and Fishing Piers	3,000
	Natural Resources	Two Harbors	Lake Superior Safe Harbors	3,000
	Natural Resources	Statewide	Fisheries Acquisition and Improvement	2,000
	Natural Resources	Statewide	Fish Hatchery Improvements	1,000
	Natural Resources	Statewide	Wildlife Area Acquisition and Improvement	14,000
	Natural Resources	Statewide	Waterfowl Habitat	1,000
	Natural Resources	Statewide	Native Prairie Bank Easements	1,000
	Natural Resources	Statewide	SNA Acquisition and Development	2,000
	Natural Resources	Statewide	State Forest Land Acquisition	1,000
	Natural Resources	Statewide	Large Scale Forest Conservation Easements	7,000
	Natural Resources	Systemwide	State Land Reforestation	4,000
	Natural Resources	Systemwide	State Park and Rec Area Acquisition	3,000
	Natural Resources	Systemwide	State Park Infrastructure Rehab	3,000
	Natural Resources	Systemwide	State Park Building Rehab	3,000
	Natural Resources	Systemwide	State Park Camper Cabins	2,000
	Natural Resources	Statewide	State Trail Acquisition and Development	10,811
	Natural Resources	Statewide	Regional Trails Grants	1,133
	Natural Resources	Statewide	Trail Connections Grants	2,010
	Natural Resources	Metropolitan	Metro Greenways	500
	Natural Resources	Statewide	Local Community Grants	2,000
	Natural Resources	Systemwide	Forest Roads and Bridges	1,000
	Natural Resources	Statewide	Prairie Wetland ELC	2,000
	PCA	Statewide	Closed Landfill Bonding	10,800
	PCA	Statewide	Capital Assistance Program	4,000
	PCA	Koochiching	County Clean Energy Facility	2,500
	BWSR	Statewide	Local Government Road Wetland Replacement	3,500
	BWSR	Statewide	Streambank, Lakeshore Erosion Control	1,000
	BWSR	Statewide	Study Area II	500
	BWSR	Willmar	Grass Lake	2,200
	Agriculture	St. Paul	Joint Bio-Safety Lab	1,500
	MN Zoo	Apple Valley	Asset Preservation	7,500
	MN Zoo	Apple Valley	Zoo Master Plan/ New Exhibit	7,500
	Administration	Statewide	CAPRA	4,000
	Administration	Statewide	Asset Preservation	5,000
	Administration	St. Paul	Workers Memorial	100
	Administration	St. Paul	Hmong Veteran's Statue	150
	CAAPB	St. Paul	Capitol Building Restoration Phase I	2,400
	Military Affairs	Systemwide	Asset Preservation	4,000
	Military Affairs	Systemwide	Facility Life Safety	1,000
	Military Affairs	Systemwide	Range Lead Abatement	1,029
	Military Affairs	Systemwide	Facility ADA Requirements	1,400
	Military Affairs	Systemwide	Starbase MN	150

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Public Safety	Scott County	Public Safety Training facility	1,000
	Transportation	Statewide	Local Bridge Replacement	55,000
	Transportation	Statewide	Local Road Improvement Grants	16,000
	Transportation	Minneapolis	Northstar Commuter Rail	60,000
	Transportation	Duluth	St Louis County Northeastern Rail Initiative	1,300
	Transportation	Statewide	Rail Service Improvement	3,700
	Transportation	Statewide	Port Development	3,000
	Transportation	Statewide	Greater MN Transit	2,000
	Transportation	St. Cloud	Airport Land Acq	2,000
	Met Council	Minneapolis	I-35 Bus Rapid Transit	3,300
	Met Council	Bloomington	Cedar Avenue Busway	5,000
	Met Council	Metropolitan	Central Corridor	7,800
	Met Council	Metropolitan	Red Rock Corridor	500
	Met Council	St. Paul	Dakota County Robert Street Corridor	500
	Met Council	St. Paul	Ramsey County Union Depot	3,500
	Met Council	Metropolitan	Regional Parks Capital Improvements	35,362
	Human Services	Systemwide	Asset Preservation	3,000
	Human Services	Moose Lake	MSOP Expansion Phase I	41,321
	Human Services	St. Peter	New Program Building	2,500
	Human Services	Systemwide	Campus Security	5,000
	Human Services	Systemwide	Redevelopment	5,000
	Human Services	Systemwide	Roof Repair	1,500
	Vet's Home Brd	Systemwide	Asset Preservation	6,000
	Vet's Home Brd	Fergus Falls	Special Care Unit	637
	Vet's Home Brd	Hastings	Supportive Housing	700
	Vet's Home Brd	Luverne	Dementia Wander Area	599
	Vet's Home Brd	Minneapolis	Emergency Power	2,457
	Vet's Home Brd	Silver Bay	Master Plan	1,697
	Corrections	Systemwide	Asset Preservation	5,000
	Corrections	Faribault	Expansion Phase II	27,993
	Corrections	Lino Lakes	Medical Services	2,494
	Corrections	Red Wing	Education Building	623
	Corrections	Shakopee	Bed Expansion	5,375
	Corrections	Stillwater	150 Bed Segregation Unit	19,580
	DEED	Statewide	US EPA Drinking Water/Wastewater	38,800
	DEED	Statewide	Wastewater Infrastructure Fund WIF	23,000
	DEED	Hibbing	Central Iron Range Sanitary Sewer South Plant	2,500
	DEED	Statewide	Greater MN Business Development	7,750
	DEED	Statewide	Redevelopment Grants	9,000
	DEED	Statewide	Bioscience Business Development	10,000
	DEED	Minneapolis	Workforce Center Repair	600
	DEED	Statewide	PFA-Maximum Daily Load Grants	5,000
	DEED	Statewide	Clean Water Legacy	3,310
	DEED	Bemidji	Regional Events Center	3,000
	DEED	Burnsville	Water Treatment Facility	2,500
	DEED	Duluth	Lake Superior Zoo	600
	DEED	Itasca County	Steel Mill Infrastructure Grant	12,000
	DEED	Statewide	Lewis and Clark Water System	3,282
	DEED	Little Falls	Little Falls Zoo Grant	400
	DEED	Minneapolis	Lowry Ave Corridor	5,000
	DEED	Minneapolis	Shubert Theater	11,000
	DEED	MT Iron	Renewable Energy Park	500
	DEED	Redwood Falls	Reservoir Construction	1,600
	DEED	Roseville	Roseville Skating Oval	500
	DEED	St. Paul	Asian Community Center	400
	DEED	St. Paul	Ordway Center	7,500
	DEED	Marshall	Southwest Regional Event Center	11,000
	DEED	Virginia	Virginia Medical Helipad	600
	DEED	Willmar	Willmar Rice Hospital and Dental Clinic	500
	Housing Finance	Statewide	Transitional Housing	2,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Housing Finance	Statewide	Permanent Supportive Housing Loans	17,500
	Historical Society	Systemwide	Historic Sites Asset Preservation	3,000
	Historical Society	Metropolitan	Fort Snelling Revitalization	1,100
	Historical Society	Statewide	County and Local Asset Preservation	1,000
	Historical Society	St. Paul	History Center Upgrades	572
	Finance	Statewide	Bond Sale Expenses	947
2007, Chapter 16				
	Agriculture	Statewide	Rural Finance Authority Loans	30,000
Special Session 2007, Chapter 2				
	Public Safety	Statewide	Disaster Assistance Political Subdivision	13,000
	Transportation	Statewide	Trunk Highways and Bridges	20,000
	Transportation	Statewide	Local Road and Bridge Rehabilitation and Replacement	26,000
	Natural Resources	Statewide	State Facility Rehab and Replace	4,200
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	2,000
	BWSR	Statewide	RIM Conservation Easements	1,000
	DEED	Statewide	Public Infrastructure Grants	10,000
	Finance	Statewide	Bond Sale Expense	75
2008, Chapter 152				
	Transportation	Statewide	State Road Construction	1,717,694
	Transportation	Statewide	Great River Road	4,299
	Transportation	Statewide	Urban Partnership Agreement	24,778
	Transportation	Mankato	District Headquarters	23,983
	Transportation	Chaska	Chaska Truck Station	8,649
	Transportation	Rochester	Truck Station Design	2,000
	Met Coucil	Metropolitan	Urban Partnership Agreement	400
	Administration	St. Paul	Transportation Building Exterior Repair	18,197
	Finance	Statewide	Bond Sale Expense — Trunk Highway	1,800
	Transportation	Statewide	Local Bridge Replacement and Rehab	50,000
	Transportation	Statewide	Local Road Improvement Program	10,000
	Finance	Statewide	Bond Sale Expense — Bond Proceeds	60
2008, Chapter 179				
	U of M	Systemwide	HEAPR	35,000
	U of M	Minneapolis	Science teaching student services	48,333
	U of M	Duluth	Civil engineering addition	10,000
	U of M	Morris	Community services building renovation	5,000
	U of M	Systemwide	Research and Outreach Centers	3,500
	U of M	Systemwide	General laboratory renovation	3,333
	MnSCU	Systemwide	HEAPR	55,000
	MnSCU	Alexandria	TC — law enforcement center addition	10,500
	MnSCU	Anoka	CC — classroom bldg addition, design, const	3,800
	MnSCU	Bemidji	SU — Sattgast Science Bldg addition and ren.	8,900
	MnSCU	White Bear	Century College — renovation	7,900
	MnSCU	Dakota	TC — Transportation and emerging tech lab	200
	MnSCU	Minneapolis	Design and renovate science addit; LRC	2,400
	MnSCU	Inver Grove	Classroom addition and ren.	13,200
	MnSCU	Minneapolis	Metro State Univ / MCTC — law enforcement	13,900
	MnSCU	Minneapolis	MCTC — workforce program and infrastructure ren design	400
	MnSCU	Mankato	Trafton Hall, MSU	25,500
	MnSCU	Moorhead	Lommen Hall renovation	13,100
	MnSCU	Moorhead	Livingston Lord Library ren and des	400
	MnSCU	Worthington	Field house design	450
	MnSCU	Moorhead	Trades addit and LRC	2,500
	MnSCU	Edina	Classroom addition and ren.	7,000
	MnSCU	Anoka	Bioscience / health	900
	MnSCU	E.Grand Forks	Addition and renovatation	7,800
	MnSCU	Owatonna	Land acquisition	3,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	MnSCU	Ridgewater	Tech instruction design and const; ren des	3,500
	MnSCU	Rochester	Workforce ctr co-location	200
	MnSCU	St. Cloud	Classroom renovation and addition design	400
	MnSCU	St. Cloud	Brown Hall Science renovation	14,800
	MnSCU	St. Cloud	Integrated science and engineering lab design	900
	MnSCU	St. Cloud TC	Allied health bldg renovation des	200
	MnSCU	St. Paul Coll.	Transportation and applied tech lab	13,500
	MnSCU	Marshall	Science, hotel, and restaurant admin ren	9,000
	MnSCU	Marshall	Science lab renovation design	200
	MnSCU	Winona	Memorial Hall	8,400
	MnSCU	Systemwide	Science lab renovations	5,775
	Education	Osseo	Hennepin Regional Family Service Ctr.	2,000
	Education	Statewide	Library accessibility and improvement grants	1,500
	MN State Academies	Faribault	Asset preservation	2,400
	MN State Academies	Faribault	MSAD Frechette predesign	100
	MN State Academies	Faribault	MSAD Mott Hall (vocational building)	100
	MN State Academies	Faribault	MSAD Pollard Hall renovation	200
	Ctr for Arts Educ.	Golden Valley	Asset preservation	355
	Natural Resources	Systemwide	Asset preservation	1,000
	Natural Resources	Statewide	Flood hazard mitigation grants	30,000
	Natural Resources	Statewide	Groundwater monitoring, observation wells	500
	Natural Resources	Statewide	Dam renovation and removal	2,000
	Natural Resources	Statewide	Water control structures	500
	Natural Resources	Statewide	Mississippi river barrier	500
	Natural Resources	Statewide	Stream protection and restoration	1,000
	Natural Resources	Statewide	Shoreline and aquatic habitat acquisition	1,000
	Natural Resources	Wabasha	Lake Zumbro restoration	175
	Natural Resources	Systemwide	Water access acquisition / fishing piers	650
	Natural Resources	Systemwide	Fish hatchery improvements	1,500
	Natural Resources	Systemwide	Wildlife area acquisition and improvement	5,000
	Natural Resources	Statewide	RIM critical habitat match	3,000
	Natural Resources	Systemwide	Native prairie conservation and protection	4,000
	Natural Resources	Systemwide	SNA acquisition and development	1,000
	Natural Resources	Systemwide	Forest land conservation easements	3,000
	Natural Resources	Systemwide	State forest land reforestation	3,000
	Natural Resources	Systemwide	Forest roads and bridges	1,000
	Natural Resources	Statewide	Diseased shade tree removal and replacement	500
	Natural Resources	Systemwide	State Park Development	19,041
	Natural Resources	Statewide	Big Bog state recreation area	1,600
	Natural Resources	St. Paul	Fort Snelling upper bluff	500
	Natural Resources	Systemwide	State parks, prairies, and forestry restoration	545
	Natural Resources	Systemwide	Regional and local parks grants	1,621
	Natural Resources	Systemwide	State trail acquisition and development	15,320
	Natural Resources	Statewide	Regional and local trails grants	156
	Natural Resources	Systemwide	Trail connections	697
	Natural Resources	Systemwide	Drill core library and field office consolidation, ren.	500
	PCA	Albert Lea	Remedial systems, Albert Lea	2,500
	BWSR	Statewide	RIM reserve	25,000
	BWSR	Statewide	Wetland replacement due to public road projects	4,200
	BWSR	Statewide	Clean Water Legacy	1,275
	Agriculture	E.Grand Fork	Seed potato inspection building	20
	MN Zoo	Apple Valley	Asset preservation	2,500
	Administration	St. Paul	Property acquisition	2,325
	Administration	St. Paul	State Capitol building restoration	13,400
	Military Affairs	Systemwide	Asset preservation	3,500
	Military Affairs	Systemwide	Facility life safety	1,000
	Military Affairs	Systemwide	ADA alterations	1,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
	Public Safety	Anoka	Forensic crime lab	3,000
	Public Safety	Camp Ripley	Public safety training facility	5,000
	Public Safety	Marshall	Emergency response and training center	300
	Public Safety	Scott Cty	Public safety training facility	1,000
	Public Safety	Rochester	Regional public safety training center	3,655
	Transportation	Statewide	Local bridges replacement	2,000
	Transportation	Statewide	Greater MN transit	1,000
	Transportation	Norwood	Railroad track rehabilitation	3,000
	Met Council	Systemwide	Urban partnership agreement (UPA)	16,672
	Met Council	Systemwide	Cedar Avenue BRT	4,000
	Met Council	Systemwide	Metropolitan regional parks	10,500
	Met Council	Systemwide	Dakota County — North urban regional trail	1,400
	Met Council	Systemwide	Minnehaha Creek (In DNR — House)	2,900
	Met Council	Systemwide	Tamarack Nature Center	745
	Human Services	Systemwide	Asset preservation / safety and security	3,000
	Human Services	Systemwide	Campus redevelopment/reuse/demolition	3,400
	Human Services	Pope Cty.	Chemical dependency treatment facility	150
	Human Services	Minneapolis	Hennepin County Medical Center	820
	Human Services	Systemwide	Remembering with Dignity	135
	Vet's Home Board	Systemwide	Asset preservation	4,000
	Vet's Home Board	Fergus Falls	Special care unit	2,700
	Vet's Home Board	Minneapolis	Campus HVAC upgrade	3,955
	Vet's Home Board	Silver Bay	Master plan renovation	227
	Vet's Home Board	Eden Prairie	Veterans memorial	100
	Vet's Home Board	Minneapolis	Veterans memorial, All Wars	100
	Vet's Home Board	Richfield	Veterans Memorial, All Veterans	100
	Vet's Home Board	Virginia	Veterans Memorial	100
	Corrections	Systemwide	Asset preservation	10,000
	Corrections	Faribault	MCF — expansion	16,000
	Corrections	Red Wing	MCF — vocational building	6,000
	DEED	Statewide	Greater MN business dev public infras grant program	7,000
	DEED	Statewide	Bioscience business dev public infras grant program	9,000
	DEED	Statewide	Redevelopment grant program	7,750
	DEED	Bemidji	Regional Event Center (BREC)	20,000
	DEED	Crookston	Ice arena (In DNR — House)	10,000
	DEED	Duluth	DECC/UMD Arena	38,000
	DEED	Nashwauk	Itasca county infrastructure	28,000
	DEED	Rochester	Mayo Civic Center	3,500
	DEED	Roseville	John Rose OVAL	600
	DEED	Saint Cloud	Convention center	2,000
	DEED	Saint Cloud	State University — National Hockey Center	6,500
	Public Facilities	Statewide	State Match capitalization grants	30,000
	Public Facilities	Statewide	Wastewater infrastructure fund	15,300
	Public Facilities	Statewide	Total maximum daily load grants	2,000
	Public Facilities	Statewide	Small community wastewater treatment	1,500
	Public Facilities	Bayport	Storm sewer	150
	Housing Finance	Statewide	Emergency shelter / Transitional housing	1,000
	Historical Society	Systemwide	Historic sites asset preservation	4,000
	Historical Society	Minneapolis	Historic Fort Snelling visitor center and site revitalization	3,000
	Historical Society	Systemwide	County and local historic preservation grants	1,600
	Historical Society	St. Paul	Oliver H. Kelly Farm revitalization	300
	Historical Society	Systemwide	Heritage trails	294
	Finance	Statewide	Bond Sale Expenses	998

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation
2008, Chapter 365				
	Natural Resources	Systemwide	Asset Preservation	3,400
	Natural Resources	Lake Vermilion	Lake Vermilion State Park Land Acquisition	20,000
	Metro Council	Minneapolis	Central Corridor Transit Way	70,000
	Metro Council	Bloomington	Old Cedar Avenue Bridge	2,000
	Veteran Affair	Minneapolis	Building 9 Demolition	1,000
	Veteran Affair	Minneapolis	New Nursing Facility	9,100

(1) In the Order authorizing the issuance of the Bonds the Commissioner of Finance and Employee Relations has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled ''Authorization and Purpose'' and on page B-2 of Appendix B. (See Appendix B page B-3).

II. Schedule of Bonds Being Refunded

Certain proceeds of the Series 2008C Bonds will be used to refund the General Obligation State Various Purpose Bonds dated August 1, 1999, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2010 will be called for redemption and prepayment on August 1, 2009 at par plus accrued interest.

Maturing August 1	Principal Amount	Interest Rate
2010	$ 7,500,000	5.25%
2011	7,500,000	5.25%
2012	7,500,000	5.25%
2013	7,500,000	5.25%
2014	7,500,000	5.25%
2015	7,500,000	5.25%
2016	7,500,000	5.25%
2017	7,500,000	5.25%
2018	7,500,000	5.25%
2019	7,500,000	5.25%
	$75,000,000	

Certain proceeds of the Series 2008C Bonds will be used to refund the General Obligation State Various Purpose Bonds dated June 1, 2000, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after June 1, 2011 will be called for redemption and prepayment on June 1, 2010 at par plus accrued interest.

Maturing June 1	Principal Amount	Interest Rate
2011	$ 8,115,000	5.50%
2012	8,115,000	5.50%
2013	8,115,000	5.50%
2014	8,115,000	5.50%
2015	8,115,000	5.50%
2016	8,115,000	5.50%
2017	8,115,000	5.50%
2018	8,115,000	5.50%
2019	8,115,000	5.625%
2020	8,115,000	5.625%
	$81,150,000	

APPENDIX E

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
END OF 2008 LEGISLATIVE SESSION
Fiscal Year Ending June 30, 2008
(Dollars in Thousands)

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Total
Beginning Cash Balance	$4,092,440	$3,504,926	$2,798,010	$3,108,962	$2,907,893	$2,760,484	$2,923,831	$3,445,118	$2,868,835	$2,663,816	$3,034,823	$2,835,799	
Receipts:													
Individual Income Tax	$ 513,764	$ 530,492	$ 740,632	$ 516,896	$ 511,266	$ 647,334	$1,006,749	$ 195,663	$ 469,712	$1,303,370	$ 569,701	$ 736,556	$ 7,742,135
Corporate & Bank Excise	5,758	30,665	208,740	50,773	14,458	193,996	(885)	(9,783)	254,242	48,812	43,349	86,779	926,904
Sales and Use Taxes	193,445	449,213	410,299	400,650	393,392	369,983	428,058	354,304	310,001	364,826	352,037	601,688	4,627,896
Statewide Property Tax	118,823	24	-	540	10,185	301,178	5,381	251	5	56	111	384,659	821,213
Motor Vehicle Taxes	31,181	37,608	22,655	27,997	21,959	19,004	26,652	19,365	25,449	32,543	28,588	27,818	320,819
Tobacco Product Taxes	(20,120)	25,810	28,477	15,415	14,577	11,781	17,506	16,267	31,499	(1,977)	20,524	19,072	178,831
Insurance Taxes	785	4,871	72,861	2,138	2,396	77,808	542	22,249	87,286	1,950	1,362	64,551	338,799
Other Excise Taxes	114,158	85,905	78,966	122,637	88,022	132,572	143,142	84,746	68,187	134,372	89,965	89,413	1,232,085
Investment Earnings	14,440	17,451	15,173	13,479	15,563	12,858	13,236	13,633	10,957	8,985	7,423	19,336	162,534
Tobacco Settlement	-	-	-	-	-	181,904	-	-	-	-	-	-	181,904
Inter-governmental Grants	15,355	15,555	10,528	9,888	5,623	13,092	16,548	11,942	14,067	14,639	9,723	5,082	142,042
Other Sources	234,025	323,086	385,286	244,974	237,954	231,554	428,129	242,871	187,864	229,981	258,291	208,259	3,212,274
Subtotal Receipts	$1,221,614	$1,520,680	$1,973,617	$1,405,387	$1,315,395	$2,193,064	$2,085,058	$ 951,508	$1,459,269	$2,137,557	$1,381,074	$2,243,213	$19,887,435
Total Resources	$5,314,054	$5,025,606	$4,771,627	$4,514,349	$4,223,288	$4,953,548	$5,008,889	$4,396,626	$4,328,104	$4,801,373	$4,415,897	$5,079,012	
Expenditures:													
State Payroll	$ 231,209	$ 306,474	$ 229,175	$ 227,170	$ 228,099	$ 229,019	$ 234,453	$ 329,322	$ 233,705	$ 237,099	$ 256,231	$ 228,216	$ 2,970,172
Agency Operations	188,480	161,608	119,267	136,224	121,058	116,780	128,211	115,460	120,226	118,698	132,822	151,681	1,610,515
Aid to School Districts	239,520	1,027,136	602,369	395,410	179,554	567,625	683,084	605,597	777,309	795,167	615,574	425,589	6,913,935
Aid to Cities	255,874	26,357	81,098	50,993	10,093	288,741	15,836	7,004	3,934	2,049	11,563	13,695	767,237
Aid to Counties	228,239	48,836	41,597	95,973	26,005	225,537	63,810	36,868	50,861	32,344	28,717	30,788	909,575
Aid to Higher Education Institutions	110,832	101,450	41,470	74,310	78,221	174,994	116,950	11,094	71,941	136,225	65,879	53,806	1,037,172
Aid to Non-Gov't Organizations	23,330	33,604	17,174	37,941	22,794	45,265	31,261	28,086	14,827	20,522	21,686	20,824	317,314
Aid to Special Districts	28,192	17,809	36,937	28,496	16,140	30,107	21,508	25,996	18,685	21,126	22,336	16,946	284,278
Payments to Individuals	491,775	498,209	490,410	555,424	346,701	342,784	259,639	365,772	368,894	399,429	420,168	432,957	4,972,162
Other	11,677	6,113	3,168	4,515	24,139	8,865	9,019	2,592	3,906	3,891	5,122	9,818	92,824
Debt Service	-	-	-	-	410,000	-	-	-	-	-	-	-	410,000
Total Expenditures	$1,809,128	$2,227,596	$1,662,665	$1,606,456	$1,462,804	$2,029,717	$1,563,771	$1,527,791	$1,664,288	$1,766,550	$1,580,098	$1,384,321	$20,285,184
Ending Cash Balance	$3,504,926	$2,798,010	$3,108,962	$2,907,893	$2,760,484	$2,923,831	$3,445,118	$2,868,835	$2,663,816	$3,034,823	$2,835,799	$3,694,691	
Minimum Statutory Cash Balance for the Month	$3,126,314	$2,702,987	$2,625,632	$2,606,951	$2,614,380	$2,565,594	$2,694,103	$2,753,324	$2,417,930	$1,994,247	$2,364,881	$2,168,128	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
END OF 2008 LEGISLATIVE SESSION
Fiscal Year Ending June 30, 2009
(Dollars in Thousands)

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	May-09	May-09	Jun-09	Total
Beginning Cash Balance	$3,694,691	$3,056,008	$2,220,010	$2,374,151	$2,231,653	$1,892,689	$2,254,158	$2,484,910	$2,226,663	$2,066,242	$1,934,197	$1,509,838	
Receipts:													
Individual Income Tax	$ 543,296	$ 439,155	$ 786,269	$ 602,354	$ 449,049	$ 697,337	$ 997,595	$ 409,290	$ 509,303	$ 872,140	$ 515,501	$ 810,697	$ 7,631,985
Corporate & Bank Excise	28,212	8,439	168,679	40,422	3,620	159,264	30,829	22,627	269,350	43,093	35,387	139,592	949,513
Sales and Use Taxes	177,083	426,367	399,974	410,637	373,731	364,510	432,685	351,718	298,889	368,020	341,133	629,186	4,573,933
Statewide Property Tax	104	-	-	-	1,312	319,435	4,464	-	-	-	-	413,810	739,125
Motor Vehicle Taxes	22,047	22,594	21,604	21,981	17,794	17,255	16,278	15,613	17,391	21,518	22,172	24,310	240,557
Tobacco Product Taxes	1,375	17,402	17,788	17,667	(12,872)	49,289	17,486	17,607	17,346	17,466	17,808	40,610	218,972
Insurance Taxes	332	6,218	71,368	1,651	2,963	71,227	792	8,940	91,062	613	1,528	66,319	323,013
Other Excise Taxes	108,154	91,889	69,565	124,957	74,184	67,978	131,310	83,771	62,029	139,956	70,643	93,416	1,117,853
Investment Earnings	4,540	10,005	13,595	5,756	5,763	5,473	4,724	6,170	6,561	6,893	6,512	10,596	86,590
Tobacco Settlement	-	-	-	-	-	180,987	-	-	-	-	-	-	180,987
Inter-governmental Grants	8,578	6,760	7,328	8,211	4,903	5,709	6,472	4,439	4,545	5,063	3,389	5,188	70,585
Other Sources	239,112	323,266	311,201	200,911	206,951	312,180	416,001	226,574	193,093	180,457	240,400	217,294	3,067,440
Subtotal Receipts	$1,132,835	$1,352,095	$1,867,370	$1,434,548	$1,127,398	$2,250,644	$2,058,638	$1,146,747	$1,469,568	$1,655,220	$1,254,473	$2,451,019	$19,200,554
Total Resources	$4,827,526	$4,408,103	$4,087,381	$3,808,700	$3,359,051	$4,143,333	$4,312,796	$3,631,657	$3,696,231	$3,721,462	$3,188,670	$3,960,856	
Expenditures:													
State Payroll	$ 237,721	$ 324,595	$ 214,911	$ 231,416	$ 230,743	$ 216,407	$ 338,893	$ 182,255	$ 272,600	$ 240,551	$ 243,072	$ 229,174	$ 2,962,338
Agency Operations	159,006	146,300	115,312	146,125	117,799	113,518	138,466	103,061	128,649	126,666	145,285	161,170	1,601,358
Aid to School Districts	176,929	985,100	653,606	397,334	172,928	584,602	695,733	651,053	790,093	820,673	713,473	365,146	7,006,671
Aid to Cities	270,587	9,857	89,195	46,546	13,037	314,252	12,376	2,708	4,724	3,306	4,328	4,285	775,200
Aid to Counties	257,211	56,464	28,210	90,018	45,945	26,444	218,787	35,147	33,278	34,086	42,641	15,602	883,832
Aid to Higher Education Institutions	96,057	88,160	21,264	53,680	111,546	79,815	91,592	13,143	7,335	108,682	97,011	51,635	819,920
Aid to Non-Gov't Organizations	31,789	33,284	22,171	66,640	25,942	28,821	22,255	28,846	17,925	23,419	28,439	22,388	351,920
Aid to Special Districts	42,427	21,054	20,627	21,159	37,280	18,142	38,721	11,441	12,362	36,372	23,421	17,626	300,631
Payments to Individuals	495,754	514,739	545,727	520,910	223,303	503,142	264,266	373,174	359,445	389,409	379,035	313,251	4,882,155
Other	4,036	8,540	2,207	3,219	26,637	4,031	6,798	4,167	3,578	4,101	2,127	7,176	76,617
Debt Service	-	-	-	-	461,202	-	-	-	-	-	-	-	461,202
Total Expenditures	$1,771,518	$2,188,093	$1,713,229	$1,577,047	$1,466,362	$1,889,174	$1,827,886	$1,404,995	$1,629,989	$1,787,265	$1,678,833	$1,187,453	$20,121,843
Ending Cash Balance	$3,056,008	$2,220,010	$2,374,151	$2,231,653	$1,892,689	$2,254,158	$2,484,910	$2,226,663	$2,066,242	$1,934,197	$1,509,838	$2,773,403	
Minimum Statutory Cash Balance for the Month	$2,745,347	$1,978,482	$1,974,731	$2,000,572	$1,759,543	$1,547,966	$1,885,846	$2,034,260	$1,719,079	$1,320,324	$1,367,768	$ 935,691	

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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 Department of Finance was created in 1973. Minnesota voters approved a constitutional amendment in November 1998 that eliminated the Office of the State Treasurer as of January 6, 2003. The duties of the State Treasurer were transferred to the Commissioner of Finance on January 6, 2003 by administrative order. On June 1, 2008, the Department of Finance completed a merger with the Department of Employee Relations, resulting in the Commissioner of Finance assuming many of the duties related to human resource management, employee insurance and collective bargaining on behalf of the State as an employer. After the merger, the Department was renamed the Department of Finance and Employee Relations.

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 Commissioner is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Included in the financial duties of the Commissioner are:

Preparation of State biennial budget and capital budget.

Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.

Administration of the State payroll system.

Sale and issuance of State general obligation and certain revenue bonds, general obligation certificates of indebtedness, and equipment lease purchase financings.

Preparation of periodic and special reports on the financial affairs of the State.

Operation and control of allotment system (annual agency operating budgets).

Preparation of revenue, expenditure and cash flow estimates.

Banking and cash management activities.

To receive and account for all moneys paid into the State treasury properly disbursed or invested.

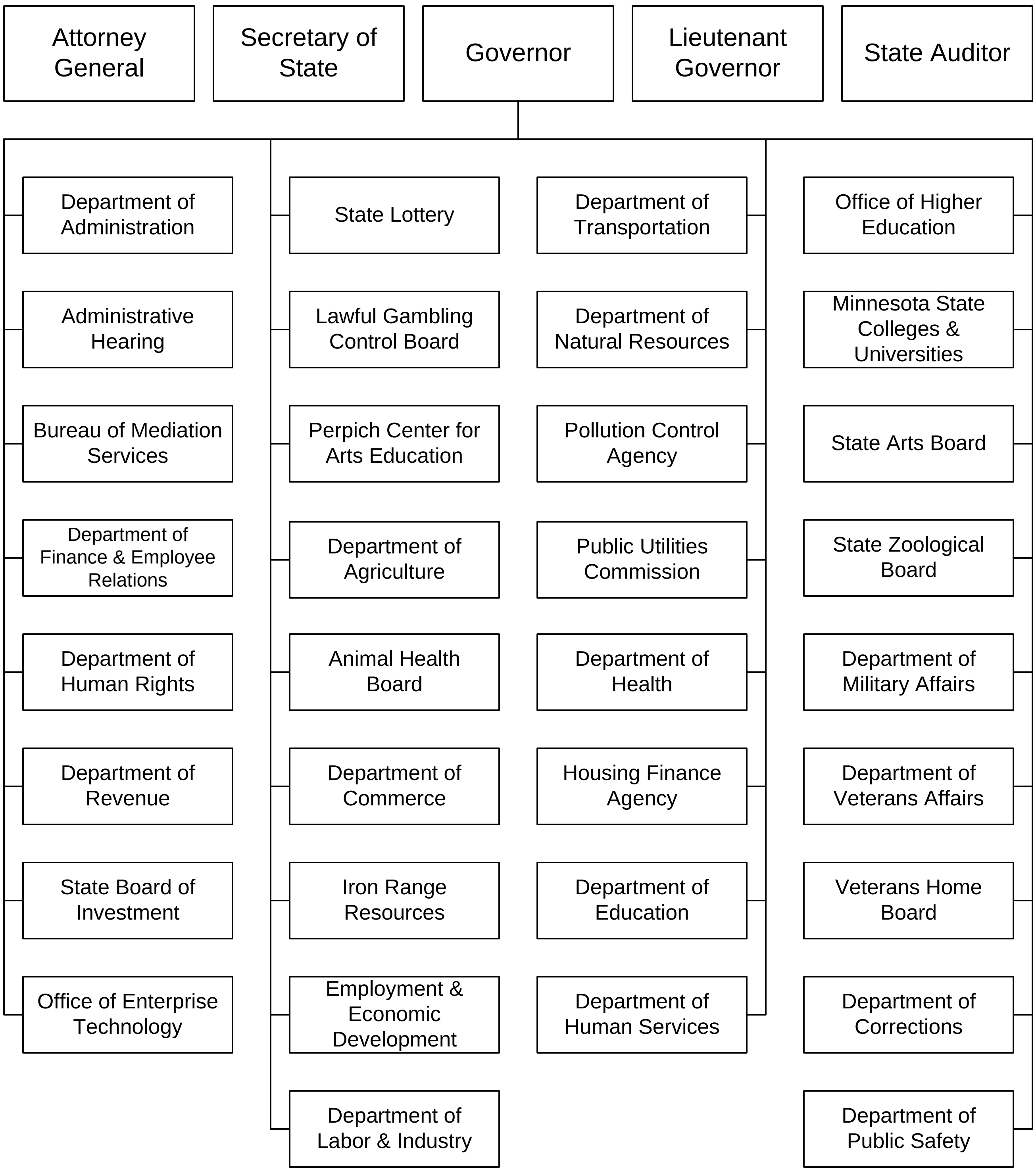
Negotiation and administration of bargaining agreements and compensation plans.

Development and management of employee, retiree and dependent insurance benefits.

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 2007 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 has a total of 16 bargaining units for State employees which includes three faculty bargaining units negotiated and maintained by the Minnesota State Colleges and Universities System. Each odd numbered-year, the State Department of Finance and Employee Relations negotiates the terms and conditions of employment with the seven exclusive representatives for employees covered by one of the 13 non-faculty labor agreements for executive branch state employees. The Department also develops two compensation plans for employees not represented by a bargaining unit. All contracts and compensation plans are subject to review and approval by the Legislature.

The State has voluntary agreements with AFSCME (7 units-craft, service, health care non-professional, clerical, technical, correctional officers and radio communications operators), MAPE, MGEC, MLEA, MMA, SRSEA, and IFO for the Current Biennium employee contracts. Three agreements remain unsettled and continue in negotiations (MNA, MSCF, MSUAF). Previous Biennium agreements expired on June 30, 2007, and will remain in effect until subsequent agreements are reached.

Following is a summary that shows the number of employees assigned to state bargaining units.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of April 2008
AFSCME (7 bargaining units)	18,180
MN Association of Professional Employees (MAPE)	11,900
Middle Management Association (MMA)	2,880
MN Government Engineers Council (MGEC)	860
MN Nurses Association (MNA)	770
MN Law Enforcement Association (MLEA)	720
State Residential Schools Education Association (SRSEA)	190
State College Faculty Association (MSCF)	5,260
State University Interfaculty Organization (IFO)	3,770
State University Admin and Service Faculty (MSUAF)	690
Total Represented Employees	45,220
Total State Employment	52,120
Percent of All Executive Branch Employees Unionized	87%

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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 2006 legislation on the State Teachers' Retirement Fund. Additionally, Table G-3 presents summary data on the financial condition of the plans. 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 and Employee Relations.

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.* 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	$ 829	$ 879	$ 924
Legislators' Retirement Plan(1)	8,276	4,230	3,348
Minneapolis Employees Retirement Fund(2)	17,065	18,000	18,000
Basic Local Police & Fire Association(3)	177,391	181,216	200,127
Local Police or Fire Associations Amortization	10,182	5,554	4,034
Public Employees Retirement Association Aid	29,129	29,068	29,068
Teachers' Retirement Association(4)	31,570	31,600	31,600
St. Paul Teachers' Retirement Association(5)	5,936	5,934	5,934
TOTAL	$280,377	$276,481	$293,035

(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 Teachers' 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.

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%
Teachers' Retirement Association Post-Consolidation: Actual, 7/1/2007	$18,794	$21,470	87.54%

TABLE G-3

Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, June 30, 2007 ($ 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[(4)]	$ 8,904	$ 9,627	92.59%	48,379	47,104
— Correctional Employee Fund[(4)]	559	708	79.04%	4,332	2,847
— State Patrol Employee Fund[(4)]	617	673	91.75%	844	916
— Judges Retirement Fund[(4)]	153	214	71.66%	308	281
— Legislators Retirement Fund[(3,4)]	45	86	51.90%	54	459
— Constitutional Officers Fund[(3,4)]	.2	4	5.33%	0	16
Public Employees Retirement Association:					
— Public Employees Fund[(4)]	12,985	17,705	73.34%	146,226	210,757
— PERA Police & Fire Fund[(4)]	5,198	5,669	91.70%	10,720	8,232
— Local Correctional Service Fund[(4)]	159	162	98.38%	3,566	1,612
Teachers Retirement Association[(4)]	18,794	21,470	87.54%	77,694	82,088
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund[(4)]	1,383	1,610	85.90%	266	4,927
Local Police & Fire Associations	766	839	91.38%	178	1,666
St. Paul Teachers' Retirement Fund	1,015	1,391	73.01%	3,982	5,969
Duluth Teachers' Retirement Fund	288	332	86.77%	1,150	2,230

(1) The information provided in this table reflects the condition of all funds as of June 30, 2007, except for five local police & fire relief association funds that report separately on December 31, 2006: 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, 2007, Minnesota Post Retirement Investment Fund had 91% 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.

(4) Effective July 1, 2007 valuation, the Asset Valuation Method was changed such that assets allocated to the Minnesota Post Retirement Investment Fund must equal the Market Value of Assets on the valuation date.

2008 Pension Legislation

- Increases the PERA police and fire fund disability benefit by 3% of salary for each year of service in excess of 20 years.
- Increases permanent benefits by one unit for recipients of the Minneapolis Firefighters Relief Association when the funded ratio of the fund first exceeds 110 percent. Allows for an additional benefit increase paid using excess investment income equal to one month's normal benefit.
- Authorizes that the governing board of each major pension fund can retain its own actuary, and eliminates a requirement that the funds jointly contract with an actuary. Also states that the Pension Commission can contract with an actuary to audit or review actuarial work done by actuaries hired by the pension funds and appropriated money for this purpose.
- Postretirement Fund Provisions
    1. Matches the annual postretirement adjustment for benefit recipients covered by the postretirement fund to the consumer price index, up to 2.5 percent. It also states that excess investment earnings can be used to pay an additional amount, if the increase in the consumer price index is more than 2.5 percent, but the five percent benefit cap in any year is maintained in law.
    2. Outlines the postretirement investment fund dissolution if the funded ratio is less than 80 percent in any year, or less than 85 percent for two consecutive years. If the post fund dissolves, the assets will be transferred back to the corresponding retirement plan based on each fund's participation in the postretirement fund. It also provides that if the postretirement fund is dissolved, there will be a flat 2.5 percent postretirement increase each year, regardless of inflation and investment returns.

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. The employees involved are primarily conservation officers, correctional counselors at state correctional facilities, and highway patrol officers. 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"). GASB Statement 45 will be implemented in the Fiscal Year 2008 CAFR. The state had an actuarial valuation to determine the impact of implementing this standard. Based on this actuarial valuation, the estimated unfunded actuarial accrued liability at the beginning of the year is $659 million, which will be amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2008 is $66 million.

Pending implementation of GASB Statement 45 and as described in Note 9 of the 2007 CAFR, the state will continue to recognize the cost of these benefits as eligible employees retire. Approximately 1,000 former employees currently receive this benefit.

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 2007, 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 average annual compound rate of 0.79 percent between 2005 and 2030, compared to 0.83 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 2007 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 except for Education and Health Services, 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 2007 was highly concentrated in the fabricated metals, machinery, and computers and electronics categories. Of particular importance is the computers and electronics category in which 23.8 percent of the State's durable goods employment was concentrated in 2007, as compared to 14.4 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the 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 2007, 35.2 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 29.2 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.

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 2000-2007 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.1 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 1.1 percent compared to a decline of 1.4 percent nationally. However, in the 2003 to 2007 period, Minnesota non-farm employment grew 4.2 percent compared to 5.9 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 2007, Minnesota per capita personal income was 106.3 percent of its U.S. counterpart.

Tables 7, 8, and 9 show the performance of the Minnesota economy relative to the eleven other states in the North Central Region. Measures used for comparison are total personal income, population, personal income per capita, and non-agricultural employment. In the level of personal income per capita, as shown in Table 7, Minnesota ranked second among the twelve states in 1990 and first in 2007. Table 7 also shows that during the period 1990 to 2000, Minnesota ranked first in growth of personal income and fifth during the period 2000 to 2007. Table 8 shows that Minnesota ranked fifth in personal income growth among neighboring states in 2006-2007. 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 2000-2007 period, Minnesota non-farm employment grew 3.2 percent, while regional employment declined 1.0 percent.

Another measure of the vitality of the State's economy is its unemployment rate. Table 10 shows that during 2006, the State's monthly unemployment rate was generally less than the national unemployment rate, averaging 4.1 percent, as compared to the national average of 4.6 percent. In 2007, Minnesota's unemployment rate averaged 4.6 percent, compared to the national average of 4.6 percent. In the first four months of 2008, Minnesota's unemployment rate was within two tenths of one percent of the national rate.

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	% Change U.S.	% Change Minnesota
1998	275,854	4,813	1.2	1.0
1999	279,040	4,873	1.2	1.2
2000	282,194	4,934	1.1	1.3
2001	285,112	4,984	1.0	1.0
2002	287,888	5,021	1.0	0.7
2003	290,448	5,053	0.9	0.6
2004	293,192	5,086	0.9	0.7
2005	295,896	5,114	0.9	0.6
2006	298,755	5,155	1.0	0.8
2007	301,621	5,198	1.0	0.8

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi/drill.cfm. Population data was released December 2007.

TABLE 2
EMPLOYMENT MIX IN UNITED STATES AND MINNESOTA FOR 2007
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durables	220.2	7.8	8,816	6.3
Manufacturing Non-Durables	121.0	4.3	5,068	3.6
Natural Resources and Mining	5.9	0.2	723	0.5
Construction	120.5	4.3	7,614	5.4
Trade	435.3	15.4	21,519	15.4
Transportation, Warehousing, Utilities	94.5	3.3	5,089	3.6
Information	58.1	2.1	3,029	2.2
Financial Activities	179.2	6.3	8,308	5.9
Professional and Business Services	329.0	11.7	17,962	12.9
Education and Health Services	427.9	15.2	18,327	13.1
Leisure and Hospitality	247.8	8.8	13,474	9.7
Other Services	116.6	4.1	5,491	3.9
Government	414.7	14.7	22,203	16.0
Agriculture	52.2	1.8	2,095	1.5
Total	2,822.9	100.0	139,718	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://www.bls.gov/ces.

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

Minnesota employment data benchmarked to March 2007.

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

U.S. employment data extracted June 3, 2008.

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://www.bls.gov/cps.

Columns may not add due to rounding.

TABLE 3
EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2007
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Wood Products	14.8	6.7	520	5.9
Fabricated Metals	43.7	19.8	1,563	17.7
Machinery	34.0	15.4	1,188	13.5
Computers and Electronic Products	52.4	23.8	1,272	14.4
Electrical Equipment	8.5	3.9	427	4.8
Transportation Equipment	13.6	6.2	1,711	19.4
Furniture and Related Products	12.4	5.6	535	6.1
Miscellaneous Manufacturing	23.9	10.9	641	7.3
Other Durables	16.9	7.7	959	10.9
Total	220.2	100.0	8,816	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/ces.

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

Minnesota employment data benchmarked to March 2007. U.S. data extracted June 3, 2008. 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 2007
(Thousands of Jobs)

Non-Durable Goods	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	42.6	35.2	1,481	29.2
Printing and Related	31.3	25.9	624	12.3
Other Non Durables	47.1	38.9	2,963	58.5
Total	121.0	100.0	5,068	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/ces.

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

Minnesota data benchmarked to March 2007. U.S. data extracted June 3, 2008. 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 2007
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	**1990**	**2000**	**2007**	**1990-2000**	**2000-2007**	**1990**	**2000**	**2007**	**1990-2000**	**2000-2007**
Manufacturing Durables	217.2	255.4	220.2	17.6	(13.8)	10,737	10,877	8,816	1.3	(18.9)
Manufacturing Non-Durables	124.2	141.1	121.0	13.6	(14.2)	6,958	6,386	5,068	(8.2)	(20.6)
Natural Resources and Mining	8.4	8.1	5.9	(3.6)	(27.2)	765	599	723	(21.7)	20.7
Construction	77.9	118.8	120.5	52.5	1.4	5,263	6,787	7,614	29.0	12.2
Trade	362.4	436.1	435.3	20.3	(0.2)	18,451	21,213	21,519	15.0	1.4
Transportation Warehousing and Utilities	85.8	103.3	94.5	20.4	(8.5)	4,216	5,012	5,089	18.9	1.5
Information	54.3	69.2	58.1	27.4	(16.0)	2,688	3,630	3,029	35.1	(16.6)
Financial Activities	129.3	164.8	179.2	27.5	8.7	6,614	7,687	8,308	16.2	8.1
Professional and Business Services	214.5	319.2	329.0	48.8	3.1	10,848	16,666	17,962	53.6	7.8
Education and Health Services	241.8	324.5	427.9	34.2	31.9	10,984	15,109	18,327	37.6	21.3
Leisure and Hospitality	180.5	221.6	247.8	22.4	11.8	9,288	11,862	13,474	27.7	13.6
Other Services	91.3	114.6	116.6	25.5	1.7	4,261	5,168	5,491	21.3	6.3
Government	347.9	407.6	414.7	17.2	1.7	18,415	20,790	22,203	12.9	6.8
Agriculture	103.1	73.4	52.2	(28.8)	(28.9)	3,223	2,464	2,095	(23.5)	(15.0)
Total	2,238.6	2,757.7	2,822.9	23.2	2.4	112,711	134,250	139,718	19.9	4.1

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 2007. U.S. employment extracted June 3, 2008. 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 2007 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.
1998	28,993	26,883	107.9
1999	30,106	27,939	107.8
2000	32,014	29,845	107.3
2001	32,619	30,574	106.7
2002	33,256	30,821	107.9
2003	34,339	31,504	109.0
2004	36,145	33,123	109.1
2005	37,256	34,757	107.2
2006	38,859	36,714	105.8
2007	41,034	38,611	106.3

Source: Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi. Data extracted June 3, 2008.

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2007

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2007 Personal Income (Millions)	2000-2007 Annual Compound Rate of Increase (%)	Regional Rank 2000-2007	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2007 Population (Thousands)	2007 Per Capita Personal Income ($)	2007 Regional Rank
Illinois	238,499	400,373	5.32	6	518,245	3.76	9	12,439	20,824	1	12,853	40,322	2
Ohio	203,630	320,538	4.64	12	399,897	3.21	11	11,364	18,743	4	11,467	34,874	8
Michigan	176,189	294,227	5.26	7	353,376	2.65	12	9,955	18,922	3	10,072	35,086	6
Indiana	97,213	165,285	5.45	4	213,302	3.71	10	6,092	17,491	9	6,345	33,616	12
Minnesota	87,318	157,964	6.11	1	213,282	4.38	5	4,934	19,891	2	5,198	41,034	1
Missouri	90,407	152,722	5.38	5	202,153	4.09	7	5,606	17,627	8	5,878	34,389	10
Wisconsin	88,635	153,548	5.65	2	201,921	3.99	8	5,374	18,072	6	5,602	36,047	5
Iowa	48,358	77,763	4.86	10	104,651	4.33	6	2,928	17,389	10	2,988	35,023	7
Kansas	44,876	74,570	5.21	9	102,069	4.59	3	2,693	18,085	5	2,776	36,768	3
Nebraska	28,444	47,329	5.22	8	64,721	4.57	4	1,713	17,983	7	1,775	36,471	4
South Dakota	11,273	19,438	5.60	3	26,996	4.80	1	756	16,172	11	796	33,905	11
North Dakota	10,166	16,097	4.70	11	22,291	4.76	2	641	15,943	12	640	34,846	9

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 2007. Income data extracted June 3, 2008.

TABLE 8
GROWTH OF PERSONAL INCOME BY STATES IN NORTH CENTRAL REGION(1)
2006-2007

Rank	State	Percent Growth
1	South Dakota	6.89
2	North Dakota	6.73
3	Iowa	6.56
4	Nebraska	6.55
5	MINNESOTA	6.48
6	Kansas	6.43
7	Missouri	5.61
8	Illinois	5.60
9	Wisconsin	5.32
10	Indiana	4.82
11	Ohio	4.70
12	Michigan	3.53
	REGION	5.25

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	2007 Employment	% Increase 1990-2000	2000-2007
Illinois	5,287.6	6,044.8	5,981.4	14.3	(1.0)
Ohio	4,882.3	5,624.7	5,424.4	15.2	(3.6)
Michigan	3,946.5	4,676.9	4,262.0	18.5	(8.9)
Indiana	2,521.9	3,000.1	2,988.1	19.0	(0.4)
Wisconsin	2,291.5	2,833.8	2,881.7	23.7	1.7
Missouri	2,345.0	2,748.7	2,795.6	17.2	1.7
MINNESOTA	2,135.9	2,684.9	2,770.8	25.7	3.2
Iowa	1,226.4	1,478.5	1,517.0	20.6	2.6
Kansas	1,091.9	1,346.1	1,379.0	23.3	2.4
Nebraska	730.1	914.0	962.6	25.2	5.3
South Dakota	288.5	377.9	406.4	31.0	7.5
North Dakota	265.8	327.7	357.8	23.2	9.2
Region	27,013.4	32,058.1	31,726.8	18.7	(1.0)

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 1999-2007 AND THE FIRST FIVE MONTHS OF 2008 NOT SEASONALLY ADJUSTED

	Annual Average	
Year	**Minnesota**	**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%	5.5%
2005	4.1%	5.1%
2006	4.1%	4.6%

Month	**Minnesota**	**U.S.**
2007		
January	5.4%	5.0%
February	5.1%	4.9%
March	5.0%	4.5%
April	4.7%	4.3%
May	4.1%	4.3%
June	4.5%	4.7%
July	4.3%	4.9%
August	4.2%	4.6%
September	4.5%	4.5%
October	4.0%	4.4%
November	4.0%	4.5%
December	4.9%	4.8%
Annual Average	4.6%	4.6%

Month	**Minnesota**	**U.S.**
2008		
January	5.3%	5.4%
February	5.2%	5.2%
March	5.3%	5.2%
April	4.9%	4.8%
May	5.0%	5.2%

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 07	Rank 06	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Rank
25	21	UnitedHealth Group	75,431,000	50,899,000	4,654,000	Health Care: Insurance and MC	1
31	33	Target	63,367,000	44,560,000	2,849,000	General Merchandisers	2
62	117	Supervalu	37,406,000	21,702,000	452,000	Food and Drug Stores	5
66	72	Best Buy	35,934,000	13,570,000	1,377,000	Specialty Retailers	4
93	89	Travelers Cos.	26,017,000	115,224,000	4,601,000	Insurance: P & C (stock)	4
100	97	Minnesota Mining & Mfg. (3M)	24,462,000	24,694,000	4,096,000	Miscellaneous	1
122	123	U.S. Bancorp	20,308,000	219,232,000	4,751,000	Commercial Banks	6
145	166	Cenex Harvest States	17,216,000	6,693,600	750,300	Wholesalers: Food and Grocery	2
213	195	Northwest Airlines	12,528,000	24,517,000	2,093,000	Airlines	5
214	213	General Mills	12,442,000	18,184,000	1,144,000	Food Consumer Products	5
217	222	Medtronic	12,299,000	19,512,000	2,802,000	Medical Products & Equipment	1
260	251	Xcel Energy	10,034,200	23,184,700	577,300	Utilities: Gas & Electric	15
294	329	Land O'Lakes	8,924,900	4,444,500	162,100	Food Consumer Products	9
296	297	Ameriprise Financial	8,909,000	109,230,000	814,000	Diversified Financials	10
341	349	C.H. Robinson Worldwide	7,316,200	1,811,300	324,300	Transportation and Logistics	1
390	403	Hormel Foods	6,193,000	3,393,700	301,900	Food Consumer Products	12
398	370	Thrivent Financial for Lutherans	6,132,600	57,411,500	424,200	Insurance: Life, Health (mutual)	6
422	427	Mosaic	5,773,700	9,163,600	419,700	Chemicals	15
438	457	Ecolab	5,469,600	4,722,800	427,200	Chemicals	16

Source: *Fortune Magazine,* dated May 5, 2008.

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APPENDIX I

Continuing Disclosure Undertaking

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

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated July 22, 2008 (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 2008 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the Fiscal Year ending on the previous June 30, prepared by the Department of Finance in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such Fiscal Year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been submitted to each of the repositories referred to under this paragraph (b) or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this paragraph (b)(1) or subsection (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, notice of the occurrence of any of the following events and which is a Material Fact (as hereinafter defined):

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults;

(C) Unscheduled draws on debt service reserves reflecting financial difficulties;

(D) Unscheduled draws on credit enhancements reflecting financial difficulties;

(E) Substitution of credit or liquidity providers, or their failure to perform;

(F) Adverse tax opinions or events affecting the tax-exempt status of the security;

(G) Modifications to rights to security holders;

(H) Bond calls;

(I) Defeasances;

(J) Release, substitution, or sale of property securing repayment of the securities; and

(K) Rating changes.

As used herein, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a “Material Fact” is also an event that would be deemed “material” for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

(3) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (1) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the State under subsection (d)(2);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (1) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) *Manner of Disclosure.* The Commissioner agrees to make available the information described in paragraph (b) to the following entities by telecopy, overnight delivery, mail or other means, as appropriate:

(1) the information described in subparagraph (1) of paragraph (b), to each then nationally recognized municipal securities information repository under Rule 15c2-12 and to any State information depository then designated or operated by the State of Minnesota as contemplated by Rule 15c2-12 (the "State Depository"), if any;

(2) the information described in subparagraphs (2) and (3) of paragraph (b), to the Municipal Securities Rulemaking Board and to the State Depository, if any; and

(3) the information described in paragraph (b), to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraphs (1) or (2) of this paragraph (c), as the case may be, or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(d) *Term; Amendments; Interpretation.*

(1) The covenants of the State in this Section 3.02 shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (3) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (i) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2 12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that Rule 15c2-12 is in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) *Failure to Comply; Remedies.* If the State fails to comply with any provision of this Section 3.02 any person aggrieved thereby, including the Registered Owner of any outstanding Bond, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) *Further Limitation of Liability of State.* If and to the extent the limitations of liability contained in subsection (e) are not effective, anything contained in this Section 3.02 to the contrary notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State.

The Commissioner of Finance is not in default of any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

APPENDIX J
Definition of Ratings

Moody's Investors Service, Inc.:

Aa1 Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Standard & Poor's Ratings Group:

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

Fitch Ratings:

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

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APPENDIX K

Forms of Legal Opinions

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

Re: $275,000,000 General Obligation State Various Purpose Bonds, Series 2008A State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance and Employee Relations of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $275,000,000 General Obligation State Various Purpose Bonds, Series 2008A, dated August , 2008 (the "Series 2008A Bonds"). The Series 2008A 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 Series 2008A 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 Series 2008A 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 the federal alternative minimum tax.

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 Series 2008A 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 Series 2008A Bonds, with covenants made by the Commissioner of Finance and Employee Relations in the Order authorizing the issuance of the Series 2008A Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2008A 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 Series 2008A Bonds. No provision has been made for an increase in the interest payable on the Series 2008A 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 Series 2008A Bonds.

Dated: August , 2008.

Very truly yours,

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

Re: $33,500,000 General Obligation State Trunk Highway Bonds, Series 2008B State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance and Employee Relations of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $33,500,000 General Obligation State Trunk Highway Bonds, Series 2008B, dated August , 2008 (the "Series 2008B Bonds"). The Series 2008B 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 Series 2008B 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.

2. The principal of and interest on the Series 2008B Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, 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.

3. Interest on the Series 2008B 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 the federal alternative minimum tax.

The opinions expressed in paragraph 3 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 Series 2008B 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 Series 2008B Bonds, with covenants made by the Commissioner of Finance and Employee Relations in the Order authorizing the issuance of the Series 2008B Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2008B 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 Series 2008B Bonds. No provision has been made for an increase in the interest payable on the Series 2008B 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 Series 2008B Bonds.

Dated: August , 2008.

Very truly yours,

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

Re: $155,415,000 General Obligation State Refunding Bonds, Series 2008C State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance and Employee Relations of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $155,415,000 General Obligation State Refunding Bonds, Series 2008C, dated August , 2008 (the "Series 2008C Bonds"). The Series 2008C 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 Series 2008C 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 Series 2008C 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 the federal alternative minimum tax.

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 Series 2008B 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 Series 2008C Bonds, with covenants made by the Commissioner of Finance and Employee Relations in the Order authorizing the issuance of the Series 2008C Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2008C 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 Series 2008C Bonds. No provision has been made for an increase in the interest payable on the Series 2008C 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 Series 2008C Bonds.

Dated: August , 2008.

Very truly yours,