OFFICIAL STATEMENT DATED JANUARY 24, 2006

NEW ISSUE

RATING: Moody's: Aa1
Standard & Poor's: AAA
Fitch's: AAA

$3,000,000
STATE OF MINNESOTA

General Obligation
Taxable State Bonds

Dated: February 1, 2006 **Due: August 1, as shown below**

Year	Amount	Interest Rate	Price or Yield	CUSIP 604129
2013	$3,000,000	5.00%	4.86%	BB1

(Plus accrued interest from February 1, 2006)

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE ISSUED TO FINANCE THE COST OF STATE RURAL FINANCE AUTHORITY PROGRAMS, AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE BONDS AND INTEREST THEREON WHEN DUE.

The Bonds will not be subject to redemption and prepayment.

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, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or about February 2, 2006.

This cover page contains certain information for quick reference only. It is *not* a summary of this issue or this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Unless otherwise indicated, information contained in this Official Statement is based upon material provided by the State and available at the date of publication of this Official Statement.

No dealer, broker, salesman or other person has been authorized by the State to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. Certain information contained herein has been obtained from sources other than records of the State and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

STATE OF MINNESOTA OFFICIALS

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

COMMISSIONER OF FINANCE

Peggy S. Ingison

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$3,000,000

General Obligation
Taxable State Bonds

Dated February 1, 2006

INTRODUCTION

General

This Official Statement, including the cover page, the Official Statement Supplement contained on pages 17 through 34, and Appendices A through K (this "Official Statement"), has been prepared by the State of Minnesota Department of Finance to furnish information relating to $3,000,000 General Obligation Taxable State Bonds (the "State") to be dated February 1, 2006 (the "Bonds"), to prospective purchasers and actual purchasers of the Bonds. This Introduction contains only a brief description of or references to a portion of such information, and prospective and actual purchasers should read this entire Official Statement.

Purpose

The Bonds are being issued by the State of Minnesota, acting by and through its Commissioner of Finance (the "Commissioner" or "Commissioner of Finance"), pursuant to the constitutional and statutory authority described under the section hereof entitled "The Bonds — Authorization and Purpose" and in Appendix C hereto.

Bonds are being issued for the purpose of financing all or a portion of the cost of programs of the Minnesota Rural Finance Authority ("RFA") which is established by Minnesota Statutes, Chapter 41B and described in the section hereof entitled "The Bonds — Authorization and Purpose" and in Appendix C. Pending use of the Bond proceeds for these purposes, they will be invested for the State by the State Board of Investment in accordance with State laws.

Security

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

Bond Terms

The Bonds mature on the date and in the principal amount and bear interest at the annual rate shown on the cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months, and is payable semiannually on each February 1 and August 1 to maturity or prior redemption, commencing August 1, 2006. If principal or interest is due on a date on which commercial banks are not open for business, then payment will be made on the first day thereafter when such banks are open for business. The Bonds will not be subject to redemption prior to their stated maturity dates.

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

Legal Opinions

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

Additional Bonds

The State does not plan to sell additional general obligation bonds within 30 days after the date of the sale of the Bonds.

Revenue and Expenditure Forecasting

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

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

Budget — Current Biennium

Forecast revenue and expenditure measures for the biennium ending June 30, 2007 (the "Current Biennium") are summarized as set forth below. The General Fund is defined on page 11.

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

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

Bonds Outstanding

The total amount of State general obligation bonds outstanding on February 1, 2006, including this issue will be approximately $3.6 billion. The total amount of general obligation bonds authorized but unissued as of February 1, 2006, will be approximately $1,040.4 million. See Appendix B, pages B-1 and B-2.

Cash Flow Information

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

Additional Information

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

THE BONDS

Authorization and Purpose

Constitutional Provisions. Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred to finance the development of the agricultural resources of the State by extending credit on real estate security, 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.

Statutory Provisions. The $3,000,000 General Obligation Taxable State Bonds being issued comprise bonds authorized by:

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

Security[(1)]

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

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

(1) While the State has adopted the revised Article 9 of the Uniform Commercial Code that generally eliminates the exclusion for security interests created by government debtors, Minnesota Statutes, Section 475.78 provides that Article 9 does not apply to security interests created by the State (except security interests in equipment and fixtures).

(iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfer of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

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

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

BOOK ENTRY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REDEMPTION AND PREPAYMENT

The Bonds will not be subject to redemption prior to their stated maturity dates.

TAX STATUS

Interest to be paid on the Bonds is includable in gross income of the recipient for United States income tax purposes and in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is subject to Minnesota franchise taxes imposed on corporations and financial institutions.

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

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement Supplement, which comprises pages 17 through 34 and Appendices A through K, and is a part of this Official Statement.

LITIGATION

There is not now pending or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any manner questioning or affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 22 to the State Financial Statements for the Fiscal Year Ended June 30, 2005, set forth in Appendix A and additional actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of $10 million on the State's expenditures or revenues during the Current Biennium.

The following is a discussion of developments regarding the actions described in the referenced Note 22 that occurred and are subsequent to the date of the financial statements contained in Appendix A, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix A and are material for purposes of this Official Statement.

1. *Tort Claims.* The Tort Claims appropriations for the fiscal years ending June 30, 2006 is $761,000 and for the fiscal years ending June 30, 2007 is also $761,000.

2. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al. (Minnesota Supreme Court).* A decision is expected during the spring of 2006.

3. *MBNA American Bank v. State.* The trial that was scheduled for January 2006 has been postponed.

4. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* and related case *Liggett Group v. State.* Non-settling manufacturers intervened in the Philip Morris action alleging that, should the district court block enforcement of the Health Impact Fee upon the settling manufacturers' distributors, it must also block enforcement upon the distributors of non-settling manufacturers to ensure equal protection. The Department of Revenue estimates that decisions favorable to both the settling and non-settling manufacturers would have an estimated $368 million negative impact on the Health Impact Fund for the Current Biennium. On December 20, 2005, the district court issued a decision enjoining the State from enforcing the fee against distributors of both settling and non-settling manufacturers. On January 18, 2006 the district court stayed its order pending resolution of appeals before the Minnesota Supreme Court pursuant to stipulation of the parties in which the State agreed to retain any health impact fees together with earnings thereon in the Health Impact Fund. If state court appeals are not exhausted by the end of the Current Biennium, the State may transfer funds to the General Fund. The Minnesota Supreme Court has granted accelerated review and placed the case on its April 2006 calendar for argument.

CONTINUING DISCLOSURE

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

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Bonds at public sale to Cronin & Co., Inc. as Underwriters, for a price of $3,023,850.00 and accrued interest, with the Bonds to bear interest at the rates set forth on the cover page of this Official Statement.

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

RATINGS

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

AUTHORIZATION OF OFFICIAL STATEMENT

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

Peggy S. Ingison
Commissioner of Finance
State of Minnesota

The Official Statement Supplement

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2005 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 2005 and prior years, are available at www.finance.state.mn.us.

Financial statements for the Fiscal Year ending June 30, 2006 will be available by December 31, 2006. Revenues and expenditures on a budgetary basis for the six-month period ending December 31, 2005 with comparative data for the same period ending December 31, 2004 are summarized on pages 15 and 16.

FINANCIAL INFORMATION

Budgeting Process

The State's constitutionally prescribed fiscal period is a biennium, and the State adopts budgets on a biennial basis. Each biennium ends on June 30 of an odd-numbered year and includes two fiscal years, each beginning on July 1 and ending on June 30. The biennium which began on July 1, 2001, and which ended on June 30, 2003, is referred to herein as the "FY 2002-2003 Biennium." The biennium which began on July 1, 2003 and which ended on June 30, 2005, is referred to herein as the "Previous Biennium." The biennium which began on July 1, 2005 and which will end on June 30, 2007, is referred to herein as the "Current Biennium." The biennium which will begin July 1, 2007 and will end on June 30, 2009 is referred to herein as the "Next Biennium."

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (in odd-numbered calendar years). Appropriations for the Current Biennium were enacted by the 2005 Legislature in the special session ending in July 2005. Supplemental appropriations and changes in revenue measures are usually adopted during legislative sessions in even-numbered calendar years.

Preliminary planning for the Current Biennium budget began in February 2003 when the Department of Finance began forecasting the Current Biennium revenues that would be available or generated and expenditures that would be incurred if the Governor's then proposed Previous Biennium revenues and expenditures were as forecasted and associated laws were to continue unchanged into the Current Biennium. Throughout the budget process, and at the end of the 2003 and 2004 legislative sessions, the Department of Finance continued to project the ongoing effects (called ''planning estimates'') of the Previous Biennium budget on Current Biennium revenues and spending. Planning estimates from the end of the 2004 legislative sessions became the basis for the Governor's Current Biennium budget proposals as described below.

The Current Biennium budget process officially began when the Governor issued budgetary policies and objectives in July 2004. On the basis of these instructions, agencies submitted expenditure plans for the Current Biennium to the Department of Finance in October 2004. In November 2004, the Department of Finance updated its forecast of revenues and expenditures, and it was on the basis of this forecast that final budget recommendations were prepared by the Governor for submission to the Legislature in January 2005. In February 2005, the Department of Finance prepared a revised forecast of revenues and expenditures, and on the basis of this forecast, the Governor provided supplemental budget recommendations to the Legislature in March 2005. Legislative hearings were conducted, after which the Legislature enacted appropriation and tax bills having the effect of either adopting or modifying the Governor's proposals. The Governor signed into law most of the bills passed by the Legislature, and also exercised his authority to veto certain items of appropriation. The financial summary presented under the heading "BUDGET — CURRENT BIENNIUM" portrays the effects of the appropriation and tax bills that were enacted by the Legislature and approved by the Governor. The Department of Finance has also developed planning estimates for the Next Biennium, based upon the Current Biennium revenue and expenditure forecasts and existing laws.

The budget process just outlined, beginning with the development of planning estimates in February 2004, and finishing with gubernatorial approvals and vetoes, describes the process that is generally followed for each biennium.

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

Pages 16 to 27 show in summary form the results of the Revenue and Expenditure Forecasts, the Governor's Recommendations to the Legislature and the legislative changes made for the Current Biennium.

General Fund

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

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

Cash Flow Account

The cash flow account ("the Cash Flow Account") was established in the General Fund for the purpose of providing sufficient cash balances to cover monthly revenue and expenditure imbalances. The use of funds in the Cash Flow Account is governed by statute. The Legislature established the Cash Flow Account at $350 million for the Current Biennium.

Budget Reserve Account

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

The Legislature established the Budget Reserve Account at $653 million for the Current Biennium. Previously enacted laws designating the allocation of future forecast positive balances remain unchanged.

Control Procedures

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

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

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

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

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

REVENUE AND EXPENDITURE FORECASTING

General

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

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

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

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

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

Capital gains realizations have become an increasingly volatile and important share of Minnesota's income tax base. Net capital gains realization by Minnesota resident taxpayers are estimated to have totaled $4.5 billion in tax year 2003, 3.9 percent of residents' adjusted gross income. In tax year 2004 net capital gains realizations by Minnesota residents were estimated to total $6.7 billion or 5.3 percent of adjusted gross income.

Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth and to changes in inflation and in the real growth rate of the economy. Federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium rate of realizations instead of adjusting instantaneously to a shock in model variables. Capital gains are now forecast to grow at an annual rate of 5 percent in tax years 2005 through 2007.

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 November 2005 baseline forecast from GII, the scenario which GII considered to be the most likely at the time it was made, was the baseline for the November 2005 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. GII estimated potential GDP growth at 3.3 percent over the 2004 to 2009 period. Forecast growth rates for 2004 through 2006 are more or less consistent with the potential rate of growth. Inflation, as measured by the implicit price deflator for GDP, is expected to be higher than in the recent past due to the increase in energy prices.

GII NOVEMBER 2005
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2002 Actual %	Calendar Year 2003 Actual %	Calendar Year 2004 Forecast %	Calendar Year 2005 Forecast %	Calendar Year 2006 Forecast %
REAL GDP Growth Rate	1.6	2.7	4.2	3.6	3.4
GDP DEFLATOR (Inflation)	1.7	2.0	2.6	2.8	2.6
NOMINAL GDP Growth Rate	3.3	4.8	7.0	6.4	6.1

A report is published with each forecast and is available at www.finance.state.mn.us. The February 2006 revenue and expenditure forecast is expected to be released in late February 2006. The February 2006 GII Baseline Forecast will in all likelihood be used as the baseline for this revenue and expenditure forecast.

HISTORIC REVENUES AND EXPENDITURES

The following two tables set forth the State's General Fund revenues and expenditures for the Fiscal Years ending June 30, 2003 through 2005, and for the additional time periods shown. For the Fiscal Years ended June 30, 2003 through 2005 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 six-month periods ending December 31, 2004 and December 31, 2005, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2005 and 2006, respectively. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the second table are presented by object of expenditure, the State's historical method of presentation, whereas forecasts of expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

STATE OF MINNESOTA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES
(THOUSANDS OF DOLLARS)
UNAUDITED

	Fiscal Year Ended June 30 (1)			July 1,2004 through December 31 2004 (1)	July 1,2005 through December 31 2005 (1)
	2003	2004	2005		
UNRESTRICTED REVENUES:					
Income Tax - Individual	$ 6,458,630	$ 6,799,651	$ 7,436,665	$ 2,952,074	$ 3,175,267
Income Tax - Corporation	700,221	764,351	779,422	470,856	566,053
Sales Tax	3,983,067	4,160,206	4,520,823	2,057,680	2,166,047
Statewide Property Tax (2)	585,416	599,622	610,809	274,482	278,935
Inheritance and Gift Tax	130,814	91,326	80,372	43,529	170,292
Liquor, Wine and Malt Beverage Tax	64,973	66,667	75,025	31,596	31,818
Cigarette and Tobacco Tax	178,721	159,558	169,067	70,051	92,014
Mining Taxes	2,019	2,040	5,660	0	0
Gross Earnings Taxes	242,218	274,218	287,416	130,404	125,060
Motor Vehicle Excise Tax	292,852	315,836	300,065	154,017	144,731
Income Reciprocity Tax	49,876	47,623	54,289	49,850	56,802
Department Earnings	370,354	482,738	516,297	257,689	312,479
Investment Income	21,384	17,022	21,936	6,369	20,387
Tobacco Settlement	150,002	174,266	175,488	18,109	179,060
All Other Revenues	734,338	759,894	731,767	280,972	286,908
TOTAL UNRESTRICTED REVENUES	$ 13,964,884	$ 14,715,019	$ 15,765,101	$ 6,797,678	$ 7,605,853
RESTRICTED REVENUES	76,148	74,899	86,146	40,384	34,692
LESS REVENUE REFUNDS:					
Income Tax - Individual	980,831	962,861	902,243	74,479	79,617
Income Tax - Corporation	127,532	115,514	68,288	41,519	48,844
Sales Tax	162,808	202,211	240,654	84,207	86,302
All Other	28,856	34,193	36,323	11,315	16,016
TOTAL REFUNDS	$ 1,300,028	$ 1,314,778	$ 1,247,508	$ 211,520	$ 230,780
NET REVENUES	$ 12,741,004	$ 13,475,141	$ 14,603,739	$ 6,626,541	$ 7,409,766

(1) For Fiscal Years 2003, 2004 and 2005, the schedule of revenues includes all revenues for the fiscal year, including revenue accruals at June 30. For the six-month periods ended December 31, 2004 and 2005, 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 1,2004 through December 31 2004 (1)	July 1,2005 through December 31 2005 (1)
	2003	2004	2005		
EXPENDITURES:					
Personal Services	$ 1,118,911	$ 1,038,657	$ 995,799	$ 455,904	$ 474,444
Purchased Services	334,492	289,637	323,718	125,707	141,204
Materials and Supplies	59,872	47,672	55,489	21,788	21,733
Capital Outlay:					
Equipment	22,145	20,307	32,194	9,827	6,167
Real Property	57,682	4,119	3,003	633	699
Grants and Subsidies:					
Individuals	3,513,188	3,364,514	3,587,355	2,006,601	2,194,569
Municipalities and Towns	862,138	716,824	660,519	637,624	635,773
Counties	894,507	784,808	642,200	513,929	580,022
School Districts	6,019,367	6,041,680	6,425,197	3,370,119	3,360,366
Private Organizations	185,857	165,166	157,896	77,168	75,624
University of Minnesota	568,702	475,994	472,767	186,256	199,173
Other	162,121	143,615	132,939	77,457	90,753
TOTAL EXPENDITURES	$ 13,798,982	$ 13,092,992	$ 13,489,076	$ 7,483,012	$ 7,780,526
NET TRANSFERS OUT	591,225	221,992	693,739	478,749	515,567
TOTAL EXPENDITURES and NET TRANSFERS OUT	$ 14,390,207	$ 13,314,984	$ 14,182,815	$ 7,961,761	$ 8,296,093

(1) For Fiscal Years 2003, 2004 and 2005, the schedule of expenditures includes all expenditures for the fiscal year, and encumbrances outstanding as of June 30. For the six-month periods ended December 31, 2004 and 2005 only current year expenditures have been included.

CURRENT BIENNIUM

November 2004 Forecast

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

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

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

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

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

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

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

BUDGET — CURRENT BIENNIUM

January 2005 Budget Recommendation

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

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

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

Revenues Proposed in the Governor's Budget:

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

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

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

Expenditures Proposed in the Governor's Budget:

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

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

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

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

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

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

Reserves:

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

Next Biennium:

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

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

February 2005 Forecast

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

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

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

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

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

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

March 2005 Governor's Budget Recommendation Revisions

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

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

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

Additional Expenditure Changes Proposed by the Governor:

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

Budget Reserves:

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

Next Biennium:

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

2005 Regular and First Special Legislative Sessions

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

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

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

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

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

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

Enacted Budget Summary:

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

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

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

Resources:

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

The enacted health impact fee includes 75 cents per pack that is being collected at the wholesale distributor level. Corresponding increases were also enacted for other tobacco products. The State sales tax on cigarettes was replaced by a wholesale tax. In total, changes enacted were expected to yield $401 million over the biennium. The new fees are being deposited into a new separate State fund. Annual transfers will be made from the health impact fund to the General Fund to reimburse the cost of smoking related health program costs. The continuing proceeds will be reflected as transfers in to the General Fund, not as General Fund revenues. See also Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

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

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

Expenditures:

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

Compared to the February 2005 forecast of General Fund spending, authorized spending was $397 million more than forecast. Of this amount a $565 million increase in K-12 education spending was in part offset by $367 million of savings enacted in health and human service program spending. Total expenditures authorized by the 2005 Legislature are $760 million higher than the March 2005 Governor's Budget Recommendation.

The following table compares estimates of Previous Biennium and Current Biennium spending and shows the rate of biennial expenditure growth for some of the largest portions of the State budget.

	Previous Biennium	**Current Biennium**	**Percent Change**
	($ in billions)		
Expenditures:			
K-12 Education	12.045	12.578	4.4%
Property Tax Aids & Credits	2.807	2.984	6.3%
Higher Education	2.542	2.761	8.6%
Health & Human Services	7.262	8.264	13.8%
Public Safety	1.450	1.685	16.2%
Debt Service	0.589	0.781	32.6%
All Other Spending	1.500	1.521	1.4%
Total Expenditures	**28.195**	**30.574**	**8.4%**

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

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

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

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

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

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

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

Reserves, Future Forecast Contingencies:

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

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

Next Biennium:

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

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

November 2005 Forecast

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

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

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

The table reflects forecast changes in revenues and expenditures for the Current Biennium after the budget was adopted, as well as the automatic distribution of the forecast balance. See also Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

Change in Beginning Balance:

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

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

These revenue and expenditure changes combined to yield an actual General Fund balance at June 30, 2005 of $337 million. Based on current law, the entire $337 million balance at the end of the Previous Biennium was deposited into the tax relief account in the General Fund. The tax relief account is treated as a General Fund reserve and cannot be accessed without legislative action.

Forecast Resources:

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

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

Forecast Spending:

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

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

$370 million to completely buy back the remaining portion of the school aid payment shift, returning school aids to a 90-10 payment schedule.

$331 million for a partial buyback of the school property tax recognition shift, reducing the percentage from 48.6 to 10.8 percent.

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

Reserves:

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

Next Biennium:

Based on the November forecast, planning estimates for the Next Biennium improved modestly from prior estimates. Projected revenues increased $551 million above end-of-session estimates, while projected spending was $44 million lower. Planning estimates now show a structural balance of $1.235 billion, meaning that total revenue would exceed total spending by that amount.

Estimated inflation of 1.7 and 2.2 percent for Fiscal Year 2008 and Fiscal Year 2009, respectively, would add approximately $911 million to projected current law spending. The proposed constitutional amendment on the 2006 ballot that would dedicate remaining General Fund motor vehicle sales taxes to transportation would reduce General Fund revenues for the Next Biennium by $185 million.

CURRENT BIENNIUM ESTIMATES — REVENUES AND EXPENDITURES

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

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
NOVEMBER 2005 FORECAST
($ in Thousands)

	Fiscal Year 2006	Fiscal Year 2007	Current Biennium
Forecast Resources			
Prior Year Ending Balance[(1)]	1,393,086	1,161,538	1,393,086
Net Non-dedicated Revenues[(2)]	15,003,362	15,340,640	30,344,002
Dedicated Revenues	62,469	62,308	124,777
Transfers From Other Funds	374,212	386,864	761,076
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	15,465,043	15,814,812	31,279,855
Total Revenues Plus Prior Year Ending Balance	16,858,129	16,976,350	32,672,941
Authorized Expenditures & Transfers			
K-12 Education	6,816,936	6,476,101	13,293,037
Property Tax Aids & Credits	1,492,438	1,550,999	3,043,437
Higher Education	1,365,985	1,395,500	2,761,485
Health & Human Services	4,016,850	4,199,160	8,216,010
Environment, Agriculture & Economic Dev	358,732	332,403	691,135
Transportation	105,112	103,221	208,333
Public Safety	837,809	850,011	1,687,820
State Government	307,107	295,837	602,944
Debt Service	352,337	423,494	775,831
Cancellation Adjustment	(7,500)	(15,000)	(22,500)
Subtotal Expenditures & Transfers	15,645,806	15,611,726	31,257,532
Dedicated Revenue Expenditures	50,785	44,908	95,693
Total Expenditures and Transfers	15,696,591	15,656,634	31,353,225
Unreserved Balance	1,161,538	1,319,716	1,319,716
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Tax Relief Account	316,716	316,716	316,716
Unrestricted Balance	(158,178)	0	0

(1) Fiscal Year 2005 ended with an Unrestricted General Fund balance of zero and an Unreserved General Fund Balance of $1.393 billion.

(2) See Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

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

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
NOVEMBER 2005 FORECAST
($ in Thousands)

	Fiscal Year 2006	Fiscal Year 2007	Current Biennium
Net Nondedicated Revenues:			
Income Tax — Individual	6,684,500	7,062,600	13,747,100
Income Tax — Corporate	875,200	805,700	1,680,900
Sales Tax	4,472,666	4,643,400	9,116,066
Motor Vehicle Sales Tax	254,468	268,805	523,273
Statewide Property Tax	629,972	660,151	1,290,123
Estate Tax	200,000	81,000	281,000
Liquor, Wine & Beer	68,910	70,140	139,050
Cigarette & Tobacco[1]	190,713	190,844	381,557
Mining	4,025	2,775	6,800
Mortgage Registry Tax	146,800	119,000	265,800
Deed Transfer Tax	130,900	118,300	249,200
Gross Earnings Taxes	284,650	296,050	580,700
Lawful Gambling Taxes	58,989	58,694	117,683
Medical Assistance Surcharges	205,204	202,610	407,814
Income Tax Reciprocity	56,802	58,755	115,557
Tobacco Settlements	173,401	171,706	345,107
Investment Income	27,700	22,100	49,800
DHS RTC Collections	43,246	55,612	98,858
Lottery Revenue	50,002	51,155	101,157
Departmental Earnings	278,600	242,000	520,600
Fines & Surcharges	101,500	101,500	203,000
All Other Nondedicated Revenue	111,622	100,779	212,401
Tax and Non-Tax Refunds	(46,508)	(43,036)	(89,544)
Total Net Nondedicated Revenues	15,003,362	15,340,640	30,344,002

(1) See Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

GENERAL FUND REVENUE SOURCES

Tax Sources

The State's principal sources of non-dedicated revenues are taxes of various types. A description of the major taxes imposed by the current State law is set forth below.

Income Tax: The income tax rate schedules for 2005 consist of three income brackets having tax rates of 5.35 percent, 7.05 percent and 7.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the National CPI. The base of the tax is federal taxable income, with selected additions and subtractions. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is $303. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents.

SINGLE FILER

Taxable Income	Tax
on the first $19,890	5.35 percent
on all over $19,890, but not over $65,330	7.05 percent
on all over $65,330	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $29,070	5.35 percent
on all over $29,070, but not over $115,510	7.05 percent
on all over $115,510	7.85 percent

Married individuals filing separate returns, estates and trusts must compute their income tax by applying married rates, except that the income brackets will be one-half of the above amounts.

HEAD OF HOUSEHOLD

Taxable Income	Tax
on the first $24,490	5.35 percent
on all over $24,490, but not over $98,390	7.05 percent
on all over $98,390	7.85 percent

Sales and Use Tax: The sales tax of 6.5 percent is applicable to most retail sales of goods with the exception of food, clothing, and prescription drugs. Purchases made by non-profit organizations and the federal government and school districts are exempt.

Statewide Property Tax: Beginning with property taxes payable in calendar year 2002, there is a State general property tax of $592 million levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. The tax is levied at a uniform rate across the State. The levy amount is adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the U.S. Bureau of Economic Analysis. Beginning in fiscal year 2004, the increase in the amount of the State general property tax levy received over the previous fiscal year is dedicated to education aid or higher education funding.

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income on the basis of a three factor formula that gives a 75% weight to sales, a 12.5% weight to payroll and a 12.5% weight to property. Laws enacted in 2005 call for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in will begin in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

Minnesota requires 80% of federal "bonus depreciation" be added to taxable income and then deducted in five equal parts over the next five years. The effect of this provision is to negate the revenue loss that would otherwise result from federal "bonus depreciation".

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

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

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

2.0%	Life insurance (rate will be reduced in steps to 1.5% in 2009).
2.0%	Domestic and foreign company premiums.
1.0%	Mutual property and casualty companies with assets of 5 million or less on 12/31/89.
1.26%	Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89.
3.0%	Surplus line agents.
0.5%	Fire Marshal tax on fire premiums.
2.0%	Surcharge on fire premiums for property located in cities of the first class.
1.0%	Health Maintenance Organizations (beginning January 1, 2004).

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5% motor vehicle sales tax. The tax is collected at the time of title registration or transfer.

In Fiscal Year 2002, 30.86% of the collections are dedicated to transportation related funds, in Fiscal Year 2003 that will increase to 53.75% and in Fiscal Year 2004 it will increase to 55.75%.

Liquor, Wine and Fermented Malt Beverages: Liquor is taxed at $5.03 per gallon. Wine is taxed at rates that vary from $.30 per gallon to $3.52 per gallon, depending on the alcohol content. Beer is taxed at $2.40 per 31-gallon barrel for beer with alcoholic contents of 3.2% by volume or less, and $4.60 per 31-gallon barrel for strong beer. Liquor, wine and beer sales are also subject to sales tax at a rate of 9.0%.

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

Cigarette and Tobacco Products Taxes: The excise tax on cigarettes is 48 cents per pack. Tobacco products other than cigarettes are subject to an excise tax, imposed on distributors thereof, equal to 35% of the wholesale price of such tobacco products.

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

2005 was set at 25.5 cents per pack. See Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

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

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

Deed Tax: A tax of $1.65 per $500 or .0033% for increments less than $500 of consideration is imposed on the transfer of real estate by any deed, instrument, or writing. Ninety-seven percent of the proceeds go to the State's General Fund and three percent to the county in which the property is located.

Legalized Gambling Taxes:

Pari-Mutuel Tax: A 6% tax is imposed on the takeout of pari-mutuel horse races at licensed tracks. The takeout is 17% of straight pools and 23% for multiple pools.

Lawful Gambling Tax: A 8.5% tax is imposed on bingo, raffles and paddlewheels gross receipts less prizes of organizations licensed to operate such games of chance.

Pull-Tab and Tip Board Tax: A 1.7% tax is imposed on the "Ideal Gross" of each pull tab or tipboard deal sold by a distributor. A deal is defined as each separate package, or series of packages, consisting of one game of pull-tabs or tipboards. In addition, a ''Combined Receipts Tax'', with rates ranging from 1.7% to 5.1% is imposed on organizations with pull tab and tip board gross receipts in excess of $500,000 per year.

Rental Motor Vehicle Tax: In addition to the general sales tax a 6.2 percent sales tax is imposed on the lease or rental, on a daily or weekly basis, of a passenger automobile, van or pickup truck.

Taconite and Iron Ore Occupation Taxes: The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. The rate of the tax is 9.8%.

Health Care Provider Surcharge: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $990 tax per licensed nursing home bed, a 1.56% tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6% tax on the total premium revenue of health maintenance organizations.

Other Sources

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

The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs.

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement requires the defendant tobacco companies to make annual payments to the State of between $165 million and $204 million. The payments are to be made at the beginning of the calendar year and are scheduled into perpetuity. These amounts are adjusted based on volume of tobacco products sold and the Consumer Price Index as indicated in the settlement documents. See litigation report case 10, page 15 of this Official Statement. See also Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

MINNESOTACARE® PROGRAM

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

The program is not part of the General Fund. A separate fund, called the Health Care Access Fund, was established as a special revenue fund to account for revenues and expenditures for the MinnesotaCare® program. Program revenues are derived primarily from a 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs. The 2005 Legislature made changes in the MinnesotaCare® program that shift many current recipients of General Assistance Medical Care, another health insurance program funded out of the General Fund, to MinnesotaCare® starting in Fiscal Year 2007. This will shift significant costs out of the General Fund and into the Health Care Access Fund. The amounts to be transferred from the Health Care Access Fund to the General Fund are set in law for the Current Biennium. The total amount to be transferred is $112 million.

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

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

Resources	
Unreserved Balance at June 30, 2005	$ 54
Transfer in from General Fund	0
Revenues	986
Total Resources	1,040
Expenditures	839
Projected Unreserved Balance at June 30, 2007	$ 201
Transfer to General Fund	112
Projected Unrestricted Balance at June 30, 2007	$ 89

SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

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

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

Under State law school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of January 24, 2006, there were approximately $372 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

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

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

School districts are authorized to issue general obligation bonds only when authorized by school district electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due. As of January 24, 2006 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 coming due as of January 24, 2006 is about $1.5 billion, with the maximum amount of principal and interest payable in any one month being $465 million.

The State has not had to make any debt service payments on behalf of school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts.

COUNTY CREDIT ENHANCEMENT PROGRAM

Minnesota Statutes, Section 373.45 establishes a County Credit Enhancement Program. The law authorizes and directs the Commissioner of Finance, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Public Facilities Authority to pay debt service coming due on certain county general obligation bonds and lease obligations, in the event that the county notifies the Public Facilities Authority that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Public Facilities Authority that it has not received from the county timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Public Facilities Authority the amounts needed to pay any warrants which are issued.

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

Counties are authorized to issue general obligation bonds and must levy a direct, irrevocable ad valorem tax on all taxable property in the county for the years and in amounts sufficient to produce sums not less than 5 percent in excess of the principal of and interest on the bonds when due.

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

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

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

As of January 24, 2006, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately $190 million. More bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the bonds enrolled in the program, during the Current Biennium the total amount of principal and interest coming due as of January 24, 2006 is $14 million with the maximum amount of principal and interest payable in any one month being $5.8 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the counties.

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APPENDIX A

State Financial Statements For the Fiscal Year Ended June 30, 2005

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APPENDIX A
Table of Contents

BASIC FINANCIAL STATEMENTS

O L A

OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2005, 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 those financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 79 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers' Compensation Assigned Risk Plan, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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of Minnesota as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2005. This standard establishes and modifies disclosure requirements for deposit and investment risks including credit risk, interest rate risk, and foreign currency risk.

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

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 18, 2005

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, 2005, 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
- Higher Education Services Office
- Minnesota Partnership for Action Against Tobacco
- National Sports Center Foundation
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains 27 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balance*s for the General and Federal funds, which are reported as major funds. Information from the remaining 25 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

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

Proprietary Funds

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

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

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the 7 nonmajor enterprise funds and the 8 internal service funs 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 17 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the Investment Trust Fund (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pool), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2005, by $9.1 billion (presented as *net assets*). Of this amount, a deficit of $675 million was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. As the state budgets based on the timing of the liquidation of liabilities, a deficit unrestricted net assets may result from certain long-term liabilities reflected in the statement of net assets that will be liquidated with resources collected in future years.

- The state's total net assets increased by $1.0 billion (12.6 percent) during fiscal year 2005. Net assets of governmental activities increased by $797 million (11.5 percent), while net assets of the business-type activities showed an increase of $226 million (19.2 percent).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $3.6 billion, an increase of $561 million compared to the prior year. This amount includes an unreserved fund balance of $597 million.

- The General Fund includes a deficit of $68 million in the undesignated unreserved fund balance, while showing a $93 million total fund balance. The remaining governmental funds reported $182 million of undesignated unreserved fund balance, which is available for spending at the government's discretion and $484 million in designated fund balance.

Long-Term Debt

- The state's total long-term debt obligations increased by $76 million (1.4 percent) during the current fiscal year. The increase is primarily due to the issuance of general obligation bonds for the trunk highway projects and other various state purposes.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled $9.126 billion at the end of 2005, compared to $8.103 billion at the end of the previous year. All of the governmental activities and business-type activities net assets were either restricted by investment in capital assets or restricted for specific purposes. The remaining unrestricted net assets – resources available for future spending – reported a deficit balance of $674 million in the governmental activities and $1 million in the business-type activities.

Net Assets
June 30, 2005 and 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current Assets	$ 8,146,869	$ 7,875,733	$ 941,984	$ 928,778	$ 9,088,853	$ 8,804,511
Noncurrent Assets:						
Capital Assets	8,413,867	7,826,826	1,110,287	1,072,726	9,524,154	8,899,552
Other Assets	718,969	894,598	52,664	59,424	771,633	954,022
Total Assets	$ 17,279,705	$ 16,597,157	$ 2,104,935	$ 2,060,928	$ 19,384,640	$ 18,658,085
Current Liabilities	$ 4,833,877	$ 5,135,904	$ 342,004	$ 541,660	$ 5,175,881	$ 5,677,564
Noncurrent Liabilities	4,723,597	4,535,676	358,796	341,376	5,082,393	4,877,052
Total Liabilities	$ 9,557,474	$ 9,671,580	$ 700,800	$ 883,036	$ 10,258,274	$ 10,554,616
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 5,943,503	$ 5,525,157	$ 884,486	$ 872,804	$ 6,827,989	$ 6,397,961
Restricted	2,452,423	2,387,732	520,745	86,291	2,973,168	2,474,023
Unrestricted	(673,695)	(987,312)	(1,096)	218,797	(674,791)	(768,515)
Total Net Assets	$ 7,722,231	$ 6,925,577	$ 1,404,135	$ 1,177,892	$ 9,126,366	$ 8,103,469

The largest portion, $6.8 billion of $9.1 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $3.0 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used.

The remaining net assets balance represents a deficit in unrestricted net assets of $675 million. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the non-capital portion of net assets for most governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased $1.023 billion (12.6 percent) over the course of this fiscal year. This resulted from a $797 million (11.5 percent) increase in net assets of governmental activities, and a $226 million (19.2 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2005 and 2004
(In Thousands)

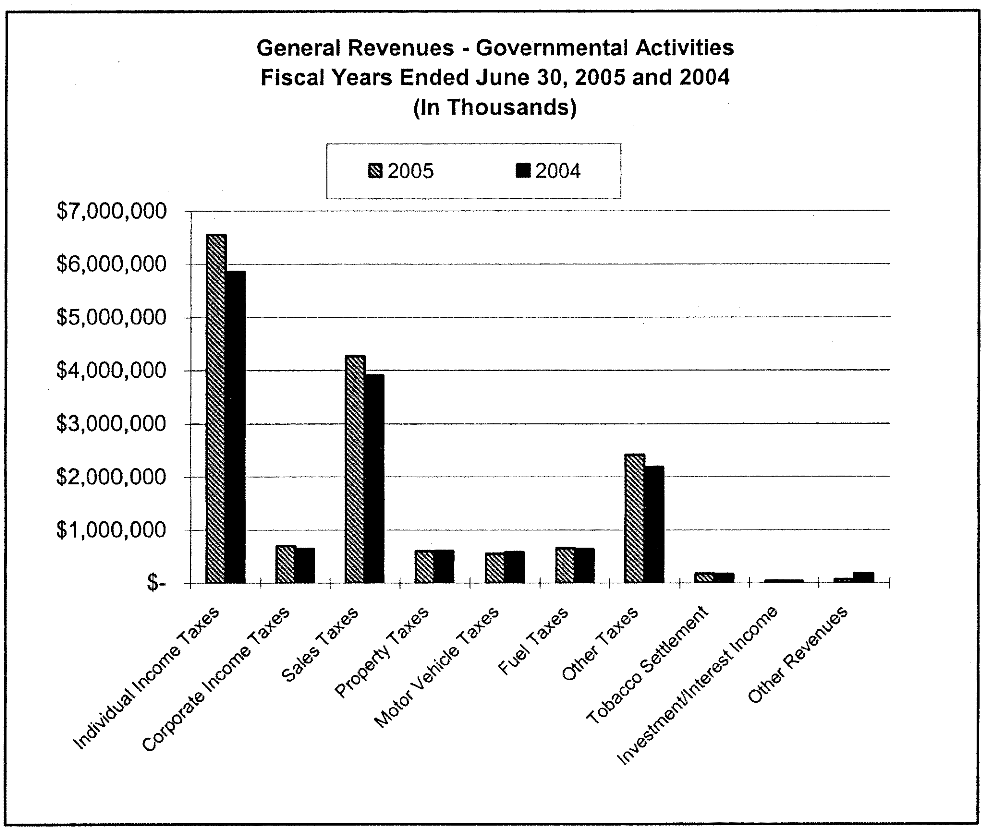
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	$ 1,144,454	$ 1,265,184	$ 2,136,827	$ 2,001,721	$ 3,281,281	$ 3,266,905
Operating Grants and Contributions	5,556,221	5,428,859	198,217	312,200	5,754,438	5,741,059
Capital Grants	261,236	269,786	1,687	2,307	262,923	272,093
General Revenues:						
Individual Income Taxes	6,556,331	5,863,383	-	-	6,556,331	5,863,383
Corporate Income Taxes	702,839	643,442	-	-	702,839	643,442
Sales Taxes	4,269,837	3,911,496	-	-	4,269,837	3,911,496
Property Taxes	603,412	608,860	-	-	603,412	608,860
Motor Vehicle Taxes	552,856	587,223	-	-	552,856	587,223
Fuel Taxes	652,493	643,964	-	-	652,493	643,964
Other Taxes	2,417,175	2,190,491	-	-	2,417,175	2,190,491
Tobacco Settlement	178,177	173,173	-	-	178,177	173,173
Investment/Interest Income	42,753	32,712	9,264	16,213	52,017	48,925
Other Revenues	63,182	178,255	12,240	2,417	75,422	180,672
Total Revenues	$ 23,000,966	$ 21,796,828	$ 2,358,235	$ 2,334,858	$ 25,359,201	$ 24,131,686
Expenses:						
Public Safety and Corrections	$ 764,307	$ 731,438	$ -	$ -	$ 764,307	$ 731,438
Transportation	1,685,256	1,662,402	-	-	1,685,256	1,662,402
Agricultural and Environmental Resources	612,566	557,414	-	-	612,566	557,414
Economic and Workforce Development	505,901	591,513	-	-	505,901	591,513
General Education	6,820,389	6,512,834	-	-	6,820,389	6,512,834
Higher Education	762,092	744,112	-	-	762,092	744,112
Health and Human Services	8,466,865	8,228,552	-	-	8,466,865	8,228,552
General Government	654,758	671,908	-	-	654,758	671,908
Intergovernmental Aid	1,284,576	1,355,683	-	-	1,284,576	1,355,683
Interest	184,573	181,323	-	-	184,573	181,323
State Colleges and Universities	-	-	1,394,893	1,385,817	1,394,893	1,385,817
Unemployment Insurance	-	-	686,818	931,659	686,818	931,659
Lottery	-	-	302,575	287,550	302,575	287,550
Other	-	-	172,886	166,923	172,886	166,923
Total Expenses	$ 21,741,283	$ 21,237,179	$ 2,557,172	$ 2,771,949	$ 24,298,455	$ 24,009,128
Excess (Deficiency) Before Transfers	$ 1,259,683	$ 559,649	$ (198,937)	$ (437,091)	$ 1,060,746	$ 122,558
Transfers	(425,180)	(471,382)	425,180	471,382	-	-
Change in Net Assets	$ 834,503	$ 88,267	$ 226,243	$ 34,291	$ 1,060,746	$ 122,558
Net Assets, Beginning	$ 6,925,577	$ 6,753,077	$ 1,177,892	$ 1,143,601	$ 8,103,469	$ 7,896,678
Prior Period Adjustments	(37,849)	84,233	-	-	(37,849)	84,233
Net Assets, Ending	$ 7,722,231	$ 6,925,577	$ 1,404,135	$ 1,177,892	$ 9,126,366	$ 8,103,469

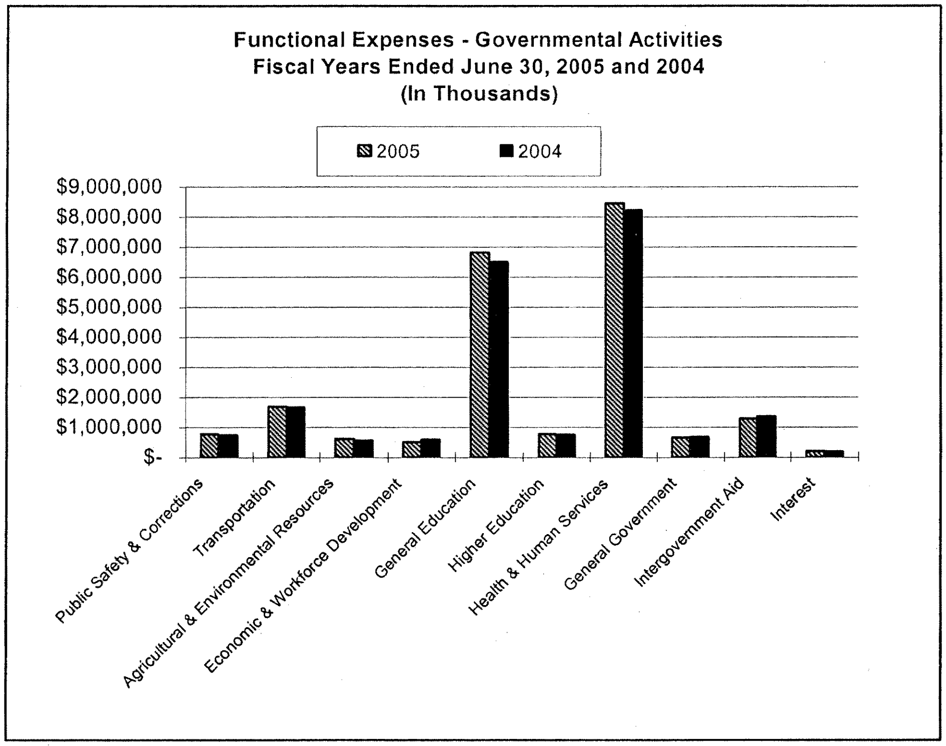
Approximately 62 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 24 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 1 percent came from other general revenues.

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

Governmental Activities

Governmental activities increased the state's net assets by $797 million, which primarily resulted from increase in revenues as a result of the continued strengthening economy following an economic downturn.

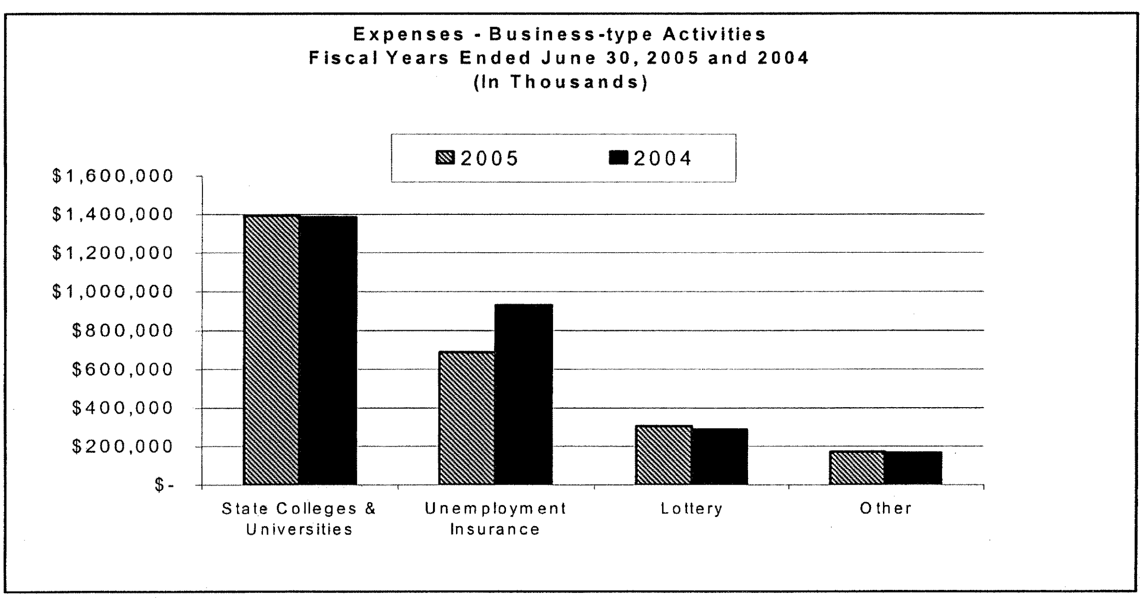




The increase in revenues was partially offset by an increase in General Education expenses resulting from a one time reduction in state general education aid expenses in fiscal year 2004.

Business-type Activities

The business-type activities had an increase in net assets of $226 million. This increase was due primarily to a $202 million increase in net assets of the Unemployment Insurance Fund, which was attributable to a decrease in expenses as a result of a decrease in the number of individuals unemployed compared to the prior year.



State Funds Financial Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $3.556 billion, an increase of $561 million in comparison with the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the General Fund was a deficit of $68 million, an increase of $380 million in comparison with the prior year. This improvement primarily resulted from an increase in sales and income tax receipts due to a continued rebound of the economy. The increase in corporate income taxes was partially offset by a $265 million reduction as a result of a Minnesota Supreme Court ruling that allows some corporations increased use of both the Minnesota foreign operating corporation designation and the Minnesota foreign royalty and fee subtraction. For further discussion, see the notes to the financial statements. The increase in revenues was also partially offset by an increase in General Education expenditures resulting from a one time reduction in the state general education aid expenditures in fiscal year 2004.

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 $226 million during the current year. This primarily resulted from a $202 million increase in net assets in the Unemployment Insurance Fund due to a decrease in the state's unemployment. During fiscal year 2005, the loan payable from the Federal Unemployment Account to cover unemployment benefits in the Unemployment Insurance Fund decreased $189 million to $82 million.

General Fund Budgetary Highlights

Based on the February 2005 forecast, the state's financial outlook has improved since the November 2004 forecast. This improvement was primarily caused by a projected increase in income and corporate taxes as well as sales tax. The increase in revenues during fiscal year 2005 was used to increase budgetary reserves and buy back $268 million in the school aid shift, which increased General Education expenditures.

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

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2005, was $11.4 billion, less accumulated depreciation of $1.9 billion, resulting in a net book value of $9.5 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, 2005 and 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital Assets not Depreciated:						
Land	$ 1,559,646	$ 1,463,091	$ 74,828	$ 72,062	$ 1,634,474	$ 1,535,153
Buildings, Structures, Improvements	26,624	20,039	-	-	26,624	20,039
Construction in Progress	193,137	125,646	54,170	91,245	247,307	216,891
Infrastructure	5,519,129	5,113,949	-	-	5,519,129	5,113,949
Art and Historical Treasures	500	100	-	-	500	100
Total Capital Assets not Depreciated	$ 7,299,036	$ 6,722,825	$ 128,998	$ 163,307	$ 7,428,034	$ 6,886,132
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 1,573,229	$ 1,544,866	$ 1,704,480	$ 1,579,402	$ 3,277,709	$ 3,124,268
Infrastructure	49,201	44,285	-	-	49,201	44,285
Library Collections	-	-	48,059	45,180	48,059	45,180
Equipment, Furniture, Fixtures	374,985	362,009	280,248	282,553	655,233	644,562
Total Capital Assets Depreciated	$ 1,997,415	$ 1,951,160	$ 2,032,787	$ 1,907,135	$ 4,030,202	$ 3,858,295
Less: Accumulated Depreciation	882,584	847,159	1,051,498	997,716	1,934,082	1,844,875
Capital Assets Net of Depreciation	$ 1,114,831	$ 1,104,001	$ 981,289	$ 909,419	$ 2,096,120	$ 2,013,420
Total	$ 8,413,867	$ 7,826,826	$ 1,110,287	$ 1,072,726	$ 9,524,154	$ 8,899,552

The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 3,200 bridges that are maintained by the Minnesota Department of Transportation.

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2004, indicated that the average PQI for principal arterial pavement was 3.30 and 3.14 for all other pavements. The state has maintained a stable condition of pavement over the past three 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 2004, indicated that 96 percent of principal arterial system bridges and 95 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

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

Debt Administration

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

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

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

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

Outstanding Bonded Debt
June 30, 2005 and 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation	$ 3,315,282	$ 3,055,496	$ 145,028	$ 141,859	$ 3,460,310	$ 3,197,355
Revenue	-	-	52,475	51,410	52,475	51,410
Total	$ 3,315,282	$ 3,055,496	$ 197,503	$ 193,269	$ 3,512,785	$ 3,248,765

During fiscal year 2005, the state issued the following bonds:

- $400 million in general obligation state various purpose bonds
- $120 million in general obligation state trunk highway bonds

In addition to the general obligation bonds noted above, the state issued $172 million of refunding bonds in November 2004.

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, 2005
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,236,542	$ 483,924	$ 4,720,466	$ 1,375,384
Investments	985,942	23,322	1,009,264	956,109
Accounts Receivable	1,842,833	388,867	2,231,700	283,619
Due from Component Units	19,549	-	19,549	-
Due from Primary Government	-	-	-	154,611
Accrued Investment/Interest Income	19,934	18	19,952	37,731
Federal Aid Receivable	643,018	13,107	656,125	135
Inventories	17,235	19,943	37,178	33,945
Loans and Notes Receivable	67,048	8,656	75,704	158,311
Internal Balances	12,393	(12,393)	-	-
Securities Lending Collateral	300,029	13,508	313,537	244,838
Other Assets	2,346	3,032	5,378	39,156
Total Current Assets	$ 8,146,869	$ 941,984	$ 9,088,853	$ 3,283,839
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 24,800	$ 24,800	$ 304,094
Investments-Restricted	-	-	-	273,407
Accounts Receivable-Restricted	-	-	-	26,370
Due from Primary Government-Restricted	-	-	-	5,690
Other Assets-Restricted	-	108	108	42,254
Due from Component Units	107,661	-	107,661	-
Investments	-	-	-	2,648,534
Accounts Receivable	291,107	-	291,107	458,383
Loans and Notes Receivable	269,296	27,756	297,052	3,419,694
Depreciable Capital Assets (Net)	1,114,831	981,289	2,096,120	3,752,707
Nondepreciable Capital Assets	1,779,907	128,998	1,908,905	434,797
Infrastructure (Not depreciated)	5,519,129	-	5,519,129	-
Other Assets	50,905	-	50,905	13,834
Total Noncurrent Assets	$ 9,132,836	$ 1,162,951	$ 10,295,787	$ 11,379,764
Total Assets	$ 17,279,705	$ 2,104,935	$ 19,384,640	$ 14,663,603
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,432,920	$ 167,508	$ 3,600,428	$ 305,187
Due to Component Units	111,339	-	111,339	-
Due to Primary Government	-	-	-	29,934
Unearned Revenue	483,474	35,819	519,293	151,627
Accrued Bond Interest Payable	43,759	228	43,987	58,062
General Obligation Bonds Payable	276,359	10,176	286,535	499,702
Bond Premium Payable	11,447	-	11,447	-
Loans and Notes Payable	7,056	82,466	89,522	9,073
Revenue Bonds Payable	-	2,015	2,015	607,340
Claims Payable	120,055	-	120,055	107,312
Compensated Absences Payable	30,220	13,954	44,174	62,873
Workers' Compensation Liability	13,016	1,554	14,570	-
Capital Leases Payable	4,203	2,312	6,515	-
Securities Lending Liabilities	300,029	13,508	313,537	244,838
Other Liabilities	-	12,464	12,464	2,995
Total Current Liabilities	$ 4,833,877	$ 342,004	$ 5,175,881	$ 2,078,943
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 67,069
Unearned Revenue-Restricted	-	-	-	85,849
Accrued Bond Interest Payable-Restricted	-	-	-	8,490
Due to Primary Government	-	-	-	107,661
Unearned Revenue	-	-	-	68,683
General Obligation Bonds Payable	3,038,923	134,852	3,173,775	1,075,564
Bond Premium Payable	157,127	4,420	161,547	-
Loans and Notes Payable	10,074	4,910	14,984	6,772
Revenue Bonds Payable	-	50,460	50,460	2,792,306
Claims Payable	1,198,379	-	1,198,379	539,784
Compensated Absences Payable	214,259	103,785	318,044	18,612
Workers' Compensation Liability	98,001	3,594	101,595	-
Capital Leases Payable	6,834	24,185	31,019	-
Funds Held in Trust	-	-	-	82,334
Federal Student Loan Financing	-	32,590	32,590	-
Other Liabilities	-	-	-	38,605
Total Noncurrent Liabilities	$ 4,723,597	$ 358,796	$ 5,082,393	$ 4,891,729
Total Liabilities	$ 9,557,474	$ 700,800	$ 10,258,274	$ 6,970,672

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2005
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
NET ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Invested in Capital Assets, Net of Related Debt	$ 5,943,503	$ 884,486	$ 6,827,989	$ 2,679,038
Restricted for:				
Capital Projects	$ 84,969	$ -	$ 84,969	$ -
Debt Service	355,372	-	355,372	-
Transportation	752,126	-	752,126	-
Environmental Resources	481,920	-	481,920	-
Economic and Workforce Development	60,694	4,288	64,982	-
School Aid-Nonexpendable	610,284	-	610,284	-
School Aid-Expendable	107,058	-	107,058	-
Health & Human Services	-	30,709	30,709	-
Unemployment Benefits	-	217,348	217,348	-
State Colleges and Universities	-	246,625	246,625	-
Other Purposes	-	21,775	21,775	
Component Units	-	-	-	4,397,313
Total Restricted	$ 2,452,423	$ 520,745	$ 2,973,168	$ 4,397,313
Unrestricted	$ (673,695)	$ (1,096)	$ (674,791)	$ 616,580
Total Net Assets	$ 7,722,231	$ 1,404,135	$ 9,126,366	$ 7,692,931

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 764,307	$ 143,998	$ 146,521	$ -
Transportation	1,685,256	17,451	290,197	261,236
Agricultural and Environmental Resources	612,566	196,047	57,728	-
Economic and Workforce Development	505,901	159,929	314,178	-
General Education	6,820,389	39,655	620,481	-
Higher Education	762,092	2	-	-
Health and Human Services	8,466,865	360,563	4,075,420	-
General Government	654,758	226,809	51,696	-
Intergovernment Aid	1,284,576	-	-	-
Interest	184,573	-	-	-
Total Governmental Activities	$ 21,741,283	$ 1,144,454	$ 5,556,221	$ 261,236
Business-type Activities:				
State Colleges and Universities	$ 1,394,893	$ 651,094	$ 178,645	$ 1,687
Unemployment Insurance	686,818	908,540	19,572	-
Lottery	302,575	408,011	-	-
Other	172,886	169,182	-	-
Total Business-type Activities	$ 2,557,172	$ 2,136,827	$ 198,217	$ 1,687
Total Primary Government	$ 24,298,455	$ 3,281,281	$ 5,754,438	$ 262,923
Component Units:				
University of Minnesota	$ 2,581,505	$ 1,052,029	$ 704,350	$ 134,774
Metropolitan Council	652,629	264,298	167,029	140,370
Housing Finance	316,931	139,812	161,354	-
Others	388,798	173,758	48,950	-
Total Component Units	$ 3,939,863	$ 1,629,897	$ 1,081,683	$ 275,144

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
$ (473,788)		$ (473,788)	
(1,116,372)		(1,116,372)	
(358,791)		(358,791)	
(31,794)		(31,794)	
(6,160,253)		(6,160,253)	
(762,090)		(762,090)	
(4,030,882)		(4,030,882)	
(376,253)		(376,253)	
(1,284,576)		(1,284,576)	
(184,573)		(184,573)	
$ (14,779,372)		$ (14,779,372)	
	$ (563,467)	$ (563,467)	
	241,294	241,294	
	105,436	105,436	
	(3,704)	(3,704)	
	$ (220,441)	$ (220,441)	
$ (14,779,372)	$ (220,441)	$ (14,999,813)	
			$ (690,352)
			(80,932)
			(15,765)
			(166,090)
			$ (953,139)
$ 6,556,331	$ -	$ 6,556,331	$ -
702,839	-	702,839	-
4,269,837	-	4,269,837	-
603,412	-	603,412	-
552,856	-	552,856	-
652,493	-	652,493	-
2,417,175	-	2,417,175	188,194
178,177	-	178,177	-
42,753	9,264	52,017	313,591
63,182	12,240	75,422	190,594
-	-	-	763,524
(425,180)	425,180	-	-
$ 15,613,875	$ 446,684	$ 16,060,559	$ 1,455,903
$ 834,503	$ 226,243	$ 1,060,746	$ 502,764
$ 6,925,577	$ 1,177,892	$ 8,103,469	$ 7,185,749
(37,849)	-	(37,849)	8,339
-	-	-	(3,921)
$ 6,887,728	$ 1,177,892	$ 8,065,620	$ 7,190,167
$ 7,722,231	$ 1,404,135	$ 9,126,366	$ 7,692,931

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,753,660	$ 3	$ 2,321,326	$ 4,074,989
Investments	55,270	-	910,173	965,443
Accounts Receivable	1,650,509	151,852	324,442	2,126,803
Interfund Receivables	64,315	5,651	94,909	164,875
Due from Component Units	-	-	127,210	127,210
Accrued Investment/Interest Income	11,433	-	8,191	19,624
Federal Aid Receivable	-	577,691	69,447	647,138
Inventories	-	-	16,510	16,510
Loans and Notes Receivable	49,789	70	286,485	336,344
Advances to Other Funds	4,104	-	-	4,104
Securities Lending Collateral	113,863	-	175,103	288,966
Investment in Land	-	-	15,448	15,448
Total Assets	$ 3,702,943	$ 735,267	$ 4,349,244	$ 8,787,454
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 2,307,398	$ 665,850	$ 376,791	$ 3,350,039
Interfund Payables	15,315	36,308	100,859	152,482
Due to Component Units	89,585	1,838	19,916	111,339
Deferred Revenue	1,083,817	24,991	219,564	1,328,372
Securities Lending Liabilities	113,863	-	175,103	288,966
Total Liabilities	$ 3,609,978	$ 728,987	$ 892,233	$ 5,231,198
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 107,364	$ -	$ 223,023	$ 330,387
Reserved for Local Governments	-	-	453,044	453,044
Reserved for Trust Principal	-	-	985,996	985,996
Other Reserved Fund Balances	53,893	6,280	1,129,250	1,189,423
Total Reserved Fund Balances	$ 161,257	$ 6,280	$ 2,791,313	$ 2,958,850
Unreserved Fund Balances:				
Designated for:				
Special Revenue Funds	$ -	$ -	$ 484,012	$ 484,012
Undesignated, reported in:				
General Fund	(68,292)	-	-	(68,292)
Capital Project Funds	-	-	(8,187)	(8,187)
Special Revenue Funds	-	-	189,873	189,873
Total Unreserved Fund Balance	$ (68,292)	$ -	$ 665,698	$ 597,406
Total Fund Balances	$ 92,965	$ 6,280	$ 3,457,011	$ 3,556,256
Total Liabilities and Fund Balances	$ 3,702,943	$ 735,267	$ 4,349,244	$ 8,787,454

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, 2005
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 3,556,256
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 5,519,129	
Depreciable Capital Assets	1,907,393	
Nondepreciable Capital Assets	1,764,459	
Accumulated Depreciation	(820,165)	
Total Capital Assets		8,370,816
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		824,047
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		48,618
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		130,552
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	$ (3,315,282)	
Bond Premium Payable	(168,574)	
Accrued Interest Payable on Bonds	(43,759)	
Claims Payable	(1,318,434)	
Workers' Compensation Liability	(111,017)	
Capital Leases Payable	(11,037)	
Compensated Absences Payable	(239,955)	
Total Liabilities		(5,208,058)
Net Assets of Governmental Activities		$ 7,722,231

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 6,534,422	$ -	$ -	$ 6,534,422
Corporate Income Taxes	711,136	-	-	711,136
Sales Taxes	4,280,169	-	1,222	4,281,391
Property Taxes	610,809	-	-	610,809
Motor Vehicle Taxes	384,314	-	683,130	1,067,444
Fuel Taxes	-	-	655,162	655,162
Other Taxes	1,285,358	-	614,218	1,899,576
Tobacco Settlement	175,488	-	-	175,488
Federal Revenues	90	5,238,408	368,055	5,606,553
Licenses and Fees	247,211	-	245,659	492,870
Departmental Services	45,254	12,304	193,108	250,666
Investment/Interest Income	21,936	401	119,493	141,830
Securities Lending Income	3,268	-	5,930	9,198
Other Revenues	304,284	164,466	153,398	622,148
Net Revenues	$ 14,603,739	$ 5,415,579	$ 3,039,375	$ 23,058,693
Expenditures:				
Current:				
Public Safety and Corrections	$ 460,583	$ 113,341	$ 179,336	$ 753,260
Transportation	203,121	196,742	1,244,637	1,644,500
Agricultural and Environmental Resources	190,250	30,925	356,825	578,000
Economic and Workforce Development	123,588	303,971	189,688	617,247
General Education	6,181,340	597,663	41,289	6,820,292
Higher Education	681,842	-	82,230	764,072
Health and Human Services	3,779,232	4,100,831	585,484	8,465,547
General Government	557,582	13,002	51,593	622,177
Intergovernment Aid	1,284,390	-	186	1,284,576
Securities Lending Rebates and Fees	3,194	-	5,836	9,030
Total Current Expenditures	$ 13,465,122	$ 5,356,475	$ 2,737,104	$ 21,558,701
Capital Outlay	6,388	14,539	682,850	703,777
Debt Service	17,566	17	427,538	445,121
Total Expenditures	$ 13,489,076	$ 5,371,031	$ 3,847,492	$ 22,707,599
Excess of Revenues Over (Under) Expenditures	$ 1,114,663	$ 44,548	$ (808,117)	$ 351,094
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 507,294	$ 507,294
Loan Proceeds	-	-	17,885	17,885
Proceeds from Refunding Bonds	-	-	171,880	171,880
Payment to Refunded Bonds Escrow Agent	-	-	(171,880)	(171,880)
Bond Issue Premium	-	-	61,662	61,662
Transfers-In	389,526	801	2,061,258	2,451,585
Transfers-Out	(1,083,265)	(46,162)	(1,709,187)	(2,838,614)
Capital Leases	-	-	8,387	8,387
Net Other Financing Sources (Uses)	$ (693,739)	$ (45,361)	$ 947,299	$ 208,199
Net Change in Fund Balances	$ 420,924	$ (813)	$ 139,182	$ 559,293
Fund Balances, Beginning, as Reported	$ (327,959)	$ 7,093	$ 3,316,521	$ 2,995,655
Change in Inventory	-	-	1,308	1,308
Fund Balances, Ending	$ 92,965	$ 6,280	$ 3,457,011	$ 3,556,256

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, 2005
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ 559,293
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation in the current period	650,404
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	(28,045)
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	15,109
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used	1,308
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(114,486)
Bond proceeds provide current financial resources to governmental funds; however issuing debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(740,836)
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	(8,387)
Repayment of bonds is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	419,434
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	80,709
Change in Net Assets of Governmental Activities	$ 834,503

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 5,930,000	$ 6,175,855	$ 6,341,164
Corporate Income Taxes	740,200	828,900	925,874
Sales Taxes	4,230,994	4,225,989	4,239,175
Property Taxes	617,582	617,774	610,874
Motor Vehicle Taxes	434,482	393,842	386,472
Other Taxes	1,141,170	1,165,379	1,147,909
Investment/Interest Income	10,000	14,600	20,123
Tobacco Settlement	167,642	175,388	175,488
Other Revenues	554,572	648,824	679,987
Net Revenues	$ 13,826,642	$ 14,246,551	$ 14,527,066
Expenditures:			
Public Safety and Corrections	$ 451,565	$ 476,701	$ 471,421
Transportation	201,435	201,773	201,773
Agricultural and Environmental Resources	190,319	195,361	194,759
Economic and Workforce Development	92,859	95,662	93,209
General Education	6,137,291	6,439,737	6,439,675
Higher Education	727,729	707,352	707,330
Health and Human Services	3,631,135	3,692,471	3,689,302
General Government	645,599	614,224	608,021
Intergovernment Aid	1,366,955	1,311,978	1,300,012
Total Expenditures	$ 13,444,887	$ 13,735,259	$ 13,705,502
Excess of Revenues Over (Under) Expenditures	$ 381,755	$ 511,292	$ 821,564
Other Financing Sources (Uses):			
Transfers-In	$ 316,517	$ 314,187	$ 338,177
Transfers-Out	(1,047,860)	(1,051,961)	(1,051,961)
Net Other Financing Sources (Uses)	$ (731,343)	$ (737,774)	$ (713,784)
Net Change in Fund Balances	$ (349,588)	$ (226,482)	$ 107,780
Fund Balances, Beginning, as Reported	$ 1,289,123	$ 1,289,123	$ 1,289,123
Prior Period Adjustments	-	-	67,949
Fund Balances, Beginning, as Restated	$ 1,289,123	$ 1,289,123	$ 1,357,072
Budgetary Fund Balances, Ending	$ 939,535	$ 1,062,641	$ 1,464,852
Less: Appropriation Carryover	-	-	53,463
Less: Budgetary Reserve	631,434	1,003,000	1,003,000
Undesignated Fund Balances, Ending	$ 308,101	$ 59,641	$ 408,389

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2005
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 412,648	$ 4,728	$ 66,548	$ 483,924	$ 161,545
Investments	23,322	-	-	23,322	20,499
Accounts Receivable	36,377	328,980	23,510	388,867	17,025
Interfund Receivables	14,992	-	-	14,992	-
Accrued Investment/Interest Income	-	-	18	18	310
Federal Aid Receivable	10,408	2,699	-	13,107	-
Inventories	9,684	-	10,259	19,943	725
Deferred Costs	105	-	789	894	2,346
Loans and Notes Receivable	8,656	-	-	8,656	-
Securities Lending Collateral	13,508	-	-	13,508	11,063
Other Assets	-	-	2,138	2,138	-
Total Current Assets	$ 529,700	$ 336,407	$ 103,262	$ 969,369	$ 213,513
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 22,750	$ -	$ 2,050	$ 24,800	$ -
Other Assets-Restricted	108	-	-	108	-
Deferred Costs	-	-	-	-	397
Loans and Notes Receivable	27,756	-	-	27,756	-
Depreciable Capital Assets (Net)	946,828	-	34,461	981,289	27,603
Nondepreciable Capital Assets	127,302	-	1,696	128,998	-
Total Noncurrent Assets	$ 1,124,744	$ -	$ 38,207	$ 1,162,951	$ 28,000
Total Assets	$ 1,654,444	$ 336,407	$ 141,469	$ 2,132,320	$ 241,513
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 129,841	$ 15,273	$ 22,394	$ 167,508	$ 69,158
Interfund Payables	-	15,908	11,477	27,385	-
Unearned Revenue	28,264	6,308	1,247	35,819	4,982
Accrued Bond Interest Payable	-	-	228	228	-
General Obligation Bonds Payable	9,941	-	235	10,176	-
Loans and Notes Payable	896	81,570	-	82,466	7,056
Revenue Bonds Payable	1,400	-	615	2,015	-
Workers' Compensation Liability	1,554	-	-	1,554	-
Capital Leases	2,122	-	190	2,312	-
Compensated Absences Payable	11,757	-	2,197	13,954	552
Securities Lending Liabilities	13,508	-	-	13,508	11,063
Other Liabilities	11,099	-	1,365	12,464	-
Total Current Liabilities	$ 210,382	$ 119,059	$ 39,948	$ 369,389	$ 92,811
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 131,465	$ -	$ 3,387	$ 134,852	$ -
Loans and Notes Payable	4,910	-	-	4,910	10,074
Revenue Bonds Payable	36,205	-	14,255	50,460	-
Workers' Compensation Liability	3,594	-	-	3,594	-
Capital Leases	23,320	-	865	24,185	-
Compensated Absences Payable	95,128	-	8,657	103,785	3,972
Advances from Other Funds	-	-	-	-	4,104
Federal Student Loan Financing	32,590	-	-	32,590	-
Other Liabilities	4,420	-	-	4,420	-
Total Noncurrent Liabilities	$ 331,632	$ -	$ 27,164	$ 358,796	$ 18,150
Total Liabilities	$ 542,014	$ 119,059	$ 67,112	$ 728,185	$ 110,961
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 865,805	$ -	$ 18,681	$ 884,486	$ 10,508
Restricted for:					
Bond Covenants	$ 32,364	$ -	$ -	$ 32,364	$ -
Debt Service	14,992	-	-	14,992	-
Capital Projects	9,455	-	-	9,455	-
Economic and Workforce Development	-	-	4,288	4,288	-
Health and Human Services	-	-	30,709	30,709	-
Other Purposes	17,955	-	21,775	39,730	-
Total Restricted	$ 74,766	$ -	$ 56,772	$ 131,538	$ -
Unrestricted	$ 171,859	$ 217,348	$ (1,096)	$ 388,111	$ 120,044
Total Net Assets	$ 1,112,430	$ 217,348	$ 74,357	$ 1,404,135	$ 130,552

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, 2005
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 567,859	$ -	$ -	$ 567,859	$ -
Net Sales	-	-	446,542	446,542	16,231
Rental and Service Fees	-	-	108,552	108,552	127,909
Insurance Premiums	-	855,375	18,935	874,310	510,257
Federal Revenues	165,928	19,572	-	185,500	-
State Grants	64,019	-	-	64,019	-
Other Income	19,216	53,165	3,164	75,545	6,206
Total Operating Revenues	$ 817,022	$ 928,112	$ 577,193	$ 2,322,327	$ 660,603
Less: Cost of Goods Sold	-	-	298,282	298,282	5,459
Gross Margin	$ 817,022	$ 928,112	$ 278,911	$ 2,024,045	$ 655,144
Operating Expenses:					
Purchased Services	$ 157,280	$ -	$ 25,270	$ 182,550	$ 136,325
Salaries and Fringe Benefits	954,071	-	103,876	1,057,947	42,180
Student Financial Aid	22,440	-	-	22,440	-
Unemployment Benefits	-	678,107	-	678,107	-
Claims	-	-	15,053	15,053	404,779
Depreciation	70,109	-	3,834	73,943	8,322
Amortization	-	-	71	71	104
Supplies and Materials	77,567	-	6,697	84,264	6,124
Repairs and Maintenance	31,691	-	-	31,691	-
Indirect Costs	-	-	9,248	9,248	2,316
Other Expenses	64,308	-	6,927	71,235	7,460
Total Operating Expenses	$ 1,377,466	$ 678,107	$ 170,976	$ 2,226,549	$ 607,610
Operating Income (Loss)	$ (560,444)	$ 250,005	$ 107,935	$ (202,504)	$ 47,534
Nonoperating Revenues (Expenses):					
Investment Income	$ 7,188	$ 115	$ 1,948	$ 9,251	$ 4,691
Private Grants	12,717	-	-	12,717	-
Grants and Subsidies	1,687	-	-	1,687	-
Securities Lending Income	599	-	-	599	414
Other Nonoperating Revenues	-	13,272	-	13,272	1,413
Interest and Financing Costs	(9,934)	(8,711)	(1,517)	(20,162)	(529)
Grants, Aids and Subsidies	(7,493)	-	-	(7,493)	-
Securities Lending Rebates and Fees	(586)	-	-	(586)	(405)
Other Nonoperating Expenses	-	-	(4,686)	(4,686)	(1,738)
Gain (Loss) on Disposal of Capital Assets	(1,016)	-	(16)	(1,032)	1,880
Total Nonoperating Revenues (Expenses)	$ 3,162	$ 4,676	$ (4,271)	$ 3,567	$ 5,726
Income (Loss) Before Transfers & Contributions	$ (557,282)	$ 254,681	$ 103,664	$ (198,937)	$ 53,260
Capital Contributions	36,952	-	-	36,952	-
Transfers-In	546,444	-	267	546,711	-
Transfers-Out	-	(52,312)	(106,171)	(158,483)	(38,151)
Change in Net Assets	$ 26,114	$ 202,369	$ (2,240)	$ 226,243	$ 15,109
Net Assets, Beginning, as Reported	$ 1,086,316	$ 14,979	$ 76,597	$ 1,177,892	$ 115,443
Net Assets, Ending	$ 1,112,430	$ 217,348	$ 74,357	$ 1,404,135	$ 130,552

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 638,304	$ 887,128	$ 578,582	$ 2,104,014	$ 658,721
Receipts from Grants	229,032	19,693	-	248,725	-
Receipts from Other Revenues	-	-	1,940	1,940	6,814
Receipts from Repayment of Program Loans	6,872	-	-	6,872	-
Financial Aid Disbursements	(23,610)	-	-	(23,610)	-
Payments to Claimants	-	(676,871)	(260,303)	(937,174)	(405,106)
Payments to Suppliers	(381,521)	-	(82,194)	(463,715)	(149,307)
Payments to Employees	(942,073)	-	(104,629)	(1,046,702)	(42,297)
Payments to Others	-	-	(25,144)	(25,144)	(1,859)
Payments of Program Loans	(7,789)	-	-	(7,789)	-
Net Cash Flows from Operating Activities	$ (480,785)	$ 229,950	$ 108,252	$ (142,583)	$ 66,966
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 12,717	$ -	$ -	$ 12,717	$ -
Transfers-In	546,444	-	-	546,444	-
Transfers-Out	-	(50,493)	(107,361)	(157,854)	(37,973)
Advances from Other Funds	-	651,110	-	651,110	4,630
Repayments of Advances from Other Funds	-	(835,829)	-	(835,829)	(5,226)
Interest Paid	-	(12,950)	-	(12,950)	-
Other Nonoperating Expenses	(7,493)	-	(3,796)	(11,289)	(4,686)
Other Nonoperating Revenues	1,011	13,272	-	14,283	-
Net Cash Flows from Noncapital Financing Activities	$ 552,679	$ (234,890)	$ (111,157)	$ 206,632	$ (43,255)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 36,952	$ -	$ -	$ 36,952	$ -
Investment in Capital Assets	(101,698)	-	(3,893)	(105,591)	(9,363)
Proceeds from Disposal of Capital Assets	1,508	-	21	1,529	1,809
Proceeds from Capital Debt	15,300	-	-	15,300	-
Proceeds from Loans	1,547	-	-	1,547	7,737
Capital Lease Payments	(2,618)	-	(279)	(2,897)	-
Repayment of Loan Principal	(1,055)	-	-	(1,055)	(11,456)
Repayment of Bond Principal	(11,206)	-	(532)	(11,738)	-
Interest Paid	(9,593)	-	(1,519)	(11,112)	(590)
Net Cash Flows from Capital and Related Financing Activities	$ (70,863)	$ -	$ (6,202)	$ (77,065)	$ (11,863)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 6,552	$ -	$ -	$ 6,552	$ 2,510
Purchase of Investments	(1,874)	-	-	(1,874)	(2,493)
Investment Earnings	5,667	115	1,947	7,729	5,017
Net Cash Flows from Investing Activities	$ 10,345	$ 115	$ 1,947	$ 12,407	$ 5,034
Net Increase (Decrease) in Cash and Cash Equivalents	$ 11,376	$ (4,825)	$ (7,160)	$ (609)	$ 16,882
Cash and Cash Equivalents, Beginning, as Reported	$ 424,022	$ 9,553	$ 75,758	$ 509,333	$ 144,663
Cash and Cash Equivalents, Ending	$ 435,398	$ 4,728	$ 68,598	$ 508,724	$ 161,545

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005
(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)	$ (560,444)	$ 250,005	$ 107,935	$ (202,504)	$ 47,534
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 70,109	$ -	$ 3,834	$ 73,943	$ 8,322
Amortization	-	-	71	71	104
Loan Principal Repayments	6,872	-	-	6,872	-
Loans Issued	(7,789)	-	-	(7,789)	-
Bad Debt Expense	681	-	-	681	-
Change in Valuation of Assets	(134)	-	9	(125)	-
Change in Assets and Liabilities:					
Accounts Receivable	(1,100)	(22,468)	1,445	(22,123)	4,707
Inventories	(74)	-	(686)	(760)	186
Other Assets	-	-	(29)	(29)	492
Accounts Payable	7,147	77	(5,060)	2,164	5,368
Compensated Absences Payable	3,647	-	448	4,095	465
Unearned Revenues	1,648	2,336	115	4,099	64
Other Liabilities	(1,348)	-	170	(1,178)	(276)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 79,659	$ (20,055)	$ 317	$ 59,921	$ 19,432
Net Cash Flows from Operating Activities	$ (480,785)	$ 229,950	$ 108,252	$ (142,583)	$ 66,966
Noncash Investing, Capital and Financing Activities:					
Donated Assets	$ 1,577	$ -	$ -	$ 1,577	$ -
Change in Fair Value of Investments	(30)	-	-	(30)	-
Capital Assets Acquired Through Leases	13,943	-	-	13,943	-
Capital Assets Purchased on Account	6,639	-	-	6,639	-
Disposal of Capital Assets	2,447	-	-	2,447	19,667
Buildings Capitalized under Notes Payable	2,199	-	-	2,199	-
Investment Earning on Account	1,417	-	-	1,417	-
Trade-in Allowance for Investment in Capital Assets	-	-	-	-	1,948
Change in Capital Asset Threshold	-	-	-	-	3,148

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2005
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 4,877	$ -	$ 63,394
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,142,605	$ 34,418	$ -
Investments:			
Commercial Paper	$ 34,340	$ -	$ -
Debt Securities	9,895,372	129,236	-
Equity Securities	29,863,698	312,151	-
Mutual Funds	2,644,000	-	-
Total Investments	$ 42,437,410	$ 441,387	$ -
Accrued Interest and Dividends	$ 133,529	$ 1,809	$ -
Securities Trades Receivables (Payables)	(1,051,107)	(9,223)	-
Total Investment Pool Participation	$ 43,662,437	$ 468,391	$ -
Receivables:			
Employer Contributions	$ 15,598	$ -	$ -
Member Contributions	9,021	-	-
Accounts Receivable	-	-	9,520
Interfund Receivables	16,514	-	-
Other Receivables	40,254	-	-
Accrued Interest and Dividends	390	-	-
Total Receivables	$ 81,777	$ -	$ 9,520
Securities Lending Collateral	$ 4,859,020	$ 49,404	$ -
Depreciable Capital Assets (Net)	28,779	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 48,637,319	$ 517,795	$ 72,914
LIABILITIES			
Accounts Payable	$ 13,216	$ 72	$ 36,077
Interfund Payables	16,514	-	-
Accrued Expense	1	-	-
Revenue Bonds Payable	27,177	-	-
Bond Interest	52	-	-
Compensated Absences Payable	2,023	-	-
Securities Lending Liabilities	4,859,020	49,404	-
Funds Held in Trust	-	-	36,837
Total Liabilities	$ 4,918,003	$ 49,476	$ 72,914
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 43,719,316	$ 468,319	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT
Additions:		
Contributions:		
Employer	$ 597,916	$ -
Member	793,989	-
Contributions From Other Sources	9,745	-
Participating Plans	-	41,350
Total Contributions	$ 1,401,650	$ 41,350
Net Investment Income:		
Investment Income	$ 4,221,383	$ 35,622
Less: Investment Expense	(54,340)	(296)
Net Investment Income	$ 4,167,043	$ 35,326
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 113,652	$ 1,174
Borrower Rebates	(95,946)	(1,030)
Management Fees	(4,053)	-
Net Securities Lending Revenue	$ 13,653	$ 144
Total Investment Income	$ 4,180,696	$ 35,470
Transfers From Other Funds	$ 12,526	$ -
Other Additions	18,304	-
Total Additions	$ 5,613,176	$ 76,820
Deductions:		
Benefits	$ 2,485,176	$ -
Refunds/Withdrawals	192,639	45,498
Administrative Expenses	54,952	-
Transfers to Other Funds	12,526	-
Total Deductions	$ 2,745,293	$ 45,498
Net Increase (Decrease)	$ 2,867,883	$ 31,322
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 38,458,821	$ 436,997
Change in Fund Structure	2,392,612	-
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 40,851,433	$ 436,997
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 43,719,316	$ 468,319

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2004 and JUNE 30, 2005
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 898,763	$ 60,015	$ 156,219	$ 260,387	$ 1,375,384
Investments	201,507	175,674	128,088	450,840	956,109
Accounts Receivable	2,002	15,620	196,493	69,504	283,619
Due from Other Governmental Units	-	3,461	-	-	3,461
Due from Primary Government	-	43,286	110,916	409	154,611
Accrued Investment/Interest Income	11,151	392	4,802	21,386	37,731
Federal Aid Receivable	-	-	-	135	135
Inventories	-	15,293	18,582	70	33,945
Deferred Costs	-	-	5,020	9,859	14,879
Loans and Notes Receivable	-	105	12,318	145,888	158,311
Securities Lending Collateral	-	-	207,069	37,769	244,838
Other Assets	1,827	1,137	17,773	79	20,816
Total Current Assets	$ 1,115,250	$ 314,983	$ 857,280	$ 996,326	$ 3,283,839
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 168,862	$ 102,476	$ 1,492	$ 31,264	$ 304,094
Investments-Restricted	120,638	19,495	114,438	18,836	273,407
Accounts Receivable-Restricted	-	23,338	-	3,032	26,370
Due from Primary Government-Restricted	-	5,690	-	-	5,690
Other Assets-Restricted	-	42,254	-	-	42,254
Investments	-	-	2,467,350	181,184	2,648,534
Accounts Receivable	-	-	116,459	341,924	458,383
Loans and Notes Receivable	1,542,662	29,767	57,611	1,789,654	3,419,694
Depreciable Capital Assets (Net)	2,764	1,920,824	1,828,500	619	3,752,707
Nondepreciable Capital Assets	-	294,764	137,236	2,797	434,797
Other Assets	-	-	8,473	5,361	13,834
Total Noncurrent Assets	$ 1,834,926	$ 2,438,608	$ 4,731,559	$ 2,374,671	$ 11,379,764
Total Assets	$ 2,950,176	$ 2,753,591	$ 5,588,839	$ 3,370,997	$ 14,663,603
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 15,697	$ 54,811	$ 213,613	$ 15,577	$ 299,698
Payable to Other Governmental Units	-	1,484	-	-	1,484
Due to Primary Government	-	-	5,549	24,385	29,934
Unearned Revenue	-	5,511	95,296	50,820	151,627
Accrued Bond Interest Payable	35,959	4,453	2,499	15,151	58,062
General Obligation Bonds Payable	-	107,437	392,265	-	499,702
Loans and Notes Payable	-	-	8,861	212	9,073
Revenue Bonds Payable	559,385	810	905	46,240	607,340
Grants Payable	-	-	-	4,005	4,005
Claims Payable	-	8,305	20,840	78,167	107,312
Compensated Absences Payable	805	2,453	59,314	301	62,873
Securities Lending Liabilities	-	-	207,069	37,769	244,838
Other Liabilities	-	39	1,474	1,482	2,995
Total Current Liabilities	$ 611,846	$ 185,303	$ 1,007,685	$ 274,109	$ 2,078,943
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 34,979	$ 32,090	$ -	$ 67,069
Unearned Revenue-Restricted	-	85,849	-	-	85,849
Accrued Bond Interest Payable-Restricted	-	8,490	-	-	8,490
Due to Primary Government	-	-	62,167	45,494	107,661
Unearned Revenue	-	-	68,683	-	68,683
General Obligation Bonds Payable	-	881,078	194,486	-	1,075,564
Loans and Notes Payable	-	1,406	2,779	2,587	6,772
Revenue Bonds Payable	1,456,701	10,633	54,916	1,270,056	2,792,306
Claims Payable	-	10,204	11,747	517,833	539,784
Compensated Absences Payable	817	5,542	11,712	541	18,612
Funds Held in Trust	80,457	-	1,877	-	82,334
Other Liabilities	-	20,500	13,156	4,949	38,605
Total Noncurrent Liabilities	$ 1,537,975	$ 1,058,681	$ 453,613	$ 1,841,460	$ 4,891,729
Total Liabilities	$ 2,149,821	$ 1,243,984	$ 1,461,298	$ 2,115,569	$ 6,970,672
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 2,764	$ 1,406,846	$ 1,268,479	$ 949	$ 2,679,038
Restricted-Expendable	797,591	157,276	1,619,107	1,044,444	3,618,418
Restricted-Nonexpendable	-	-	778,895	-	778,895
Unrestricted	-	(54,515)	461,060	210,035	616,580
Total Net Assets	$ 800,355	$ 1,509,607	$ 4,127,541	$ 1,255,428	$ 7,692,931

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2004 AND JUNE 30, 2005
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 316,931	$ 652,629	$ 2,581,505	$ 388,798	$ 3,939,863
Program Revenues:					
Charges for Services	$ 139,812	$ 264,298	$ 1,052,029	$ 173,758	$ 1,629,897
Operating Grants and Contributions	161,354	167,029	704,350	48,950	1,081,683
Capital Grants and Contributions	-	140,370	134,774	-	275,144
Net (Expense) Revenue	$ (15,765)	$ (80,932)	$ (690,352)	$ (166,090)	$ (953,139)
General Revenues:					
Taxes	$ -	$ 188,194	$ -	$ -	$ 188,194
Investment Income	-	8,836	275,059	29,696	313,591
Other Revenues	775	-	184,727	5,092	190,594
Total General Revenues before Grants	$ 775	$ 197,030	$ 459,786	$ 34,788	$ 692,379
State Grants Not Restricted	34,257	-	573,392	155,875	763,524
Total General Revenues	$ 35,032	$ 197,030	$ 1,033,178	$ 190,663	$ 1,455,903
Change in Net Assets	$ 19,267	$ 116,098	$ 342,826	$ 24,573	$ 502,764
Net Assets, Beginning, as Reported	$ 781,088	$ 1,393,509	$ 3,784,715	$ 1,226,437	$ 7,185,749
Prior Period Adjustment	-	-	-	8,339	8,339
Change in Fund Structure	-	-	-	(3,921)	(3,921)
Net Assets, Beginning, as Restated	$ 781,088	$ 1,393,509	$ 3,784,715	$ 1,230,855	$ 7,190,167
Net Assets, Ending	$ 800,355	$ 1,509,607	$ 4,127,541	$ 1,255,428	$ 7,692,931

The notes are an integral part of the financial statements.

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

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

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

GASB Statement No. 40, "Deposit and Investment Risk Disclosures" was issued in March 2003. The statement provides additional guidance on informing financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. Generally, the statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Included in interest rate risk are certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The state implemented this statement during the fiscal year ended June 30, 2005.

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, a primary government, has also considered including all potential component units for which it may be financially accountable and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. GASB has established criteria for determining financial accountability. These criteria include the state's ability to appoint a voting majority of an organization's governing body, and either the state's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state. As required by GAAP, these financial statements include the state (the primary government) and its component units.

Discretely presented component units – These entities are legally separate from the state, but the state is financially accountable for them, or their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These component units are reported separately and identified separately in the note disclosures because of their separate legal status. The state does not have any blended component units.

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

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

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

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

- University of Minnesota (U of M) – The U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of the U of M's operating budget. The legislature elects the twelve-member board of regents, which governs the U of M, but the state does not have direct authority over the management of the university. The U of M includes several foundations as component units as required by GASB Statement No 39. The state has issued debt for U of M capital projects.

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

- Higher Education Services Office (HESO) – HESO makes and guarantees loans to qualified post-secondary students. HESO provides the state grant and loan program services for which the state provides administrative funding. Revenue bonds are issued in HESO's name with limitations set by the legislature. The governor appoints all voting members of the board and the director of HESO. As of July 1, 2005, the name of this component unit is Minnesota Office of Higher Education.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 external investment pool (Supplemental Investment Fund).

Financial Reporting Structure of the State of Minnesota

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

Government-wide Financial Statements

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

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

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

The government-wide Statement of Activities reports 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.

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.

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.

Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The emphasis in fund statements is on the major funds in the governmental or business-type categories. Nonmajor funds are summarized into single columns.

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

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 employee insurance, travel management, risk management, central stores, plant management, central services such as mailing, and intertechnologies, which directs and supports the automated systems of the state.

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

Fiduciary Funds Types – These funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, 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.
- The Investment Trust Fund provides an investment vehicle for the assets of various public retirement plans and funds.
- The Agency Fund accounts for resources held in a custodial capacity for various other governmental units, private organizations, or individuals.

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

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

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August to be available, and recognizes these receivables as revenues of the current year for fund financial statements prepared on the modified accrual basis. Federal revenues that are earned by incurring obligations are recognized in the same period as the recognition of the obligation with one exception. Trunk Highway Fund expenditures incurred by June 30, 2005, but not converted to Federal funding by the close of the federal fiscal year are not recognized as federal revenues. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

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

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

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

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

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

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

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

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

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

Cash Equivalents and Investments

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

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

Inventories

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

Securities Lending

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

Restricted Assets

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

Income Tax Credits

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

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

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis. Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Reimbursement type grants may be awarded for specific services provided to eligible recipients, or may be made for eligible types of reimbursements. Grants paid on the reimbursement basis are recognized as expenditures and liabilities in the year in which the grantee incurs the costs of providing specific services to eligible recipients or makes eligible types of expenditures.

Compensated Absences

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. Leave balances are liquidated in cash only upon termination from state employment. For governmental funds, the current and noncurrent liabilities for compensated absences are reported only in the government-wide Statement of Net Assets. All other fund types report the liability for compensated absences as a liability of the specific fund.

Capital Assets

Capital assets, which include land, buildings, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than $30,000 for equipment and $300,000 for buildings, and an estimated useful life 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. In accordance with GASB Statement No. 34, depreciation is reported on assets other than transportation infrastructure using the modified approach, land, construction in progress, works of art and historical treasures. The state capitol is considered a historical treasure.

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

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

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets which reflects a reasonable value of the assets and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in notes to the Required Supplementary Information. See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

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

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

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

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

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The plan is available to all public employees in the state and is administered by the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts or in qualifying contracts, as required by federal law. 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.

Restricted Net Assets

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

Net Assets/Fund Balances

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

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

Budgeting and Budgetary Control

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

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

Standard practice is that unencumbered appropriation balances cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. There are no instances where expenditures exceed the authorized limits at the legal level of budgetary control. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from the Department of Finance. See Note 20 – Budgetary Basis vs GAAP for additional information.

Interfund Activity and Balances

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

See Note 5 – Interfund Transactions for additional information.

Change in Fund Structure

Within the internal service fund type, the State Printer Fund, which accounted for the operations of print and central mail services, was transferred to the Central Services Fund. While central mail services continue to operate, the operation of state print shops has been discontinued. The change in fund structure was $215,000.

During the year ended June 30, 2005, the Trunk Highway Bond Proceeds Fund, previously reported as part of the Trunk Highway Fund (special revenue fund), was reclassified to the Transportation Fund (capital project fund). This fund accounts for bond activity related to the state trunk highway system. The change in fund structure was $28,952,000.

Change in Reporting Entity

Primary Government

Prior to the year ended June 30, 2005, only the portion of the investments of the State Deferred Compensation Fund (fiduciary fund) managed by the State Board of Investment (SBI) was included in the state's reporting entity. On July 1, 2004, the Minnesota State Retirement System (MSRS) increased its administrative responsibilities for the fund. Because of these increased administrative responsibilities and SBI's oversight of the mutual fund money managers, the state is considered to be holding these assets in connection with its fiduciary responsibilities. The change in reporting entity for the State Deferred Compensation Fund represents the value of all assets of the plan held in mutual funds, which are now included in the financial statements. The change is reported as an increase of $2,392,612,000 in net assets held in trust.

Component Unit

As of July 1, 2004, the state no longer provides funding to Minnesota Technology, Inc.; therefore, the entity is not reported as a discretely presented component unit of the state. This change is reported as a decrease of $3,921,000 in net assets.

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, 2005, are presented below using the Standard and Poor's rating scale.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
As of June 30, 2005 (In Thousands)

			Lowest of S & P and 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	$ 17,479	9.07	100%	-	-	-
U.S. Agencies	457,045	14.12	100%	-	-	-
Mortgage-Backed Securities	40,600	15.79	57%	43%	-	-
State or Local Government Bonds	104,593	3.13	97%	3%	-	-
Corporate Bonds	246,779	25.09	26%	60%	12%	2%
Commercial Paper	3,394,397	0.11	100%	-	-	-
Repurchase Agreements	783,538	-	-	-	-	100%
Short-Term Securities	243,606	0.63	51%	16%	-	33%
Total Debt Securities	$ 5,288,037					
Equity Investments						
Corporate Stock	$ 554,167					
Alternative Equities	3,966					
Total Equity Investments	$ 558,133					
Other Investments						
Escheat Property	$ 45,685					
Money Market Accounts	9,644					
Total Equity Investments	$ 55,329					
Total Investments	$ 5,901,499 [1]					

[1]Total investments exceed the amount shown on the face of the financial statements because amounts invested represent total cash on hand while amounts on the financial statements are reduced by outstanding warrants.

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, 2005
(In Thousands)

			Lowest of S & P and 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	$ 2,281,657	7.52	100%	-	-	-
U.S. Agencies	3,688,616	6.71	95%	-	-	5%
Mortgage-Backed Securities	1,640,852	27.32	86%	4%	-	10%
State or Local Government Bonds	287,438	5.79	65%	27%	2%	6%
Corporate Bonds	2,487,646	5.25	18%	62%	18%	2%
Commercial Paper	280,354	4.11	93%	7%	-	-
Repurchase Agreements	53,416	-	-	-	-	100%
Short-Term Securities	1,352,139	0.15	27%	11%	-	62%
Total Debt Securities	$ 12,072,118					
Equity Investments						
Corporate Stock	$ 26,070,945					
Stock Options	95,180					
Alternative Equities	3,728,512					
Mutual Funds	3,089,065					
Total Equity Investments	$ 32,983,702					
Total Investments	$ 45,055,820					

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 five 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 primary government, excluding pension trust and investment trust funds, did not have concentration of credit risk as of June 30, 2005. Pension trust and investment trust funds had 23.0 percent of the funds' debt securities investments or 6.2 percent of the funds' total investments in the Federal National Mortgage Association.

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, 2005.

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
As of June 30, 2005
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 7,513	$ 6,620	$ 227,044
Canadian Dollar	6,857	3,647	280,507
Euro	21,407	80,717	1,612,182
Hong Kong Dollar	1,097	-	168,870
Japanese Yen	16,403	-	1,027,595
New Taiwan Dollar	1,862	-	94,742
Pound Sterling	5,943	5,501	1,203,635
South African Rand	541	-	66,865
South Korean Won	-	-	101,782
Swedish Krona	1,448	-	102,261
Swiss Franc	565	-	371,785
Other	3,222	-	332,563
Total	$ 66,858	$ 96,485	$ 5,589,831

Custodial Risk - Investments

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

Securities Lending

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

During the fiscal year, State Street and Wells Fargo lent on behalf of the state, certain securities held by State Street or Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

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

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

Primary Government
Securities Lending Analysis
As of June 30, 2005
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 283,684	$ 5,110,997
Collateral Held	$ 288,080	$ 5,426,995
Average Duration	29 days	37 days
Average Weighted Maturity	29 days	403 days

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, 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

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

University of Minnesota

The University of Minnesota (U of M) does not have a policy for custodial risk of deposits. As of June 30, 2005, $20,521,000 of the U of M's bank balance of $20,621,000 was uninsured and uncollateralized.

The 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.

The U of M has established policies to address the various types of investment risks. As of June 30, 2005, the U of M, including its discretely presented component units, had $157,711,000 of cash and cash equivalents and $2,709,876,000 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 $131,694,000 and investments of $1,329,814,000.

The 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, 2005, $622,466,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $525,005,000 was rated AAA
- $34,306,000 was rated A or AA
- $62,089,000 was rated BB or BBB
- $1,066,000 was not rated

The securities subject to interest rate risk were comprised of:

- $306,639,000 in government agencies with a duration of 2.70 years
- $79,959,000 in corporate bonds with a duration of 1.06 years
- $75,967,000 in mortgage backed securities with a duration of 3.56 years
- $120,366,000 in cash and cash equivalents with a duration of .003 year
- $39,535,000 in other types of securities (primarily mutual funds) with a duration of 4.02 years

As of June 30, 2005, U of M had $120,133,000 of equity investments subject to foreign currency risk. The three largest components of this amount are as follows:

Euro	$ 42,695,000
Japanese Yen	$ 29,819,000
Pound Sterling	$ 27,263,000

Metropolitan Council

Metropolitan Council (MC) has investment policies to address the various types of investment risks. As of December 31, 2004, MC had a cash and investment portfolio of $357,660,000. Of this amount, $314,620,000 was subject to rating. $194,009,000 of these investments were rated Aaa using the Moody's rating scale. $114,368,000 was commercial paper rated at A-1 or P-1, while $6,243,000 was not rated.

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, 2004. The investment portfolio has an average yield of 3.33 percent, modified duration of 3.74 years, effective duration of 1.84 years, and convexity of -.49.

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

	Estimated Fair Value
December 31, 2004	$ 166,538,000
Fair Value of Portfolio After Basis Point Increase of:	
50 Points	$ 163,032,000
100 Points	$ 158,975,000
150 Points	$ 155,046,000
200 Points	$ 151,280,000

Housing Finance Agency

Housing Finance Agency (HFA) investments had an estimated fair market value of $322,145,000 as of June 30, 2005. All investment agreement providers have a Standard & Poor's long-term credit rating of 'AA-' or higher and a Moody's Investors Service long-term credit rating of 'Aa3' or higher. The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

As of June 30, 2005, HFA had $1,389,770,000 of cash, cash equivalents, and investments. Of this amount, 82 percent had maturities of less than 0.5 year, with 12.8 percent having maturities of 0.5 – 2 years.

HFA investments in any single issuer that exceeded five percent of total investments amounted to $751,069,000. These investments involved IXIS Funding Corporation, Bayerische Landesbank, and FSA Capital Management Services.

As of June 30, 2005, $122,086,000 of deposits and $146,924,000 of investment securities were subject to custodial risk.

Nonmajor Component Units

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

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 9,814,000	$ 18,836,000
Higher Education Services Office	89,841,000	20,012,000
Minnesota Partnership for Action Against Tobacco	39,000	153,282,000
National Sports Center Foundation	394,000	-
Public Facilities Authority	146,521,000	188,412,000
Rural Finance Authority	16,813,000	-
Workers' Compensation Assigned Risk Plan	28,229,000	270,318,000
Total	$ 291,651,000	$ 650,860,000

Note 3 – Disaggregation of Receivables

The following are the components of net accounts receivable as reported in the government-wide Statement of Net Assets as of June 30, 2005:

Components of Net Receivables
As of June 30, 2005
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 441,569	$ -	$ -	$ 441,569
Sales and Use	326,499	-	-	326,499
Property	280,554	-	-	280,554
Health Care Provider	157,106	-	66,573	223,679
Highway Users	-	-	62,010	62,010
Other	142,208	-	-	142,208
Child Support	91,441	93,799	-	185,240
Workers' Compensation	-	-	109,185	109,185
Other	211,132	58,053	93,811	362,996
Net Receivables	$ 1,650,509	$ 151,852	$ 331,579	$ 2,133,940

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 328,980	$ -	$ 328,980
Tuition and Fees	36,377	-	-	36,377
Other	-	-	23,510	23,510
Net Receivables	$ 36,377	$ 328,980	$ 23,510	$ 388,867
Total Government-wide Net Receivables				$ 2,522,807

(1)Includes $7,137 Internal Service Funds.

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

- Corporate and Individual Taxes $198,268,000
- Sales and Use Taxes $49,511,000
- Child Support $367,187,000
- Other Receivables $111,886,000

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

- Corporate and Individual Taxes $72,844,000
- Sales and Use Taxes $13,688,000
- Child Support $120,848,000
- Health Care Provider $60,810,000
- Other Receivables $22,917,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2005, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2005
(In Thousands)

	General Fund	Federal Fund	Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 36,412
Economic Development	49,113	-	47,339	37,826	-
School Districts	-	-	112,963	-	-
Energy	-	-	-	1,814	-
Agricultural	144	-	47,915	-	-
Transportation	-	-	22,857	-	-
Resources	532	-	14,383	-	-
Other	-	70	1,367	21	-
Total	$ 49,789	$ 70	$ 246,824	$ 39,661	$ 36,412

Component Units
Loans and Notes Receivable
As of June 30, 2005
(In Thousands)

Housing Finance Authority	$ 1,542,662
Metropolitan Council	29,872
University of Minnesota	69,929
Agricultural and Economic Development Board	20,748
Higher Education Services Office	560,679
Public Facilities Authority	1,310,809
Rural Finance Authority	43,306
Total	$ 3,578,005

Note 5 – Interfund Transactions

Primary Government

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

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

Interfund Receivables and Payables
As of June 30, 2005
(In Thousands)

Due to the General Fund From:		
Federal Fund	$	35,624
Nonmajor Governmental Funds		18,686
Nonmajor Enterprise Funds		10,005
Total Due to General Fund From Other Funds	$	64,315
Due to the Federal Fund From:		
Nonmajor Governmental Funds	$	5,651
Total Due to Federal Fund From Other Funds	$	5,651
Due to the State Colleges and Universities Fund From:		
Nonmajor Governmental Funds	$	14,992
Total Due to State Colleges and Universities From Other Funds	$	14,992
Due to the Fiduciary Funds From:		
Fiduciary Funds	$	16,514
Total Due to Fiduciary Funds From Other Fiduciary Funds	$	16,514
Due to the Nonmajor Governmental Funds From:		
General Fund	$	15,315
Federal Fund		684
Unemployment Insurance Fund		15,908
Nonmajor Governmental Funds		61,530
Nonmajor Enterprise Funds		1,472
Total Due to Nonmajor Governmental Funds From Other Funds	$	94,909

The Central Motor Pool Fund had an outstanding advance of $4,104,000 from the General Fund as of June 30, 2005. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2005
(In Thousands)

Transfers to the General Fund From:		
Federal Fund	$	19,052
Nonmajor Governmental Funds		281,521
Nonmajor Enterprise Funds		58,636
Internal Service Funds		30,317
Total Transfers to General Fund From Other Funds	$	389,526
Transfers to the Federal Fund From:		
General Fund	$	707
Unemployment Insurance Fund		76
Nonmajor Governmental Funds		18
Total Transfers to Federal Fund From Other Funds	$	801
Transfers to the State Colleges and Universities Fund From:		
General Fund	$	546,444
Nonmajor Governmental Funds – Capital Contributions		36,952
Total Transfers to State Colleges and Universities From Other Funds	$	583,396
Transfers to the Fiduciary Funds From:		
Fiduciary Funds	$	12,526
Total Transfers to Fiduciary Funds From Other Funds	$	12,526
Transfers to the Nonmajor Governmental Funds From:		
General Fund	$	536,114
Federal Fund		27,110
Unemployment Insurance Fund		52,236
Nonmajor Governmental Funds		1,390,429
Nonmajor Enterprise Funds		47,535
Internal Service Funds		7,834
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	2,061,258
Transfers to the Nonmajor Enterprise Funds From:		
Nonmajor Governmental Funds	$	267
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$	267

Component Units

Receivables and payables as of June 30, 2005, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2005
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units		
Metropolitan Council	$ 48,976	$ -
University of Minnesota	110,916	67,716
Total Major Component Units	$ 159,892	$ 67,716
Nonmajor Component Units	$ 409	$ 69,879
Total Component Units	$ 160,301	$ 137,595

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ -	$ 89,585
Federal Fund	-	1,838
Total Major Governmental Funds	$ -	$ 91,423
Nonmajor Governmental Funds	$ 127,210	$ 19,916
Total Primary Government	$ 127,210	$ 111,339

Due to primary government exceeds due from component units by $10,385,000 for amounts owed to the primary government by Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation because the fiscal year end used by the component units differs from the primary government. The rationale is the same for due from primary government exceeding due to component units by $48,962,000.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity
Year Ended June 30, 2005 (In Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities:				
Capital Assets not Depreciated:				
Land	$ 1,463,091	$ 119,889	$ (23,334)	$ 1,559,646
Buildings, Structures, Improvements	20,039	6,585	-	26,624
Construction in Progress	125,646	103,425	(35,934)	193,137
Infrastructure	5,113,949	448,331	(43,151)	5,519,129
Art and Historical Treasures	100	400	-	500
Total Capital Assets not Depreciated	$ 6,722,825	$ 678,630	$ (102,419)	$ 7,299,036
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,544,866	$ 29,013	$ (650)	$ 1,573,229
Infrastructure	44,285	4,916	-	49,201
Equipment, Furniture, Fixtures	362,009	47,511	(34,535)	374,985
Total Capital Assets Depreciated	$ 1,951,160	$ 81,440	$ (35,185)	$ 1,997,415
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (613,761)	$ (29,071)	$ -	$ (642,832)
Infrastructure	(3,463)	(1,126)	-	(4,589)
Equipment, Furniture, Fixtures	(229,935)	(31,602)	26,374	(235,163)
Total Accumulated Depreciation	$ (847,159)	$ (61,799)	$ 26,374	$ (882,584)
Total Capital Assets Depreciated, Net	$ 1,104,001	$ 19,641	$ (8,811)	$ 1,114,831
Governmental Act. Capital Assets, Net	$ 7,826,826	$ 698,271	$ (111,230)	$ 8,413,867
Business-type Activities:				
Capital Assets not Depreciated:				
Land	$ 72,062	$ 2,766	$ -	$ 74,828
Construction in Progress	91,245	72,841	(109,916)	54,170
Total Capital Assets not Depreciated	$ 163,307	$ 75,607	$ (109,916)	$ 128,998
Capital Assets Depreciated:				
Buildings	$ 1,562,887	$ 124,318	$ -	$ 1,687,205
Library Collections	45,180	7,013	(4,134)	48,059
Improvements, Other than Buildings	16,515	760	-	17,275
Equipment, Furniture, Fixtures	282,553	16,405	(18,710)	280,248
Total Capital Assets Depreciated	$ 1,907,135	$ 148,496	$ (22,844)	$ 2,032,787
Accumulated Depreciation for:				
Buildings	$ (780,369)	$ (44,436)	$ -	$ (824,805)
Library Collections	(24,682)	(6,828)	4,133	(27,377)
Improvements, Other than Buildings	(2,137)	(465)	-	(2,602)
Equipment, Furniture, Fixtures	(190,528)	(22,214)	16,028	(196,714)
Total Accumulated Depreciation	$ (997,716)	$ (73,943)	$ 20,161	$ (1,051,498)
Total Capital Assets Depreciated, Net	$ 909,419	$ 74,553	$ (2,683)	$ 981,289
Business-type Act. Capital Assets, Net	$ 1,072,726	$ 150,160	$ (112,599)	$ 1,110,287
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	6,743	190	(202)	6,731
Total Capital Assets Depreciated	$ 36,290	$ 190	$ (202)	$ 36,278
Accumulated Depreciation for:				
Buildings	$ (2,213)	$ (736)	$ -	$ (2,949)
Equipment, Furniture, Fixtures	(4,195)	(548)	193	(4,550)
Total Accumulated Depreciation	$ (6,408)	$ (1,284)	$ 193	$ (7,499)
Total Capital Assets Depreciated, Net	$ 29,882	$ (1,094)	$ (9)	$ 28,779
Fiduciary Funds, Capital Assets, Net	$ 30,311	$ (1,094)	$ (9)	$ 29,208

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, 2005
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 10,370
Transportation	15,631
Agricultural and Environmental Resources	5,490
Economic and Workforce Development	1,386
General Education	2,555
Health and Human Services	9,106
General Government	8,835
Internal Service Funds	8,426
Total Governmental Activities	$ 61,799
Business-type Activities:	
State Colleges and Universities	$ 70,109
Lottery	389
Other	3,445
Total Business-type Activities	$ 73,943

Capital outlay expenditures in the governmental funds totaled $703,777,000 for fiscal year 2005. Donations of general capital assets received during fiscal year 2005 were valued at $4,371,000. Transfers from construction in progress to completed construction were $37,867,000. Increases in internal service funds were $14,048,000 and the Permanent School Fund increased by $7,000.

General capital assets purchased with resources provided by outstanding capital lease agreements as of June 30, 2005, consisted of equipment with a cost of $10,299,000.

Authorizations and commitments as of June 30, 2005, for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Military Affairs	Correctional Facilities	Human Services
Authorization	$ 76,485	$ 2,383	$ 10,450	$ 3,619
Expended through June 30, 2005	67,606	707	6,516	176
Unexpended Commitment	5,847	-	555	3,154
Available Authorization	$ 3,032	1,676	$ 3,379	$ 289

Land in the Permanent School Fund totaling 2,516,359 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, 2004, or June 30, 2005, as applicable:

Capital Assets
As of December 31, 2004 or June 30, 2005
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land	$ -	$ 294,764	$ 137,236	$ 2,797	$ 434,797
Buildings and Improvements	-	2,350,762	2,347,596	599	4,698,957
Equipment	4,032	536,696	665,356	1,783	1,207,867
Infrastructure	-	-	305,496	-	305,496
Total	$ 4,032	$ 3,182,222	$ 3,455,684	$ 5,179	$ 6,647,117
Less: Accumulated Depreciation	1,268	966,634	1,544,361	1,763	2,514,026
Net Total	$ 2,764	$ 2,215,588	$ 1,911,323 (1)	$ 3,416	$ 4,133,091

(1) In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $54,413 as of June 30, 2005.

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, 2005:

Components of Accounts Payable
As of June 30, 2005
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
School Aid Programs	$ 971,456	$ 131,568	$ 11	$ 1,103,035
Tax Refunds	708,124	-	-	708,124
Medical Assistance	319,689	364,388	22,149	706,226
Grants	195,086	116,354	178,785	490,225
Salaries and Benefits	53,884	7,846	41,113	102,843
Vendors/Service Providers	46,160	41,279	175,064	262,503
Other	12,999	4,415	42,550	59,964
Net Payables	$ 2,307,398	$ 665,850	$ 459,672	$ 3,432,920

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 90,302	$ -	$ 3,716	$ 94,018
Vendors/Service Providers	33,294	-	3,822	37,116
Other	6,245	15,273	14,856	36,374
Net Payables	$ 129,841	$ 15,273	$ 22,394	$ 167,508
Total Government-wide Net Payables				$ 3,600,428

[1]Includes $59,271 Internal Service Funds and $23,610 long-term loan payable for the Trunk Highway Fund.

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
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 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 reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds because the amounts are an essential element of the determination of the fair value of each pension trust fund's pooled investment balance. As of June 30, 2005, 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. Twenty-nine employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the highest salary paid in five successive years of service. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Five hundred sixty five (565) employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  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	2005	$ 83,101	$ 160,982
	2004	$ 82,103	$ 159,140
	2003	$ 83,850	$ 155,577
Employer[1]	2005	$ 80,312	$ 157,693
	2004	$ 78,622	$ 151,029
	2003	$ 80,399	$ 149,481

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

Single Employer Plan Disclosures for Current Year
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 24,128	$ 10,368	$ 3,155	$ 9,608
Interest on Net Pension Obligation (NPO)[1]	(454)	(731)	(749)	(2,539)
Amort Adj to ARC[1]	441	710	695	1,608
Annual Pension Cost	$ 24,115	$ 10,347	$ 3,101	$ 8,677
Contributions	(18,959)	(9,887)	(2,205)	(11,187)
Increase (Decrease) in NPO	$ 5,156	$ 460	$ 896	$ (2,510)
NPO, Beginning Balance, as Reported	$ (6,249)	$ (9,247)	$ (9,155)	$ (30,124)
Adjustment From Estimated to Actual Covered Payroll	911	652	339	253
NPO, Beginning Balance, as Adjusted	$ (5,338)	$ (8,595)	$ (8,816)	$ (29,871)
NPO, Ending (Asset)	$ (182)	$ (8,135)	$ (7,920)	$ (32,381)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2005	$ 24,115	$ 10,347	$ 3,101	$ 8,677
	2004	$ 20,846	$ 9,222	$ 2,281	$ 8,344
	2003	$ 19,071	$ 8,986	$ 2,197	$ 7,055
Percentage of APC Contributed	2005	79%	96%	71%	129%
	2004	88%	106%	34%	132%
	2003	95%	106%	265%	161%
NPO (End of Year)	2005	$ (182)	$ (8,135)	$ (7,920)	$ (32,381)
	2004	$ (5,338)	$ (8,595)	$ (8,816)	$ (29,871)
	2003	$ (7,809)	$ (8,064)	$ (10,329)	$ (27,218)

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, 2004.
- The calculation of the actuarial valuation of assets is a market value based formula based on the Unrecognized Asset Return (UAR is actual net return on market value minus net return based on actuarial assumption). The actuarial value of assets is the Market Value of Assets as of June 30, 2004, less: 80 percent UAR for fiscal year 2004; 60 percent UAR for fiscal year 2003; 40 percent UAR for fiscal year 2002; and 20 percent UAR for fiscal year 2001.
- Minnesota Statutes or valuation standards do not require an inflation rate assumption to cost the plans.
- Expected investment returns for pre-retirement and postretirement are 8.5 percent for all plans.
- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF and JRF, projected salary increases are a level 5.0 percent.
- The payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent postretirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement discount rate is used to account for the one-time adjustment applicable at retirement.
- The level percentage of projected payroll is the amortization method used, except for the ESOF plan, which uses the level dollar amortization method.
- The amortization period is through July 1, 2020.
- The amortization period is closed.

Defined Contribution Funds

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds under which the benefits to be received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer 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 the Metropolitan Council. Statutory contribution rates are 4.0 percent for employee and 6.0 percent for employer. Vesting occurs immediately, and normal retirement age is 55. Annuity is based on age and value of the participant's account.

The 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, 2005, there were approximately 6,600 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. For the faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the managerial employees, the employer rate is 6.0 percent and the employee rate is 4.5 percent, respectively. Effective on July 1, 2004, the managerial rate increased from 4 percent to 4.5 percent. 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 15,600.

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

Defined Contribution Plans Contributions Made for Fiscal Year 2005 (In Thousands)	UERF	DCF	PHCBF	CURF
Employee Contributions	$ 4,294	$ 1,201	$ 42,519	$ 24,223
Employer Contributions	$ 5,817	$ 1,318	N/A	$ 28,287

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 80,000 participants.

Investment Trust Fund

The Supplemental Retirement Fund (investment trust fund) is administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). This fund is an investment pool for external participants, which are locally administered retirement funds, and a deferred compensation plan.

Component Units

The following component units are participants in the State Employees Retirement Fund (SERF), Police and Fire Fund (P&FF), and the Unclassified Employees Retirement funds:

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

Note 9 – Postretirement Benefits

Primary Government

For certain employees, postretirement benefits are available upon retirement at age 55 under terms of their employment contract. Through fiscal year 2005, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers, and State Colleges and Universities faculty entitled to early retirement incentives. If these employees elect retirement at age 55, the state pays the employer's share of health insurance benefits until the employees reach age 65.

The cost of these benefits, which is recognized when paid, was $9,458,000 during fiscal year 2005. Approximately 1,500 former employees currently receive this benefit.

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

Component Unit

Metropolitan Council (MC) paid $6,189,000 for the year ended December 31, 2004, for health care and life insurance benefits for 1,200 former employees who met specific eligibility requirements. MC also earmarked approximately $33,952,000 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, 2005, were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2005
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 776,883
Capital Projects Funds:	
General Projects Fund	11,297
Transportation Fund	145,865
Building Fund	277,968
Enterprise Funds:	
State Colleges and Universities	108,078
Total Primary Government	$ 1,320,091

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

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse petroleum storage tank owners for most of their costs to investigate or clean up contamination from petroleum tank releases. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). A significant number of unreported tank contamination sites and cleanup costs presently exist which will require Petrofund expenditures. As of October 2005, the Petrofund has reimbursed eligible applicants approximately $363 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2012, are between $400 and $450 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

The University of Minnesota (U of M) has construction projects in progress with an estimated cost of $106,321,000 to complete. These costs will be funded from plant fund assets and state appropriations.

The U of M owns certain steam production facilities that produce steam for heating and cooling for the Twin Cities campuses. By agreement, these facilities are managed, operated, and maintained by an unaffiliated company. The term of the agreement is five years and commenced on May 17, 2004. Under the agreement, the U of M must make minimum fixed payments for certain operating and maintenance costs as well as contingent payments based on monthly usage.

The minimum fixed amounts of the steam plant required payments as of June 30, 2005, were as follows:

University of Minnesota
Required Steam Plant Payments
(In Thousands)

Fiscal Year Ending June 30	Total
2006	$ 803
2007	791
2008	703
2009	616
Total Commitments	$ 2,913

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2004, unpaid commitments for transit services were approximately $29.2 million. Future commitments for Metropolitan Transit Light Rail were approximately $13.1 million. Future commitments for regional transit services were approximately $60.6 million. Finally, future commitments for Environmental Services were approximately $53.0 million.

As of June 30, 2005, the Public Facilities Authority had committed approximately $75 million for the origination or disbursement of future loans under the Clean Water Bond Fund, Drinking Water Bond Fund, and Transportation Revolving Loan Fund program, and approximately $7.75 million for disbursement of non point-source pollution control awards under the Other Fund.

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, 2005, totaled approximately $72,918,000 and $17,816,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2004, totaled approximately $3,068,000 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
2006	$ 64,258	2006	$ 9,887	2005	$ 2,114
2007	58,839	2007	9,780	2006	1,361
2008	50,924	2008	7,316	2007	669
2009	36,516	2009	5,952	2008	654
2010	27,341	2010	3,749	2009	443
2011-2015	87,927	2011-2015	15,282	2010-2014	466
2016-2020	8,783	Total	$ 51,966	2015-2019	158
2021-2025	946			2020-2024	139
Total	$ 335,534			Total	$ 6,004

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2005, and the changes during fiscal year 2005:

Long-Term Liabilities
Year Ended June 30, 2005
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 3,055,496	$ 679,220	$ 419,434	$ 3,315,282	$ 276,359
Bond Premium	117,619	61,662	10,707	168,574	11,447
Loans	19,653	7,737	10,260	17,130	7,056
Claims	1,390,404	46,924	118,894	1,318,434	120,055
Compensated Absences	238,686	185,658	179,865	244,479	30,220
Workers' Compensation	111,546	14,078	14,607	111,017	13,016
Capital Leases	9,085	8,387	6,435	11,037	4,203
Total	$ 4,942,489	$ 1,003,666	$ 760,202	$ 5,185,953	$ 462,356
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 141,859	$ 12,660	$ 9,491	$ 145,028	$ 10,176
Bond Premium	3,242	1,547	369	4,420	-
Loans	275,703	83,769	272,096	87,376	82,466
Revenue Bonds	51,410	2,640	1,575	52,475	2,015
Compensated Absences	113,425	45,828	41,514	117,739	13,954
Workers' Compensation	5,193	1,970	2,015	5,148	1,554
Capital Leases	14,868	14,295	2,666	26,497	2,312
Total	$ 605,700	$ 162,709	$ 329,726	$ 438,683	$ 112,477

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

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

	Governmental Activities			
	General Fund	Special Revenue Funds	Business-type Activities	Total
Liabilities For:				
General Obligation Bonds	$ 2,781,120	$ 534,162	$ 145,028	$ 3,460,310
Bond Premium	168,574	-	4,420	172,994
Loans	-	17,130	87,376	104,506
Revenue Bonds	-	-	52,475	52,475
Claims	89,189	1,229,245	-	1,318,434
Compensated Absences	113,315	131,164	117,739	362,218
Workers' Compensation	84,827	26,190	5,148	116,165
Capital Leases	1,674	9,363	26,497	37,534
Total	$ 3,238,699	$ 1,947,254	$ 438,683	$ 5,624,636

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

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 276,359	$ 160,557	$ 10,176	$ 7,073	$ 286,535	$ 167,630
2007	285,493	147,683	10,387	6,603	295,880	154,286
2008	260,940	134,172	10,090	6,093	271,030	140,265
2009	256,431	120,740	10,119	5,586	266,550	126,326
2010	247,122	108,027	10,143	5,073	257,265	113,100
2011-2015	1,019,600	376,250	45,340	18,168	1,064,940	394,418
2016-2020	667,210	156,166	33,710	7,894	700,920	164,060
2021-2025	302,127	29,130	15,063	1,323	317,190	30,453
Total	$ 3,315,282	$ 1,232,725	$ 145,028	$ 57,813	$ 3,460,310	$ 1,290,538

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

Fiscal Year(s)	Business-type Activities Principal	Business-type Activities Interest
2006	$ 2,015	$ 3,029
2007	2,265	2,915
2008	2,135	2,782
2009	2,270	2,662
2010	2,390	2,534
2011-2015	11,940	10,671
2016-2020	14,285	6,925
2021-2025	13,575	2,336
2026-2030	1,600	57
Total	$ 52,475	$ 33,911

Primary Government
Loans
Principal and Interest Payments
(In Thousands)

Fiscal Year(s)	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 7,056	$ 438	$ 82,466	$ 2,099	$ 89,522	$ 2,537
2007	5,443	221	875	256	6,318	477
2008	3,029	71	673	212	3,702	283
2009	1,602	6	518	174	2,120	180
2010	-	-	546	144	546	144
2011-2015	-	-	1,884	305	1,884	305
2016-2020	-	-	414	43	414	43
Total	$ 17,130	$ 736	$ 87,376	$ 3,233	$ 104,506	$ 3,969

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

Primary Government						
Capital Leases						
Principal and Interest Payments (In Thousands)						
	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 4,203	$ 309	$ 2,312	$ 1,333	$ 6,515	$ 1,642
2007	3,398	179	2,103	1,214	5,501	1,393
2008	1,769	87	2,082	1,126	3,851	1,213
2009	1,667	37	1,489	1,039	3,156	1,076
2010	-	-	1,312	956	1,312	956
2011-2015	-	-	6,182	3,900	6,182	3,900
2016-2020	-	-	6,674	2,354	6,674	2,354
2021-2025	-	-	2,901	778	2,901	778
2026-2030	-	-	1,079	246	1,079	246
2031-2035	-	-	363	15	363	15
Total	$ 11,037	$ 612	$ 26,497	$ 12,961	$ 37,534	$ 13,573

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 2005, 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, 2005 (In Thousands)	
General Fund	$ 323,512
Special Revenue Funds:	
Federal Fund	59
Trunk Highway Fund	27,208
Natural Resources Funds	25
Maximum Effort School Loan Fund	2,093
Miscellaneous Special Revenue Fund	4,761
Total Special Revenue Funds	$ 34,146
Capital Projects Funds:	
Building Fund	$ 13,566
Total Capital Projects Funds	$ 13,566
Total Operating Transfers to Debt Service Fund	$ 371,224

General Obligation Bond Issues

On August 1, 2004, $219,900,000 in general obligation state various purpose bonds and $80,100,000 in general obligation state trunk highway bonds were issued at a true interest rate of 4.03 percent. On November 1, 2004, $180,000,000 in general obligation state various purpose bonds, $40,000,000 in general obligation state trunk highway bonds, and $171,880,000 in general obligation state refunding bonds were issued at a true interest rate of 3.55 percent. During fiscal year 2005, $428,925,000 in general obligation bond principal was repaid.

The state issued $171,880,000 general obligation advance refunding bonds to refund obligations for $170,000,000 general obligation state bonds, callable on August 1, 2005. The proceeds of the bond issuance were placed in special escrow account and invested in government securities. These investments have been certified to be sufficient to pay all principal and interest on the bonds when due.

As a result of the advance refunding, the state reduced its total debt service requirements by $16,492,000, which resulted in an economic gain of $17,815,000. The balance outstanding for all extinguished debt as of June 30, 2005, was $170,000,000, which is shown below. The state remains contingently liable to pay the advance refunded general obligation bonds.

General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
August 1, 2004	$ 171,880	$ 170,000	$ 170,000	August 1, 2005

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

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2005. 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, 2005
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 3,953	$ 969,250	3.00 – 6.00
State Operated Community Services	-	3,620	3.75 – 7.56
State Transportation	641	106,758	3.00 – 6.38
Waste Management	-	4,530	4.00 – 6.00
Water Pollution Control	-	69,240	3.00 – 6.00
Maximum Effort School Loan	-	86,820	4.00 – 6.00
Reinvest in Minnesota	-	1,890	4.00 – 6.00
Rural Finance Administration	-	76,100	3.50 – 7.05
Refunding Bonds	-	578,461	1.50 – 5.40
Municipal Energy Building	-	2,440	3.00 – 6.00
Game and Fish Building	-	29	1.50 – 5.00
Trunk Highway	260,125	340,555	1.50 – 5.50
Airport Facilities	-	37,825	5.30 – 7.95
Landfill	-	19,330	4.25 – 6.00
Various Purpose	1,162,372	1,163,462	3.00 – 5.62
Total	$ 1,427,091	$ 3,460,310	

Loans Payable

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

Revenue Bonds Payable

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

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

Giants Ridge
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 3,060	October 1, 2012

Claims

Municipal solid waste landfills liability of $206,993,000 for closure and postclosure care is reported for the landfill cleanup program payable from the Remediation Fund (special revenue fund) and the General Fund.

Claims of $55,371,000 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 $68,770,000 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 2005.

The remaining claim amount of $987,300,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated undiscounted cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of $244,479,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental funds liability for workers' compensation of $111,017,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2005, 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 2005, 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
2006	$ 525	$ 1,567
2007	550	1,539
2008	575	1,509
2009	600	1,479
2010	625	1,446
2011-2015	3,725	6,677
2016-2020	4,925	5,509
2021-2025	6,650	3,891
2026-2030	9,002	1,677
Total	$ 27,177	$ 25,294

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $3,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of bonds outstanding on June 30, 2005, was $2,016,086,000.

The Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had $988,515,000 in general obligation bonds outstanding, net of unamortized premium, and $11,443,000 of revenue bonds outstanding on December 31, 2004.

The University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2005, the principal amount of revenue bonds outstanding was $8,405,000 and the principal amount of general obligation bonds outstanding was $586,751,000. The University Gateway Corporation and the University of Minnesota Physicians Foundation, both component units of the U of M, issue revenue bonds. As of June 30, 2005, the outstanding principal amount was $44,495,000 and $2,921,000 respectively. These amounts are not included in the debt repayment schedule.

The Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2005, the principal amount of revenue bonds outstanding was $26,810,000.

The Higher Education Services Office (HESO) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2005, the outstanding principal of revenue bonds was $387,000,000.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,250,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2005, was $902,486,000.

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

	U of M		MC[1]	
Fiscal Year(s)	Principal	Interest	Principal	Interest
2006	$ 392,265	$ 18,952	$ 107,437	$ 36,982
2007	47,378	11,141	81,365	32,048
2008	47,289	6,976	71,655	28,203
2009	26,627	3,048	62,914	25,905
2010	5,326	1,913	61,185	23,807
2011-2015	12,987	7,886	263,775	84,945
2016-2020	11,437	6,448	219,455	40,160
2021-2025	14,507	4,636	105,910	7,280
2026-2030	18,369	2,331	3,000	38
2031-2035	8,665	153	-	-
	$ 584,850	$ 63,484	$ 976,696	$ 279,368
Unamortized Discounts/Premiums and Issuance Costs	1,901	-	11,819	-
Total	$ 586,751	$ 63,484	$ 988,515	$ 279,368

[1]MC fiscal year ends December 31.

University of Minnesota

As of June 30, 2005, the U of M had standby purchase agreements related to the 1999A and 2001C bonds. The 1999A bonds are classified as short-term since the related standby purchase agreement expires in June 2006. Included in current liabilities as of June 30, 2005, were all of the outstanding obligations under the Series 1999A, 2001A, and 2001B bonds, and a portion of the Series 2001C bond that would be due within the next year if the standby purchase agreement was exercised for the year then ended. The U of M's Series 1996A bond issuance was moved to current liabilities as of June 30, 2005 due to the exercise of a related put option which required the U of M to refund the Series 1996A General Obligation Bond.

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

	U of M		HFA		MC[3]	
Fiscal Year(s)	Principal[1]	Interest	Principal[2]	Interest	Principal	Interest
2006	$ 905	$ 502	$ 559,385	$ 74,432	$ 810	$ 573
2007	955	448	208,140	63,734	845	535
2008	1,015	389	37,575	58,570	890	494
2009	1,080	327	34,090	57,173	935	449
2010	1,140	261	41,315	55,601	985	402
2011-2015	3,310	451	220,620	248,808	5,755	1,175
2016-2020	-	-	221,265	194,201	1,350	37
2021-2025	-	-	235,880	138,061	-	-
2026-2030	-	-	261,765	78,547	-	-
2031-2035	-	-	188,580	24,996	-	-
2036-2040	-	-	18,850	1,658	-	-
2041-2045	-	-	3,035	428	-	-
	$ 8,405	$ 2,378	$ 2,030,500	$ 996,209	$ 11,570	$ 3,665
Unamortized Discounts/Premiums and Issuance Costs	-	-	(14,414)	-	(127)	-
Total	$ 8,405	$ 2,378	$ 2,016,086	$ 996,209	$ 11,443	$ 3,665

[1]Does not include foundation issued bonds.

[2]See Note 23 – Subsequent Events for bond redemption information.

[3]MC fiscal year ends December 31.

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

	HESO		PFA		AEDB	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ -	$ 7,280	$ 44,120	$ 43,390	$ 2,120	$ 1,573
2007	-	7,280	43,490	41,272	2,285	1,452
2008	-	7,281	47,240	39,209	2,220	1,327
2009	-	7,281	46,515	36,975	2,255	1,201
2010	-	7,280	46,740	34,732	2,190	1,071
2011-2015	-	36,402	288,440	136,203	8,645	3,687
2016-2020	17,621	36,094	255,105	64,208	6,165	1,256
2021-2025	95,418	32,982	117,570	12,128	930	34
2026-2030	120,967	23,033	-	-	-	-
2031-2035	98,546	11,207	-	-	-	-
2036-2040	54,448	2,186	-	-	-	-
	$ 387,000	178,306	$ 889,220	$ 408,117	$ 26,810	$ 11,601
Unamortized Discounts/Premiums and Issuance Costs	-	-	13,266	-	-	-
Total	$ 387,000	$ 178,306	$ 902,486	$ 408,117	$ 26,810	$ 11,601

The following table presents MC obligations for capital leases as of December 31, 2004:

Fiscal Year(s)	MC[1] All Funds
2006	$ 588
2007	593
2008	1,095
2009	1,096
2010	1,093
2011-2015	5,240
2016-2020	5,134
2021-2025	5,116
2026-2030	1,017
Total Minimum Lease Payments	$ 20,972
Less Amount Representing Interest	(7,128)
Total	$ 13,844

[1]MC's fiscal year ends December 31.

Variable Rate Debt

Higher Education Services Office

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds, taxable Series 2003A bonds, and tax-exempt Series 2003B, taxable Series 2004A bonds, and tax-exempt Series 2004B reset every 28 – 35 days, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rate as of June 30, 2005, for the Series 1999A bonds was 3.30 percent. The interest rates as of June 30, 2005, for the Series 2002A and 2002B bonds were 3.17 percent and 2.75 percent, respectively. The interest rates as of June 30, 2005, for the Series 2003A and 2003B bonds were 3.20 percent, and 2.75 percent, respectively. The interest rates as of June 30, 2005, for the Series 2004A and 2004B bonds were 3.19 percent and 2.85 percent, respectively.

University of Minnesota

To protect against future interest rate fluctuations on the U of M general obligation bonds and for budgeting purposes, the U of M has entered into nine separate interest rate swaps. All but one 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.

Bond Defeasances

Public Facilities Authority had $202,645,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2005.

In prior years, the U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds was $112,635,000 with $29,600,000 outstanding as of June 30, 2005. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

During the fiscal year ended December 31, 2004, Metropolitan Council issued $5,690,000 in general obligation bonds which refunded the remaining maturities of the Series 1996A and 1997C general obligation bonds. The transactions resulted in an economic gain of $419,906 and a reduction of $687,594 in future debt service payments.

In fiscal year 2005, HESO issued variable rate taxable 2004A bonds for $67,000,000 and the taxable 2004B bonds for $88,500,000. The funds used from the issuance were used to pay off the 1992A, 1993, and 1994B bonds, which totaled $68,500,000 and resulted in a loss of $268,000.

On November 17, 2004, the Housing Finance Agency issued $80,000,000 of Rental Housing Bonds, 2004C that, together with an agency contribution of $4,241,000, partly defeased previously issued 1995D bonds. The refunding of these bonds decreased total future debt service by $12,774,000 and resulted in a present value savings of $8,114,000.

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, 2005, cumulative expenditures of about $221 million have been disbursed by the Remediation Fund and the bond fund. Estimates show that the total of all payments for the program may reach $561 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, reimbursements, 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

Segment Information Financial Data
Year Ended June 30, 2005
(In Thousands)

	Giants Ridge	MnSCU Revenue Fund	MnSCU Vermilion Residence Halls	MnSCU Vermilion Modular Housing	MnSCU Itasca Residence Halls
Condensed Statement of Net Assets					
Assets:					
Current Assets	$ 4,960	$ 41,601	$ 28	$ 25	$ -
Restricted Assets	2,050	12,484	406	141	2,043
Capital Assets	22,334	123,420	1,376	807	2,364
Total Assets	$ 29,344	$ 177,505	$ 1,810	$ 973	$ 4,407
Liabilities:					
Current Liabilities	$ 1,144	$ 10,314	$ 132	$ 82	$ 662
Noncurrent Liabilities	14,398	42,441	240	470	2,570
Total Liabilities	$ 15,542	$ 52,755	$ 372	$ 552	$ 3,232
Net Assets:					
Invested in Capital Assets, Net of Related Debt	$ 9,514	$ 86,282	$ 1,136	$ 336	$ -
Restricted	-	6,101	285	71	1,175
Unrestricted	4,288	32,367	17	14	-
Total Net Assets	$ 13,802	$ 124,750	$ 1,438	$ 421	$ 1,175
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets					
Operating Revenues - Customer Charges	$ 5,020	$ 68,682	$ 405	$ 183	$ -
Depreciation Expense	(1,178)	(7,107)	(64)	(27)	-
Other Operating Expenses	(4,336)	(53,884)	(299)	(103)	-
Operating Income (Loss)	$ (494)	$ 7,691	$ 42	$ 53	$ -
Nonoperating Revenues (Expenses):					
Private Grants	$ -	$ -	$ -	$ -	$ 1,000
Interest Income	118	1,409	5	2	37
Interest Expense	(1,071)	(1,401)	(36)	(33)	(67)
Other	(269)	(572)	(7)	-	-
Capital Contributions	-	5,850	-	-	-
Transfers-In (Out)	267	-	(36)	15	205
Change in Net Assets	$ (1,449)	$ 12,977	$ (32)	$ 37	$ 1,175
Beginning Net Assets	15,251	111,773	1,470	384	-
Ending Net Assets	$ 13,802	$ 124,750	$ 1,438	$ 421	$ 1,175
Condensed Statement of Cash Flows					
Net Cash Provided (Used) By:					
Operating Activities	$ 712	$ 14,417	$ 97	$ 86	$ (1,963)
Noncapital Financing Activities	(2,000)	-	-	-	-
Capital and Related Financing Activities	(1,915)	(29,110)	(135)	(85)	3,774
Investing Activities	118	7,385	(1)	2	37
Net Increase (Decrease)	$ (3,085)	$ (7,308)	$ (39)	$ 3	$ 1,848
Beginning Cash and Cash Equivalents	$ 8,008	$ 52,947	$ 458	$ 138	-
Ending Cash and Cash Equivalents	$ 4,923	$ 45,639	$ 419	$ 141	$ 1,848

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

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

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

Note 16 – Contingent Liabilities

Primary Government

The Minnesota Supreme Court issued a final ruling in the *Hutchinson Technology* case that allows some corporations increased use of both the Minnesota foreign operating corporation designation and the Minnesota foreign royalty and fee subtractions. This will result in additional tax deductions and subtractions in the calculation of Minnesota corporate franchise tax for those corporations resulting in lower Minnesota corporate franchise tax collection (or higher refunds). The ruling affects both past and future tax years. Financial impacts on future tax years will be recognized in the state's forecast and budget process. At this point, there is uncertainty about exactly which corporations and past tax years are impacted and to what extent. As a result of this uncertainty, the state developed an estimated range of financial liabilities for past tax years through June 30, 2005. Retroactive impacts are estimated between $265 and $335 million. The state has recognized the lower end of that range, $265 million, as a reduction in corporate taxes in the General Fund.

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, 2005	$ 134,642
Minneapolis Teachers Retirement Fund	June 30, 2004	$ 851,787
St. Paul Teachers Retirement Fund	June 30, 2004	$ 352,600
Local Police and Fire Fund [1]	December 31, 2004	$ 162,488

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

Component Units

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

The Workers' Compensation Assigned Risk Plan (WCARP) contracts with five servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon a standard written premium. Contingent liabilities exist with respect to performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general service agreement.

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2004, was approximately $4.2 million.

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

Note 17 – Northwest Airlines Maintenance Facilities

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

As of June 30, 2005, $37,825,000 of the revenue bonds remained outstanding. Of this amount, $21,800,000 is payable primarily from lease payments of NWA, and $16,025,000 is payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the city of Duluth. In the event these revenues are insufficient to make the debt service payments on the revenue bonds, the state may apply certain state-aid payments otherwise payable to the city of Duluth.

On July 1, 1999, $3,435,000 of the revenue bonds were defeased, thereby reducing the outstanding bonds. As of June 30, 2005, $2,040,000 of these defeased bonds remain outstanding. The invested funds, which are held in escrow, will be sufficient to pay the principal on the bonds to their earliest call date.

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

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

Note 18 – Equity

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, 2005
(In Thousands)

	General	Federal	Nonmajor Governmental
Fund Balances:			
Reserved for Encumbrances	$ 107,364	$ -	$ 223,023
Reserved for Inventory	-	-	16,510
Reserved for Long-Term Receivables	53,893	70	253,994
Reserved for Long-Term Commitments	-	-	275,160
Reserved for Local Governments	-	-	453,044
Reserved for Trust Principal	-	-	985,996
Reserved for Debt Requirements	-	-	583,586
Reserved for Other	-	6,210	-
Total Reserved Fund Balances	$ 161,257	$ 6,280	$ 2,791,313
Unreserved Fund Balances:			
Designated for Appropriation Carryover	$ -	$ -	$ 150,945
Designated for Fund Purposes	-	-	333,067
Total Designated Fund Balance	$ -	$ -	$ 484,012
Undesignated	(68,292)	-	181,686
Total Unreserved Fund Balance	$ (68,292)	$ -	$ 665,698
Total Fund Balance	$ 92,965	$ 6,280	$ 3,457,011

Reserved Fund Balance

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

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

Reserved for Other of $6,280,000 in the special revenue fund type (Federal Fund) consists primarily of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

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

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, 2005
(In Thousands)

	Special Revenue Funds
Public Safety and Corrections	$ 16,119
Transportation	37,397
Environmental Resources	25,168
Economic and Workforce Development	77,596
General Education	4,421
Higher Education	942
Health and Human Services	83,747
General Government	85,218
Intergovernmental Aids	2,459
Total	$ 333,067

Note 19 – Risk Management

Primary Government

The state is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors and omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other insurance and self-insurance mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund, which offers liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All state agencies are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a range of deductibles from $1,000 through $250,000 per loss. The fund covers the balance of the claim up to $2,000,000. The reinsurance program provides coverage up to $750,000,000. Once annual aggregate losses paid by the Risk Management Fund reach $5,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature. The liability coverage is up to the statutory limit (tort claims cap) of $300,000 bodily injury and property damage per person, and $1,000,000 bodily injury and property damage per occurrence.

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

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

All losses of state property are self-insured, covered by programs of the Risk Management Fund, or covered by insurance policies purchased by the Risk Management Fund on behalf of state agencies.

Tort Claims

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

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,520,000. 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 2005, no significant change in claim liability occurred.

State Employee Group Insurance Program

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

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

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

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program. The risk pool was created by the Minnesota State Legislature to provide public employees and other eligible persons with life insurance and hospital, medical, and dental benefit coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Laws of Minnesota, 1987 codified as Minnesota Statutes, Section 43A.316. The PEIP became a self-funded program again in 1998 after a brief period as a fully funded entity.

PEIP's membership as of June 30, 2005, was 2,300 members and their dependents. The members of the pool include 16 school districts, 64 cities/townships, 2 counties, and 25 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums and will reinsure for claims through its administrators/managed care organizations for Stop-Loss coverage for claims in excess of $65,000.

The pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred, but not reported. The estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits the recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured.

The following tables present changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2005, and 2004:

Self-Insured Claim Liabilities
As of June 30, 2005 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/04	$ 11,714	$ (713)	$ 2,860	$ 8,141
Fiscal Year Ended 6/30/05	$ 8,141	$ 2,099	$ 5,027	$ 5,213
Tort Claims [1]				
Fiscal Year Ended 6/30/04	$ -	$ 818	$ 818	$ -
Fiscal Year Ended 6/30/05	$ -	$ 1,164	$ 1,164	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/04	$ 116,849	$ 14,653	$ 14,764	$ 116,738
Fiscal Year Ended 6/30/05	$ 116,738	$ 15,723	$ 16,304	$ 116,157
State Employee Insurance Plans				
Fiscal Year Ended 6/30/04	$ 38,446	$ 389,309	$ 391,072	$ 36,683
Fiscal Year Ended 6/30/05	$ 36,683	$ 399,753	$ 398,133	$ 38,303

[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	
	2005	2004
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 1,810	$ 2,320
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	16,499	19,466
Increases (Decreases) in Provision for Insured Events of Prior Years	283	(630)
Total Incurred Claims and Claim Adjustment Expenses	$ 16,782	$ 18,836
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 14,822	$ 17,679
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	2,075	1,667
Total Payments	$ 16.897	$ 19,346
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 1,695	$ 1,810

Component Units

Metropolitan Council

Metropolitan Council (MC) is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss as discussed below. MC has not experienced significant reduction in insurance coverage from the prior year. In addition, MC has not had any settlements in excess of coverage for the past three years.

Liability

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred, but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes, Section 466.04, generally limits the MC's tort exposure to $300,000 per claim and $1,000,000 per occurrence for a claim arising on or after January 1, 2000. For claims arising earlier, the limits are $300,000 per claim and $750,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

Workers' Compensation

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 6 percent. The self-insurance retention limit for workers' compensation is $1,520,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

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

The U of M is also self-insured for workers' compensation through an internally maintained fund. The internal fund for workers' compensation is maintained only to fund current year expected payouts. Excess insurance is maintained through the Workers' Compensation Reinsurance Association. Each year, an actuarial estimate of the U of M liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2003, and 2004 or June 30, 2004, and 2005, 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 12/31/03	$ 18,648	$ 10,374	$ 7,227	$ 21,795
Fiscal Year Ended 12/31/04	$ 21,795	$ 3,606	$ 6,892	$ 18,509
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/04	$ 7,657	$ 1,452	$ 1,650	$ 7,459
Fiscal Year Ended 6/30/05	$ 7,459	$ 1,906	$ 3,059	$ 6,306
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/04	$ 12,000	$ 2,601	$ 3,601	$ 11,000
Fiscal Year Ended 6/30/05	$ 11,000	$ 1,229	$ 3,229	$ 9,000
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/04	$ 17,467	$ 121,758	$ 120,806	$ 18,419
Fiscal Year Ended 6/30/05	$ 18,419	$ 144,138	$ 145,315	$ 17,242

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, 2005
(In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ 92,965
Less: Reserved Fund Balance	161,257
Undesignated Fund Balance	$ (68,292)
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (530,465)
Tax Refunds Payable	674,803
Human Services Receivable	(48,066)
Deferred Revenue	(10,877)
Other Receivables	(16,003)
Permanent School Fund Reimbursement	(1,796)
Investments at Market	(784)
Expenditure Accruals/Adjustments:	
Medical Assistance	318,931
Human Services Grants Payable	51,236
Education Aids	956,245
Police and Fire Aid	72,226
Other Payables	5,342
Fund Structure Differences:	
Terminally Funded Pension Plans	8,459
Designated for Appropriation Carryover and Budgetary Reserve	(1,056,463)
Perspective Differences:	
Reserve for Long-Term Receivable	53,893
Budgetary Basis:	
Undesignated Fund Balance	$ 408,389

Note 21 – Prior Period Adjustments

Prior Period Adjustments

Primary Government

The government-wide infrastructure balance includes a prior period adjustment of $37,849,000, which represents reimbursements received by the state from local governmental entities for their share of costs incurred for joint construction projects prior to the beginning of the year.

Component Unit

Workers' Compensation Assigned Risk Plan corrected a calculation error that resulted in understating deferred service carrier fees and deferred policy acquisition costs for the years ended December 31, 2001, 2002, and 2003. The correction, made during the year ended December 31, 2004, resulted in an increase in these deferred fees and costs (assets) of $8,339,000.

Note 22 – Litigation

1) Payment of tort claims against the State is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The tort claims appropriations for the fiscal year ended June 30, 2005, were $761,000 and for the fiscal year ending June 30, 2006 are also $761,000. The maximum limits of liability for tort claims arising in Minnesota are $300,000 for any one claim and $1,000,000 for any number of claims arising out of a single occurrence.

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

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

   b. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* (Minnesota Supreme Court). Minn. Stat. § 297F.24 (2003) imposes a 35 cent per pack fee on "non settlement cigarettes." A non-settlement cigarette "means a cigarette manufactured by a person other than a manufacturer [1] that ... is making annual Division Managers payments to the State of Minnesota under a settlement of the lawsuit styled as *State v. Philip Morris Inc.*" or [2] that has entered into a similar agreement also requiring annual payments. Plaintiffs challenged enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. On November 19, 2003, the District Court upheld § 297F.24 against all of plaintiffs' challenges. On August 24, 2004, the Minnesota Court of Appeals affirmed. The Minnesota Supreme Court accepted review. An opinion is expected in the fall of 2005. The fee is expected to generate an estimated $11.4 million over the 06/07 biennium.

c. *Dahl, et al. v. Goodno* (Ramsey County District Court). Medicaid recipients filed a class action challenging a provision of 2003 Minnesota legislation authorizing Medicaid co-payments. The challenged provision allows providers to deny services for nonpayment of past due Medicaid co-pay debt. Plaintiffs also assert that the State failed to provide adequate notice when the statute was implemented and following each provider denial. Plaintiffs seek declaratory and injunctive relief, reimbursement of all co-pays paid by class members since October 1, 2003, (which may exceed $10 million), costs and attorneys' fees. The court issued an order on September 15, 2005, on a class certification motion and cross-motions for summary judgment argued in June and July, 2005. The court issued a declaratory judgment determining the provision to be preempted by federal Medicaid law and therefore unenforceable. But, the court also denied injunctive relief, denied plaintiffs' claims for restitution, denied class certification, and determined that the agency's notices were adequate. The parties must file any appeal by November 15, 2005. The parties will also need to resolve plaintiffs' expected petition for attorneys' fees.

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

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

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

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

h. *Union Pacific Railroad Co. & Soo Line Railroad Co. v. Salomone, et al.* (Federal District Court, No. CV 04-924 JRT/JSM). Plaintiffs, two railroad common carriers, challenge the imposition of Minnesota's sales and use tax on their purchase and use in Minnesota of diesel fuel for locomotives and off-road vehicles. Plaintiffs allege that the tax is discriminatory under the Railroad Revitalization and Regulatory Reform Act of 1976 ("4 R Act") because their principal competitors, motor carriers, airlines, and barges, are not taxed under the same regime or pay little or no tax. The plaintiffs are seeking declaratory and injunctive relief prohibiting enforcement and collection of the tax. A determination in plaintiffs' favor could result in revenue collection losses in excess of $10 million when applied to plaintiffs and other railroad common carriers operating in Minnesota. A decision is expected from the district court in early 2006.

i. *State of Minnesota and Blue Cross and Blue Shield of Minnesota v. Philip Morris, et al.* and related case *Liggett Group v. State* (both in Ramsey County District Court). Cigarette manufacturers and the State executed settlement agreements under which the manufacturers agreed to make annual payments in perpetuity to the State, and the State released the manufacturers from all future claims for reimbursement for healthcare costs. Effective August 1, 2005, the Legislature imposed a tobacco use health impact fee to recover State health costs related to tobacco use and to deter youth smoking. All revenue from the fee must be credited to the Health Impact Fund. The manufacturers have moved to enforce their settlement agreements alleging that imposition of the fee violates the agreements' release of claims provisions. The Department of Revenue estimates that decisions favorable to the manufacturers would have an estimated $340 million impact on the Health Impact Fund for the current biennium. The manufacturers' motion in the Philip Morris case was argued on September 29, 2005. The Court is expected to rule quickly. The Liggett case is not currently scheduled for a hearing.

j. *Minnesota State University, Mankato Accident Notices of Tort Claims.* The State has received five notices of claims under the Tort Claims Act arising out of a vehicle accident involving students and staff from Minnesota State University, Mankato who were on a University-sponsored trip in Michigan. Three notices of claims are for wrongful death; two notices of claims are for personal injuries. One of the personal injury notices of claims estimates damages in excess of $10 million.

Note 23 – Subsequent Events

Primary Government

On September 21, 2005, $285,400,000 of general obligation state various purpose bonds, $111,600,000 of general obligation state trunk highway bonds, and $160,960,000 of general obligation state refunding bonds were sold at a true interest cost of 3.82 percent. The bonds were issued to finance the cost of capital improvements and refunding $80,850,000 in principal amount of outstanding governmental bonds of the state dated May 1, 1996, and $82,750,000 in principal amount of outstanding governmental bonds of the state dated November 1, 1996. These bonds are backed by the full faith and credit and taxing powers of the state.

On September 21, 2005, the MnSCU Board of Trustees authorized the sale of revenue bonds. Tax exempt bonds in the amount of $41,930,000 and taxable bonds in the amount of $3,390,000 were issued on October 20, 2005.

Component Units

On June 9, 2005, the Minnesota Housing Finance Agency (HFA) approved series resolutions authorizing the issuance of $162,005,000 bonds for the purpose of providing funds for certain HFA homeownership programs. The Residential Housing Bonds, 2005 Series J, 2005 Series K, 2005 Series L and 2005 Series M were delivered on August 4, 2005.

The HFA called for early redemption subsequent to June 30, 2005, for the following bonds:

Program Funds	Retirement Date	Original Par Value
Residential Housing Finance	July 1, 2005	$ 11,385,000
Single Family	July 1, 2005	31,740,000
Rental Housing	August 24, 2005	560,000
Total		$ 43,685,000

During the year ended December 31, 2004, the Metropolitan Council (MC) entered into an agreement to sell $18,845,000 General Obligation Wastewater Revenue Refunding Bonds, Series 2005A, dated June 1, 2005.

On March 30, 2005, the MC sold $45,685,000 General Obligation Transit and Refunding Bonds, Series 2005C; $97,930,000 General Obligation Wastewater Revenue and Refunding Bonds, Series 2005B; and $6,000,000 General Obligation Park Bonds, Series 2005D.

On August 30, 2005, the Public Facilities Authority (PFA) authorized the issuance of Clean Water Bond Fund (CWBF) revenue bonds, such principal amount not to exceed $350,000,000, and the amount of this total to be used for refunding outstanding CWBF revenue bonds not to exceed $250,000,000. The PFA also authorized the issuance of Drinking Water Bond Fund (DWBF) revenue bonds, such principal amount not to exceed $120,000,000, and the amount of this total to be used for refunding outstanding DWBF revenue bonds not to exceed $40,000,000.

During July 2005, the Higher Education Services Office (HESO) issued $30,000,000 of 2005 Series A (Taxable) Supplemental Student Loan Program Revenue Bonds and $70,000,000 of 2005 Series B (Tax Exempt) Supplemental Student Loan Program Revenue Bonds.

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,200 bridges and tunnels maintained by the state.

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

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

Lane Miles of Pavement

Measurement Scale

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

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

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

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

Established Condition Level

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

Assessed Conditions

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

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
2004	3.30	3.14
2003	3.40	3.24
2002	3.39	3.30

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 3,232 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	2004	2003	2002
Fair to Good	96.1%	96.0%	95.6%

All Other Systems	2004	2003	2002
Fair to Good	94.8%	96.6%	92.2%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the years ended June 30, 2005, 2004, 2003, and 2002 (in thousands):

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

[1]Reflects change in budgeting project costs.

Mn/DOT projects may span several years. Project costs through fiscal year 2004 were budgeted in the first year, but spent throughout the life of the project. This process did not allow an accurate comparison of the amounts budgeted and spent within a fiscal year due to funding carryover between two or more fiscal years. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. The table demonstrates that over the past year, the state spending has been in line with the budgeted amounts and other tables contained within this narrative demonstrate that the state has met its desired condition levels.

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

Actuarial Measures of Pension Funding Progress

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

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

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

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

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		CERF	JRF	LRF[2]	SPRF
Actuarial Valuation Date	2004[1]	7/1/2004	7/1/2004	7/1/2004	7/1/2004
	2003	7/1/2003	7/1/2003	-	7/1/2003
	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
	2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
Actuarial Value of Plan Assets	2004	$ 486,617	$ 138,948	$ 46,155	$ 594,785
	2003	$ 470,716	$ 134,142	-	$ 591,521
	2002	$ 457,416	$ 131,379	$ 45,501	$ 591,383
	2001	$ 431,134	$ 123,589	$ 42,608	$ 572,815
Actuarial Accrued Liability	2004	$ 524,215	$ 190,338	$ 83,197	$ 545,244
	2003	$ 484,974	$ 176,291	-	$ 538,980
	2002	$ 446,426	$ 171,921	$ 78,070	$ 510,344
	2001	$ 398,633	$ 165,244	$ 75,072	$ 489,483
Total Unfunded Actuarial Liability (Asset)	2004	$ 37,598	$ 51,390	$ 37,042	$ (49,541)
	2003	$ 14,258	$ 42,149	-	$ (52,541)
	2002	$ (10,990)	$ 40,542	$ 32,569	$ (81,039)
	2001	$ (32,501)	$ 41,655	$ 32,464	$ (83,332)
Funded Ratio[3]	2004	93%	73%	55%	109%
	2003	97%	76%	-	110%
	2002	102%	76%	58%	116%
	2001	108%	75%	57%	117%
Annual Covered Payroll	2004	$ 133,172	$ 34,683	$ 3,815	$ 51,619
	2003	$ 131,328	$ 33,771	-	$ 54,175
	2002	$ 124,373	$ 31,078	$ 5,089	$ 49,278
	2001	$ 120,947	$ 28,246	$ 5,858	$ 48,935
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2004	28%	148%	971%	(96%)
	2003	11%	125%	-	(97%)
	2002	(9%)	130%	640%	(164%)
	2001	(27%)	147%	554%	(170%)

(1)The July 1, 2004, Annual Valuation Report is the most recently issued report available.

(2)Effective with the July 1, 2002, Annual Valuation Report, the LRF is included biennially in even-numbered years only.

(3)Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

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

	Fiscal and Policy Year Ended (In Thousands)							
	1998	1999	2000	2001	2002	2003	2004	2005
1. Required Contribution and Investment Revenue:								
Earned	$ 2,564	$ 7,713	$ 10,995	$ 18,005	$ 22,149	$ 23,458	$ 22,764	$ 19,177
Ceded	195	624	1,031	1,972	2,243	2,321	2,231	1,736
Net Earned	$ 2,369	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137	$ 20,533	$ 17,441
2. Unallocated Expenses	$ 538	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528	$ 2,296	$ 1,904
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
Ceded	91	171	772	760	2,513	1,570	1,980	1,913
Net Incurred	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586
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
One Year Later	1,849	5,817	9,240	15,908	18,091	17,572	17,367	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579		
Three Years Later	1,850	5,818	9,243	15,963	18,034			
Four Years Later	1,850	5,818	9,243	15,963				
Five Years Later	1,850	5,818	9,243					
Six Years Later	1,850	5,818						
Seven Years Later	1,850							
5. Re-estimated Ceded Claims and Expenses	$ 91	$ 171	$ 772	$ 760	$ 2,513	$ 1,570	$ 1,980	$ 1,913
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
One Year Later	1,854	5,828	9,253	15,935	18,114	17,595	17,385	
Two Years Later	1,850	5,818	9,243	15,963	18,034	17,579		
Three Years Later	1,850	5,818	9,243	15,963	18,034			
Four Years Later	1,850	5,818	9,243	15,963				
Five Years Later	1,850	5,818	9,243					
Six Years Later	1,850	5,818						
Seven 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)	$ (101)	$ -

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 February 1, 2006

The following schedule sets forth by type, all general obligation debt of the State expected to be outstanding as of February 1, 2006.

GENERAL OBLIGATION BONDS OUTSTANDING FEBRUARY 1, 2006
(INCLUDING THIS ISSUE)
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$ 635,295	
	Transportation	125,189	
	Pollution Control	54,940	
	Waste Management	3,300	
	Refunding Bonds	674,479	
	Reinvest in Minnesota	680	
	Land Fill	11,735	
	Infrastructure Development Bonds	358,821	
	Various Purpose	1,123,420	
	Total Category 1		$2,987,859
2	School Loan	$ 43,700	
	School Loan Refunding	29,325	
	Municipal Energy Building	1,495	
	Rural Finance Authority	64,600	
	Game and Fish Building	16	
	Total Category 2		$ 139,136
3	Trunk Highway	$ 432,725	
	Trunk Highway Refunding	780	
	Total Category 3		$ 433,505
4	State Sports & Health Club Tax Bonds Refunding Bonds	1,945	
	Total Category 4		$ 1,945
	Total Outstanding February 1, 2006 — Previous Issues(1)		$3,562,445
	Plus February 1, 2006 Taxable Bond Issue		3,000
	Total Outstanding February 1, 2006, Including New Issue		$3,565,445

(1) Excludes all bonds previously refunded.

The full faith and credit and unlimited taxing powers of the State are pledged for the payment of all of the above bonds.

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

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED

February 1, 2006
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization(1)(2)	Previously Issued	Authorizations Dated February 1, 2006	Remaining Authorization
Building	1990, Ch. 610	$ 270,129.1	$ 270,126.0	$ 0.0	$ 3.1
Building	1994, Ch. 643	523,874.5	523,849.0	0.0	$ 25.5
Building	1996, Ch. 463	478,672.9	478,505.0	0.0	$ 167.9
Building	X1997, Ch. 2	37,544.5	37,525.0	0.0	$ 19.5
Building	1999, Ch. 240	439,530.1	437,665.0	0.0	$ 1,865.1
Trunk Highway	2000, Ch. 479	100,100.0	98,850.0	0.0	1,250.0
Various Purpose	2000, Ch. 492	528,426.3	506,980.0	0.0	$ 21,446.3
Various Purpose	X2001, Ch. 12	117,205.0	112,750.0	0.0	$ 4,455.0
Various Purpose	2002, Ch. 280	7,800.0	0.0	0.0	$ 7,800.0
Various Purpose	2002, Ch. 374	75,120.0	69,460.0	0.0	$ 5,660.0
Various Purpose	2002, Ch. 393	624,712.0	566,545.0	0.0	$ 58,167.0
Trunk Highway	X2002, Ch. 1	10,115.0	10,100.0	0.0	$ 15.0
Various Purpose	X2002, Ch. 1	16,315.0	13,600.0	0.0	$ 2,715.0
Trunk Highway	X2003, Ch. 19, Art.3	400,400.0	259,750.0	0.0	$ 140,650.0
Trunk Highway	X2003, Ch. 19, Art.4	110,110.0	103,500.0	0.0	$ 6,610.0
Various Purpose	X2003, Ch. 20	236,915.0	190,600.0	0.0	$ 46,315.0
Various Purpose	2005, Ch. 20	944,980.0	214,259.0	0.0	$ 730,721.0
Rural Finance Authority	X2005, Ch. 3	18,000.0	2,500.0	3,000.0	$ 12,500.0
Totals		$4,939,949.6	$3,896,564.0	$3,000.0	$1,040,385.6

X indicates Special Session Laws.

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

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

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

Debt Management Policy

The Governor has established a State Debt Management Policy. Included in this policy is a guideline providing for the issuance of general obligation bonds in amounts such that appropriations to the Debt Service Fund from the General Fund should not exceed 3.0% of the General Fund non-dedicated revenues for a biennium; and a second guideline providing that the principal amount of general obligation bond debt should not exceed 2.5% of the personal income of State residents. A third guideline is that the total amount of all State general obligation bonds, moral obligation debt, State bond guarantees, equipment capital leases, and real estate leases outstanding at the end of any fiscal year should not exceed 5.0% of State personal income for that fiscal year. The purpose of the third guideline is to acknowledge all future commitments of the State, and to establish an upper limit on the total amount of the commitments.

The percentages of the appropriation for debt service from the General Fund and the ratios of debt to personal income are as follows:

Biennium Ending	Percentage of General Fund Revenues for Debt Service	Debt/Personal Income	Future Commitments/ Personal Income
June 30, 1997	2.47%	1.8%	3.64%
June 30, 1999	2.64%	1.8%	3.60%
June 30, 2001	2.43%	1.6%	3.03%
June 30, 2003	2.32%	1.7%	3.03%
June 30, 2005	2.06%	1.8%	2.99%

Of the State's general obligation bonds outstanding on June 30, 2005, 40.1 percent were scheduled to mature within five years, and 70.3 percent were scheduled to mature within ten years.

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

($ in Thousands)

In Fiscal Year	General Fund	All Other Funds	Transfer Total
1997	235,519	22,459	257,978
1998	237,609	19,346	256,955
1999	286,495	20,445	306,940
2000	255,037	16,244	271,281
2001	304,994	18,315	323,309
2002	285,553	19,438	304,991
2003	295,441	43,958	339,399
2004	265,706	73,965	339,671
2005	323,453	70,768	393,921
2006	352,337	76,913	429,250

The Net Transfer amount does not include investment earnings in the Debt Service Fund and the Bond Proceeds Fund which are also appropriated to pay debt service on State general obligation bonds.

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STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
5	**5**	**5**	**5**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1	1	1	1	0	0	0	0	0	0	0	0	0	0
130	**130**	**130**	**125**	**125**	**45**	**45**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
39	32	25	18	11	4	2	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**4,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
236	118	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
1,455	**1,455**	**1,455**	**1,455**	**1,455**	**1,345**	**810**	**375**	**375**	**0**	**0**	**0**	**0**	**0**
509	433	357	282	207	132	76	37	16	0	0	0	0	0
80	**80**	**80**	**80**	**80**	**60**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
23	18	14	10	6	2	0	0	0	0	0	0	0	0
15	**15**	**15**	**15**	**15**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4	3	3	2	1	0	0	0	0	0	0	0	0	0
50	**50**	**50**	**50**	**50**	**50**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
15	12	10	7	5	2	0	0	0	0	0	0	0	0
50	**50**	**50**	**50**	**50**	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
14	11	9	6	4	1	0	0	0	0	0	0	0	0
115	**115**	**115**	**115**	**115**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
33	26	20	13	7	0	0	0	0	0	0	0	0	0
835	**835**	**835**	**835**	**835**	**465**	**465**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
256	212	169	125	80	36	13	0	0	0	0	0	0	0
30	**30**	**30**	**30**	**30**	**30**	**30**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
10	8	7	5	4	2	1	0	0	0	0	0	0	0
1,275	**1,275**	**1,275**	**1,275**	**1,275**	**1,275**	**975**	**320**	**135**	**50**	**50**	**50**	**50**	**50**
437	373	309	245	182	118	61	28	17	11	9	6	4	1
190	**190**	**185**	**185**	**185**	**185**	**185**	**135**	**85**	**10**	**10**	**5**	**0**	**0**
80	70	60	50	41	31	21	12	6	1	1	0	0	0
180	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**125**	**0**	**0**	**0**	**0**
87	77	68	58	48	39	29	20	11	3	0	0	0	0
1,970	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**950**	**500**	**0**	**0**	**0**
980	876	771	666	561	457	353	250	146	49	13	0	0	0
24,355	**20,735**	**13,030**	**13,030**	**13,034**	**13,035**	**13,035**	**13,035**	**13,045**	**11,980**	**8,400**	**3,975**	**3,150**	**1,800**
7,860	6,711	5,846	5,169	4,492	3,822	3,161	2,497	1,832	1,171	659	348	169	45

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
195	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**0**	**0**
118	107	97	87	77	67	56	46	36	26	15	5	0	0
1,150	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**1,150**	**900**	**0**
713	655	597	539	481	423	365	307	248	190	132	74	23	0
250	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**50**	**0**
152	139	126	113	100	87	74	61	48	35	22	9	1	0
60	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**0**
38	35	32	29	26	23	20	17	14	11	8	5	2	0
100	**100**	**100**	**100**	**100**	**100**	**10**	**10**	**0**	**0**	**0**	**0**	**0**	**0**
29	24	19	14	9	4	1	0	0	0	0	0	0	0
65	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**65**	**0**	**0**	**0**
34	31	28	24	21	18	15	11	8	5	2	0	0	0
140	**140**	**140**	**140**	**140**	**140**	**140**	**100**	**75**	**5**	**0**	**0**	**0**	**0**
57	50	43	36	28	21	14	7	2	0	0	0	0	0
25	**25**	**25**	**25**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
7	6	4	3	1	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,010	**4,010**	**4,010**	**4,010**	**4,005**	**2,740**	**2,240**	**890**	**120**	**0**	**0**	**0**	**0**	**0**
1,288	1,078	869	659	450	241	116	29	3	0	0	0	0	0
5,335	**5,335**	**5,335**	**5,335**	**5,335**	**4,725**	**4,725**	**3,425**	**1,660**	**275**	**25**	**0**	**0**	**0**
2,029	1,755	1,481	1,205	929	653	413	198	66	8	1	0	0	0
2,900	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,900**	**2,745**	**2,100**	**1,000**	**100**	**0**	**0**
1,446	1,296	1,144	990	837	686	537	388	242	108	30	3	0	0
6,025	**6,025**	**6,025**	**6,025**	**6,021**	**6,020**	**6,015**	**6,015**	**6,015**	**5,745**	**4,475**	**1,470**	**245**	**0**
3,239	2,930	2,620	2,308	1,996	1,686	1,380	1,073	766	461	202	51	6	0
5,930	**5,930**	**5,930**	**5,930**	**5,925**	**5,925**	**5,920**	**5,920**	**5,920**	**5,920**	**5,920**	**5,800**	**2,280**	**0**
3,615	3,310	3,005	2,700	2,394	2,089	1,784	1,480	1,175	870	565	263	57	0
1,190	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**1,190**	**0**
744	684	625	565	506	446	387	327	268	208	149	89	30	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
202,740	**185,500**	**169,375**	**160,195**	**148,485**	**129,160**	**121,515**	**103,595**	**94,560**	**78,945**	**66,770**	**44,700**	**31,640**	**19,465**
74,564	64,824	55,835	47,433	39,510	32,184	25,818	19,888	14,817	10,184	6,508	3,689	1,764	487
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0	0	0	0	0	0	0

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE | INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,050	3,550	725	75	0
2,669	2,411	2,151	1,889	1,628	1,369	1,114	858	602	348	131	23	2	0
505	505	505	505	505	505	505	505	505	505	505	505	505	5
316	291	265	240	215	190	164	139	114	89	63	38	13	0
5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	0
3,188	2,933	2,678	2,423	2,168	1,913	1,658	1,403	1,148	893	638	383	128	0
7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450	6,000
4,956	4,584	4,211	3,839	3,466	3,094	2,721	2,349	1,976	1,604	1,231	859	486	150
18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	18,105	16,605	13,780	13,130	6,005
11,128	10,218	9,305	8,391	7,476	6,565	5,657	4,748	3,840	2,933	2,063	1,302	629	150
3,545	1,510	1,015	0	0	0	0	0	0	0	0	0	0	0
179	73	20	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
685	680	680	680	680	630	0	0	0	0	0	0	0	0
192	156	120	84	50	16	0	0	0	0	0	0	0	0
805	805	805	805	805	805	805	805	800	800	800	120	0	0
431	391	350	310	269	229	188	147	107	67	26	3	0	0
930	930	930	930	930	930	930	930	930	930	930	930	930	0
581	535	488	442	395	349	302	256	209	163	116	70	23	0
620	620	620	620	620	620	620	620	620	620	620	615	620	130
394	363	332	301	270	239	208	177	146	115	84	53	22	3
6,585	4,545	4,050	3,035	3,035	2,985	2,355	2,355	2,350	2,350	2,350	1,665	1,550	130
1,777	1,517	1,310	1,137	984	832	698	580	462	344	226	126	45	3
1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0	0
1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0	0
1,430	1,515	1,605	26,370	0	0	0	0	0	0	0	0	0	0
1,883	1,794	1,698	824	0	0	0	0	0	0	0	0	0	0

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

INTEREST PAYMENTS - MEDIUM FACE

($ IN THOUSANDS)

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

The Total Debt Service - All Funds does not include:
$56,350,000 of bonds dated April 1, 1995; $2,040,000 of bonds dated May 1, 1995; $113,650,000 of bonds dated August 1, 1995;
For which funds are held in escrow, have been invested and will be sufficient to pay the principal of, and interest on, the bonds to their earliest call date.

STATE OF MINNESOTA

GENERAL OBLIGATION DEBT

SCHEDULED DEBT SERVICE FOR FISCAL YEARS 2006-2025

PRINCIPAL PAYMENTS - BOLD FACE

($ IN THOUSANDS)

INTEREST PAYMENTS - MEDIUM FACE

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

Market Value of Taxable Property: The market value, as defined by statute, of taxable real and personal property in the State, based upon the January 2005 valuation, was estimated by the Commissioner of Revenue to be $464,313,711,888. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY

($ in Thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Increase from Prior Year
1996	189,112,000	3,440,000	192,552,000	6.71
1997	202,875,000	3,490,000	206,365,000	7.17
1998	219,034,000	3,641,000	222,675,000	7.90
1999	237,387,125	3,931,269	241,318,394	8.37
2000	260,679,384	4,003,571	264,682,955	9.68
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,524,447	363,687,940	11.83
2004	407,146,983	4,713,782	411,860,765	13.25
2005 (est)	459,506,046	4,807,666	464,313,712	12.74

EQUIPMENT FINANCING

The Commissioner of Finance is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of December 31, 2005, principal in the amount of $13,126,504 was outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent of moneys appropriated from time to time for this purpose.

Various State agencies, with the Commissioner of Finance's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of December 31, 2005, principal in the amount of $10,644,018 was outstanding and unpaid under such equipment leases. The nature of the State's obligation to make rental payments under these equipment leases is the same as under the master leases described above.

REAL ESTATE FINANCING

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued $8,220,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. As of February 1, 2006, $7,135,000 of the bonds will remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The State's obligation to make rental payments is not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent of moneys appropriated from time to time for this purpose.

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds sold to finance both of the facilities was $193,105,000, all of which remain will be outstanding, on February 1, 2006. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as when the Lease and Option to Purchase Agreement with the City of Bemidji described above.

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APPENDIX C
Project Description

The Rural Finance Authority (RFA) currently administers seven loan programs to provide affordable credit to eligible farmers, and one program to provide financial assistance to proposed methane digester projects.

Five programs are funded from the sale of general obligation bonds. They include: the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program and the Restructure Loan Program. Proceeds from this proposed bond sale will be utilized primarily in the Livestock Expansion Loan Program and the Restructure Loan Program. Sale proceeds may also be used in the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program and the Agricultural Improvement Loan Program.

All five programs are participation programs whereby the RFA joins in partnership with local lending institutions to provide credit based upon certain pre-established rules. Over 430 financial facilities are included in master participation agreements.

General eligibility requirements for all five programs are: (1) a borrower must be a resident of Minnesota or a domestic family farm corporation or family farm partnership, as defined in Minnesota Statutes, Section 500.24, subdivision 2; and (2) the borrower or one of the borrowers must be the principal operator of the farm with respect to which the loan is made.

Security for the loans must be a first mortgage on agricultural real estate and a first lien security interest in any additional collateral deemed necessary by the lead financial institution or the RFA. The interest rate for the RFA portion of a loan is set to meet the debt service requirements of the bonds sold to finance it plus one-quarter of one percent for deposit into a loan loss reserve. The maximum term for loan participations is ten (10) years.

The following is a more extensive description of each of the five loan participation programs:

Livestock Expansion Program

This program creates affordable financing for new, state-of-the-art improvements for livestock production, including the purchase and construction or installation of improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended for the purpose of raising livestock. The RFA may participate on a loan up to 45 percent of the loan principal to a maximum of $275,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must (1) be actively engaged in a livestock operation; (2) have the ability to repay the loan; and (3) have a total net worth not exceeding $681,000, indexed for inflation.

Agricultural Improvement Program

This program is similar to the Livestock Expansion program in that it provides financing for improvements to a farm, but these improvements can be for any farm related purpose including grain handling facilities, machine storage, erosion control, wells and manure systems. The RFA participation is 45 percent of the loan principal to a maximum of $200,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must have a total net worth not exceeding $361,000, indexed for inflation.

Restructured Loan Program

Under this program, the RFA works with local lenders to help farmers reorganize their debt. This program is for farmers who remain in good credit standing with their local lender, but who are having trouble with cash flow. Only debt of an agricultural nature is eligible. The RFA will participate on 45 percent of the loan principal up to $225,000. The loans may be amortized over a period of up to 25 years. Participation is restricted to loans that do not exceed 80 percent of the appraised value of real estate comprising collateral for the loan. A borrower must (1) have received at least 50 percent of average annual gross income from farming for the past three years; (2) have a net worth not exceeding $681,000, indexed for inflation; and (3) have projected annual expenses not exceeding 95 percent of projected annual income.

Beginning Farmer Loan Program

This program is aimed at younger, lower equity individuals who intend, over time, to become full time farmers. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45 percent of the loan principal up to a maximum of $200,000. Each loan requires a minimum down payment of 10 percent of the purchase price. Loan amortization may be scheduled on a term of 15, 20, 25 or 30 years as negotiated among the lender, the borrower and the RFA. RFA participation is for a maximum of 10 years. A Borrower must (1) have sufficient education, training or experience to succeed in the type of farming that they intend to pursue; (2) have a total net worth not exceeding $361,000, indexed for inflation; (3) agree to enroll in a farm business management program approved by the Commissioner of Agriculture; and (4) agree to obtain credit life insurance for the amount of the debt incurred.

Seller-Sponsored Loan Program

This program is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate its financing to the lender/RFA. The lender and the RFA provide the balance of the funds with a first mortgage. The down payment is negotiable. The program rules do not, however, require one to be made. Each lender determines its own requirements based on the buyer's ability to repay the needed financing.

APPENDIX D

Cash Flow Information

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

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

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

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

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

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

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

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

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
NOVEMBER 2005 FORCAST
Fiscal Year Ending June 30, 2006
(Thousand of Dollars)

	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Total
Beginning Cash Balance	$ 3,039,376	$ 2,127,238	$ 1,748,001	$ 1,901,506	$ 1,884,445	$ 1,592,502	$ 1,815,064	$ 2,441,231	$ 1,987,302	$ 1,888,620	$ 2,129,790	$ 1,998,712	
Receipts:													
Individual Income Tax	456,556	453,514	692,301	462,812	428,389	623,192	859,364	183,963	316,654	900,544	574,276	711,244	6,662,809
Sales and Use Taxes	173,755	415,587	393,688	397,999	361,323	357,537	450,978	343,540	303,694	378,513	356,209	622,472	4,555,293
Corporate & Bank Excise	1,952	24,528	234,075	42,209	5,364	180,003	32,312	660	205,021	14,613	10,149	131,587	882,473
Statewide Property Tax	33,911	151	18	1	2,293	276,350	3,800	0	0	0	0	352,338	668,863
Motor Vehicle Taxes	52,386	44,095	31,064	23,327	23,339	25,050	25,882	24,643	30,267	33,797	34,565	47,080	395,494
Tobacco Product Taxes (1)	2,638	25,478	61,245	(3,439)	15,745	20,737	12,781	12,699	12,865	12,869	12,678	26,299	212,596
Insurance Taxes	1,911	4,652	72,140	371	1,820	72,026	9,987	14,610	88,151	12,677	1,025	72,406	351,776
Other Excise Taxes	101,107	212,476	77,629	130,580	89,916	132,941	62,513	31,911	24,628	77,392	38,948	19,895	999,936
Investment Earnings	5,431	9,243	7,204	5,819	5,972	7,667	2,528	2,931	2,952	3,136	3,204	5,553	61,640
Tobacco Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0
Inter-governmental Grants	4,585	5,676	6,433	4,410	6,960	5,611	15,068	25,427	14,027	23,620	12,064	12,746	136,629
Other Sources	193,986	294,316	315,454	210,785	220,964	393,035	360,441	232,746	232,146	225,359	238,714	361,226	3,279,172
Subtotal Receipts	$ 1,028,216	$ 1,489,715	$ 1,891,251	$ 1,274,874	$ 1,162,087	$ 2,094,150	$ 1,835,654	$ 873,130	$ 1,230,404	$ 1,682,520	$ 1,281,833	$ 2,362,845	$ 18,206,680
Total Resources	$ 4,067,592	$ 3,616,954	$ 3,639,252	$ 3,176,380	$ 3,046,533	$ 3,686,652	$ 3,650,718	$ 3,314,362	$ 3,217,706	$ 3,571,141	$ 3,411,623	$ 4,361,556	
Expenditures:													
State Payroll	205,619	194,365	276,308	204,377	200,435	210,101	182,186	186,218	224,084	239,092	192,563	173,335	2,488,683
Agency Operations	132,603	136,436	111,372	110,254	113,312	102,970	70,458	98,280	93,935	66,134	136,288	240,861	1,412,904
Aid to School Districts	459,272	975,279	688,729	440,245	188,937	617,746	616,767	571,827	696,717	713,675	586,955	296,973	6,853,124
Aid to Cities	230,849	7,563	80,621	43,290	10,281	275,755	1,626	3,101	3,815	2,129	1,274	2,447	662,751
Aid to Counties	233,141	36,459	41,067	94,273	27,571	216,665	17,290	31,622	38,782	19,139	27,713	17,864	801,585
Aid to Higher Education Institutions	98,170	106,704	32,283	8,940	106,493	94,262	50,874	4,273	50,345	63,987	98,283	71,564	786,179
Aid to Non-Gov't Organizations	27,906	33,969	14,381	18,734	20,457	15,477	16,182	16,767	9,253	15,529	17,253	25,544	231,451
Aid to Special Districts	34,192	18,684	40,758	18,519	13,368	15,277	26,946	9,774	10,953	11,355	11,346	30,046	241,218
Payments to Individuals	516,064	353,416	440,268	351,671	401,413	317,654	226,412	404,611	196,970	308,196	339,259	265,863	4,121,796
Other	2,537	6,077	11,958	1,631	18,765	5,681	747	585	4,232	2,114	1,978	3,156	59,461
Debt Service	0	0	0	0	353,000	0	0	0	0	0	0	0	353,000
Total Expenditures	$ 1,940,354	$ 1,868,953	$ 1,737,746	$ 1,291,934	$ 1,454,030	$ 1,871,588	$ 1,209,487	$ 1,327,060	$ 1,329,086	$ 1,441,350	$ 1,412,912	$ 1,127,652	$ 18,012,152
Ending Cash Balance	$ 2,127,238	$ 1,748,001	$ 1,901,506	$ 1,884,445	$ 1,592,502	$ 1,815,064	$ 2,441,231	$ 1,987,302	$ 1,888,620	$ 2,129,790	$ 1,998,712	$ 3,233,904	
Minimum Statutory Cash Balance for the Month	$ 1,653,699	$ 1,314,135	$ 1,385,195	$ 1,557,160	$ 1,393,857	$ 1,366,956	$ 1,683,294	$ 1,989,315	$ 1,659,532	$ 1,728,330	$ 1,699,680	$ 1,667,693	

(1) See Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
NOVEMBER 2005 FORCAST
Fiscal Year Ended June 30, 2007
(Thousand of Dollars)

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Total
Beginning Cash Balance	$ 3,233,904	$ 2,306,978	$ 1,507,178	$ 1,457,301	$ 1,400,625	$ 1,204,562	$ 1,518,835	$ 1,977,991	$ 1,553,732	$ 1,430,501	$ 1,664,609	$ 1,846,373	
Receipts:													
Individual Income Tax	452,924	477,473	724,650	481,117	494,629	674,523	901,647	211,283	361,873	952,856	586,306	743,318	$ 7,062,599
Sales and Use Taxes	175,460	421,606	403,706	434,555	374,290	365,984	469,398	355,829	314,914	391,743	365,353	637,779	4,710,618
Corporate & Bank Excise	26,724	20,860	170,233	21,826	1,736	151,279	27,255	9,452	205,438	16,766	19,881	134,248	805,698
Statewide Property Tax	93	0	0	0	1,173	285,541	3,984	0	0	0	0	369,360	660,151
Motor Vehicle Taxes	22,524	37,960	36,854	36,069	29,296	28,402	28,140	26,824	33,099	36,044	36,862	50,002	402,075
Tobacco Product Taxes (1)	9,719	24,507	13,111	7,719	6,651	22,843	21,633	23,146	19,037	20,641	22,104	30,531	221,642
Insurance Taxes	4,182	8,636	66,671	5,577	2,445	60,057	13,461	16,224	92,862	16,839	1,071	77,293	365,317
Other Excise Taxes	72,191	34,940	11,737	69,905	23,233	24,185	65,645	33,506	25,854	80,064	40,661	20,896	502,819
Investment Earnings	2,010	5,830	5,395	3,979	4,380	4,487	2,967	3,424	3,460	3,673	3,741	5,695	49,041
Tobacco Settlement	0	0	0	0	0	171,706	0	0	0	0	0	0	171,706
Inter-governmental Grants	4,696	5,802	6,579	4,501	7,108	39,828	10,325	17,559	9,705	16,416	8,216	9,094	139,828
Other Sources	192,701	284,190	337,131	279,037	252,363	321,648	361,653	233,847	230,929	224,582	240,307	359,846	3,318,236
Subtotal Receipts	$ 963,224	$ 1,321,804	$ 1,776,068	$ 1,344,284	$ 1,197,305	$ 2,150,483	$ 1,906,107	$ 931,093	$ 1,297,172	$ 1,759,625	$ 1,324,503	$ 2,438,063	$ 18,409,730
Total Resources	$ 4,197,128	$ 3,628,782	$ 3,283,246	$ 2,801,585	$ 2,597,930	$ 3,355,045	$ 3,424,941	$ 2,909,085	$ 2,850,904	$ 3,190,126	$ 2,989,112	$ 4,284,436	
Expenditures:													
State Payroll	$ 216,973	$ 205,257	$ 292,514	$ 214,229	$ 210,845	$ 203,313	$ 190,373	$ 193,851	$ 234,820	$ 250,087	$ 199,524	$ 180,029	$ 2,591,817
Agency Operations	137,314	145,669	96,498	124,278	113,155	128,818	99,248	89,746	110,229	115,663	110,930	135,161	1,406,710
Aid to School Districts	502,344	1,053,859	725,402	462,199	192,885	520,248	606,499	574,139	688,944	678,632	394,774	130,930	6,530,854
Aid to Cities	246,021	8,708	73,524	42,914	5,781	284,235	11,649	3,480	3,346	3,349	2,113	3,713	688,833
Aid to Counties	141,762	151,067	44,749	113,048	26,410	211,026	21,253	33,678	35,722	25,746	26,553	25,178	856,192
Aid to Higher Education Institutions	51,589	90,731	63,181	9,529	51,140	103,314	35,536	48,761	44,063	59,949	82,903	67,437	708,134
Aid to Non-Gov't Organizations	23,092	38,117	11,686	18,807	19,821	14,436	16,274	19,617	10,320	15,671	11,964	28,118	227,926
Aid to Special Districts	30,243	24,297	19,779	38,866	15,042	22,400	42,071	10,225	13,214	13,331	13,693	14,505	257,665
Payments to Individuals	540,070	397,208	485,565	376,449	358,746	345,402	423,106	381,129	274,206	360,310	297,657	284,372	4,524,220
Other	742	6,691	13,047	640	18,193	3,017	940	726	5,537	2,779	2,627	4,069	59,008
Debt Service	0	0	0	0	381,352	0	0	0	0	0	0	0	381,352
Total Expenditures	$ 1,890,150	$ 2,121,604	$ 1,825,945	$ 1,400,960	$ 1,393,368	$ 1,836,210	$ 1,446,950	$ 1,355,353	$ 1,420,402	$ 1,525,517	$ 1,142,739	$ 873,513	$ 18,232,711
Ending Cash Balance	$ 2,306,978	$ 1,507,178	$ 1,457,301	$ 1,400,625	$ 1,204,562	$ 1,518,835	$ 1,977,991	$ 1,553,732	$ 1,430,501	$ 1,664,609	$ 1,846,373	$ 3,410,923	
Minimum Statutory Cash Balance for the Month	$ 2,379,822	$ 1,523,715	$ 1,057,603	$ 1,750,474	$ 1,592,896	$ 1,692,788	$ 1,896,754	$ 2,029,362	$ 1,655,409	$ 1,684,485	$ 1,771,059	$ 1,852,804	

(1) See Litigation section on page 7 and Note 22 to the financial statements shown in Appendix A, both of this Official Statement.

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APPENDIX E

Obligations of State Agencies

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them outstanding as of February 1, 2006, 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 February 1, 2006:

Minnesota Housing Finance Agency
Bonds Outstanding As Of: February 1, 2006

	Number of Series	Interest Rate	Maturity Due	Original Amount (in thousands)	Outstanding Amount 02/01/2006 (in thousands)
Rental Housing	21	2.00% to 6.60%	2006-2045	$ 458,670	$ 197,680
Residential Housing Finance	40	1.75% to 5.85%	2006-2036	1,473,395	1,325,235
Single Family Mortgage	59	2.00% to 8.05%	2006-2035	1,151,635	364,305
	120			$3,083,700	$1,887,220

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 February 1, 2006 will have $581,897,417. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University.

Minnesota Office of Higher Education (MOHE). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000. The loans are made and insured in accordance with MOHE's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of February 1, 2006, MOHE will have $487,000,000 of bonds outstanding payable from the Student Educational Loan Fund II and III. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MOHE, and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the state universities within the Minnesota State Colleges and Universities System. As of February 1, 2006, the MnSCU will have $22,045,000 tax exempt bonds and $16,370,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed 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 $3,775,821 and the other for $15,870,000. 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 February 1, 2006, the MHEFA will have $681,308,643 principal amount of bonds outstanding. Each issue is payable solely from and secured by a first lien on the revenues of the project financed, reserve funds and a guarantee of the institution for which the project is financed.

Minnesota State Armory Building Commission (MSABC). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed $15,000,000. As of February 1, 2006, the MSABC will have $5,410,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota State Zoological Board. (MSZB). The State appropriated moneys to finance the acquisition and construction of a State zoological garden which is owned and operated by the MSZB. The MSZB is not specifically authorized by law to borrow money or issue obligations in evidence thereof. However, in 1977 the Legislature authorized the MSZB to acquire an automated, monorail transportation system for the garden by installment purchase contract, and the MSZB entered into such a contract for this purpose.

On April 1, 1980, the Minnesota State Zoological Board was unable to make the installment payment then due under the installment purchase contract. On December 30, 1985 the State and investors entered into closing documents through which the State acquired all investor rights to the monorail system for the sum of $1.5 million. The documents released the State from any and all investor claims against the State and MSZB regarding the monorail system.

Minnesota Rural Finance Authority. In 1986 the Legislature created the Minnesota Rural Finance Authority (RFA) and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of February 1, 2006, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Finance is authorized to issue up to $141.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $128.6 million of these bonds, including bonds of this issue, for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of February 1, 2006, the RFA had issued $33,838,583, of revenue bonds for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of February 1, 2006, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $801,505,000, Drinking Water Revenue Bonds, $162,640,000, and Transportation Revenue Bonds, $27,450,000, for a total outstanding amount of $991,595,000. The MPFA's bonds are not a debt or liability of the state. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed $1,250,000,000.

Minnesota Agricultural and Economic Development Board (MAEDB). The MAEDB was established by Minnesota Statutes, Chapter 41A, to provide for agricultural and economic development in the State, and is authorized to issue revenue bonds for these purposes. The revenue bonds issued by the MAEDB are not general obligations of the State. As of February 1, 2006, MAEDB will have outstanding $22,850,000 of pooled revenue bonds which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB will have outstanding $585,112,297 of revenue bonds that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Office of the Commissioner of the Iron Range Resources & Rehabilitation Authority (IRRRA). The IRRRA was established by Minnesota Statutes, Chapter 298, to perform certain functions for the Northeastern portion of the State, including the promotion of economic development. The IRRRA is authorized to issue revenue bonds to accomplish the promotion of economic development. As of October 1, 2005 the IRRRA will have $14,255,000 of bonds outstanding to finance the Giant's Ridge Recreation Area.

Minnesota Department of Finance. Minnesota Laws 1991, Chapter 350, authorized the State to issue revenue bonds secured by the State's full faith and credit in an amount up to $50,000,000 to finance the construction and equipping of an engine repair facility in Hibbing, and up to $125,000,000 to finance the construction and equipping of an aircraft maintenance facility in Duluth. By agreement dated December 21, 1994 with Northwest Airlines, Inc. (''NAI''), the intended lessee of both facilities, and certain other parties, it was agreed that the Hibbing facility would not be constructed and that the State would use its best efforts to issue revenue bonds secured by the State's full faith and credit for the Duluth facility. The State issued $47,670,000 of revenue bonds in May 1995, $36,850,000 of the revenue bonds will remain outstanding as of February 1, 2006, of which $21,225,000 are payable primarily from lease payments of NAI, and $15,625,000 are payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the City of Duluth. In the event such revenues are insufficient the State will have the right to apply to the payment of such bonds, or to reimburse itself for making such payments from, certain state-aid payments otherwise payable to the City of Duluth. NAI filed for bankruptcy on September 14, 2005. All $36,850,000 of the revenue bonds outstanding are secured by the State's full faith and credit. The bonds are structured so that the initial bonds, together with expected later refundings, will provide financing over a 30 year amortization period. The 1997 Minnesota Legislature cancelled $48,765,000 of the bonding authorization for the Hibbing facility. The 2001 Legislature cancelled $81,275,000 of the bonding authorization for the Duluth facility.

The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of state revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Finance sold $29,000,000 of the revenue bonds in June 2000. As of February 1, 2006, there will be $27,150,000 of Minnesota State Retirement System bonds outstanding.

APPENDIX F

State Government and Fiscal Administration

State Government

The State was formally organized as a territory in 1849 and was admitted to the Union on May 11, 1858, as the 32nd state. Bordered by Canada on the north, Lake Superior and Wisconsin on the east, Iowa on the south, and North and South Dakota on the west, it is the 12th largest and 20th most populous state in the Union.

The State's Constitution organizes State government into three branches: Executive, Legislative and Judicial.

The Executive Branch is headed by the Governor. The Governor, Lt. Governor, Attorney General, State Auditor, and Secretary of State are popularly elected to four year terms. There are 18 departments and over one hundred agencies, boards, councils, and authorities which comprise the Executive Branch. Most departments and agency heads are appointed and serve at the pleasure of the Governor, subject to confirmation by the Senate.

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve 4 year terms. House members number 134 and serve 2 year terms.

The Judicial Branch is headed by a Supreme Court. Three levels of courts function within the Judicial Branch: Supreme Court, Appellate Court, and District Courts.

A general organization chart of the Executive Branch of State government is shown on the following page. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.

Fiscal Administration

The Department of Finance was created in 1973 under the control and supervision of the Commissioner of Finance. The Commissioner is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. Minnesota voters approved a constitutional amendment in November 1998 that eliminated the Office of the State Treasurer as of January 6, 2003. The Commissioner of Finance assumed the duties of the State Treasurer. Included in the financial duties of the Commissioner are:

Preparation of State biennial budget and capital budget.

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

Administration of the State payroll system.

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

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

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

Preparation of revenue, expenditure and cash flow estimates.

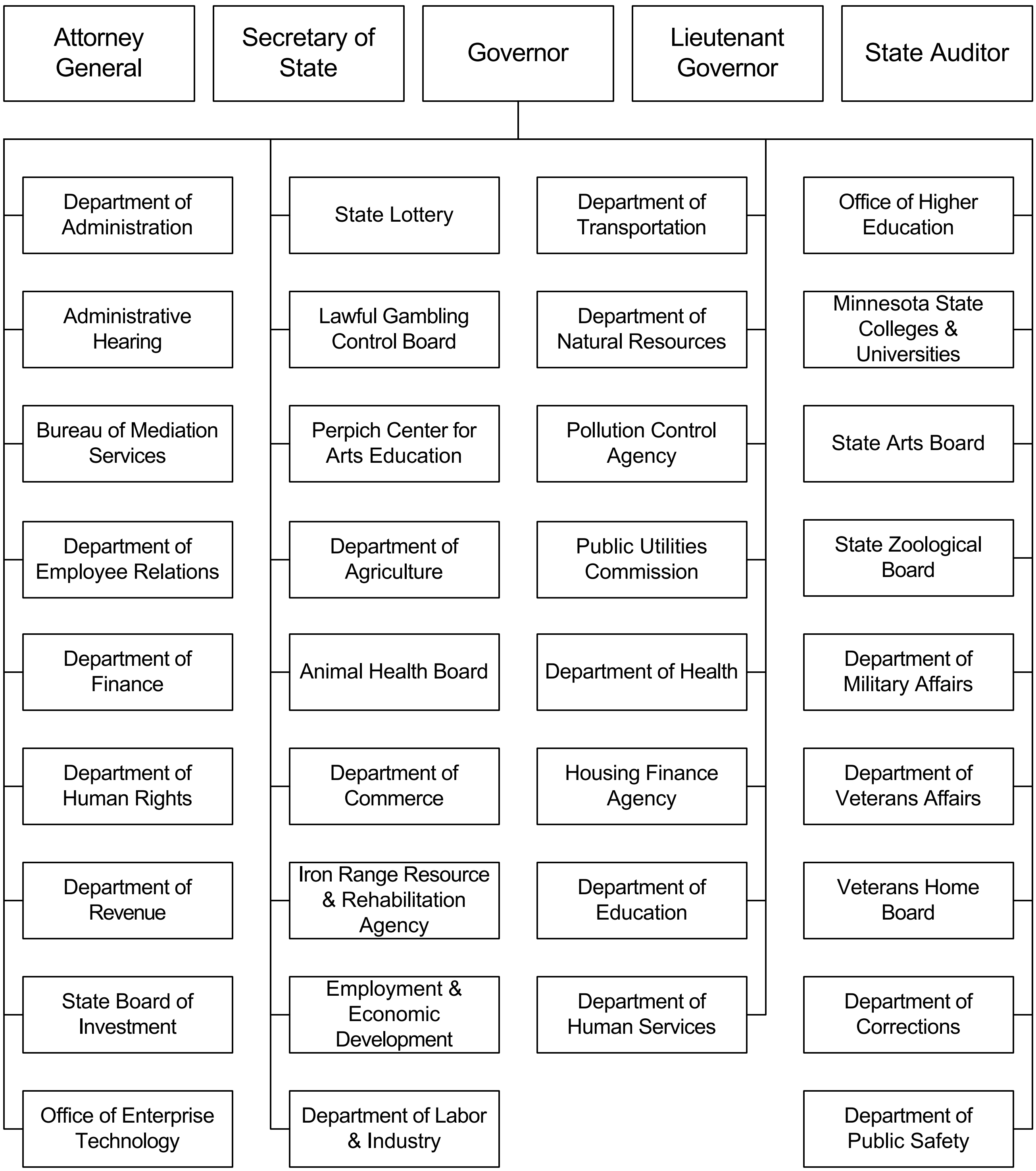
Banking and cash management activities.

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

Accounting System

State law requires the Commissioner of Finance to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

STATE ORGANIZATION CHART



State law requires the Commissioner of Finance to administer the payroll of all employees of the executive branch of government.

The accounting system is organized on a fund basis. A fund is an independent fiscal and accounting entity with a self balancing set of accounts. Funds are established for the purpose of carrying on specific activities or objectives in accordance with legal requirements.

Financial Reporting

State law requires the Commissioner of Finance to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2004 general purpose financial statements are presented in Appendix A, and general long-term debt unaudited schedules are presented in Appendix B.

Investments

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

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

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

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

Revenues and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

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

The State has settled voluntary agreements with AFSCME (6 units-craft, service, health care non-professional, clerical, technical, and correctional officers), MAPE, MGEC, MMA, SRSEA, Minnesota State College Faculty Association (MSCF), Minnesota State University Administration and Service Faculty (MSUAF) and Minnesota State University Interfaculty Organization (IFO) for the Current Biennium employee contracts. Of these agreements, the Legislative Subcommittee on Employee Relations has approved AFSCME, MAPE, MMA, and MSCF. The others are expected to be approved in January 2006. Two agreements remain unsettled, MLEA and MNA, and continue in negotiations. Previous Biennium agreements expired on June 30, 2005, and will remain in effect until subsequent agreements are reached.

INFORMATION ON STATE BARGAINING UNITS

UNIT Union or Association	Employees as of October 2005
AFSCME (6 bargaining units)	17,940
MN Association of Professional Employees (MAPE)	10,730
Middle Management Association (MMA)	2,710
MN Government Engineers Council (MGEC)	880
MN Nurses Association (MNA)	750
MN Law Enforcement Association (MLEA)	720
State Residential Schools Education Association (SRSEA)	180
State College Faculty Association (MSCF)	4,880
State University Interfaculty Organization (IFO)	3,330
State University Admin and Service Faculty (MSUAF)	610
Total Represented Employees	42,730
Total State Employment	49,170
Percent of All Executive Branch Employees Unionized	87%

APPENDIX G

Minnesota Defined Benefit Retirement Plans

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriation. Estimates of direct General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in Table G-1. Additionally, Table G-2 presents summary data on the financial condition of the plans for the most recent Fiscal Year on which valuation data is available. Information provided in Table G-2 includes:

a. current assets held in trust for participants;
b. the accrued benefit liability;
c. the accrued liability funding ratio;
d. the number of plan members;
e. identification of the funds for which the State has custodial responsibility; and
f. identification of the funds for which the State may have a contingent liability.

Information concerning the specific benefit provisions of each plan is available upon request from the Commissioner of Finance.

Since July 1, 1997, annual cost-of-living increases tied to national CPI are guaranteed up to 2.5%. Any benefit increase beyond that level is based on a rolling five-year average market value gain to retiree assets, less an assumed minimum 6% return.

Each plan's financing requirement is determined by a specific formula established in State law. No assurance can be provided that the formulas will not change in the future. A brief description of the existing formulas follows:

1. *Minnesota State Retirement System; State Teachers' Retirement Association; Public Employees' Retirement Association; and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds the contribution is specified in statute as a fixed percentage of the plan member's salary.

2. *Adjustments for Pre-1973 Retirees in Various Funds.* Contributions for these adjustments are included in payroll deductions and employer contributions as part of the total fund liabilities with the exception of the *Minneapolis Employees Retirement Fund (MERF),* for which the State made annual appropriations of $550,000. This appropriation terminated at the end of Fiscal Year 2001.

3. *State's share of amortizing unfunded liabilities of local police or fire relief associations that are being phased out.* Current State law provides that the State's contribution will remain at the level of the Fiscal Year 1992 appropriation, or less, as plans achieve full-funding, before the year 2010.

4. *Minneapolis Employees' Retirement Fund.* This fund is closed to new members. The annual General Fund obligation is specified in statute as: (a) the total annual level dollar contribution needed to amortize the entry-age normal unfunded liability by 2020 as estimated in the most recent valuation, less (b) 2.5% of covered payroll, and less (c) $3,900,000. The total cannot exceed $9,000,000 per year.

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

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

7. *Constitutional Officers' Plan.* General Fund appropriations are transferred to this account on a current disbursements basis as retirement benefits are paid.

TABLE G-1

	Estimated General Fund Appropriation		
	Previous Biennium	Current Biennium	Next Biennium
		($ in thousands)	
Constitutional Officers' Retirement	$ 766	$ 796	$ 860
Legislators' Retirement Plan[(1)]	1,350	1,585	1,664
Minneapolis Employees Retirement Fund[(2)]	13,725	16,130	16,130
Basic Local Police & Fire Association[(3)]	164,246	185,557	192,712
Local Police or Fire Associations Amortization	10,005	9,276	9,276
Public Employees Retirement Association Aid	29,169	29,128	29,120
Minneapolis Teachers' Retirement Assoc.[(4)]	31,590	31,600	31,600
St. Paul Teachers' Retirement Association[(4)]	5,929	5,934	5,934
TOTAL	$256,780	$280,006	$287,296

(1) The payment of pension obligations for pre-1997 legislators was converted from a pre-funded post-retirement system to an annual pay-as-you-go system. All annual pension obligations for members in that plan are paid in full on an annual basis with no changes implemented in member contribution rates or benefit levels.

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

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

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

2005 Pension Legislation

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

TABLE G-2

Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, July 1, 2004[1]
($ in Millions)

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

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

(2) The pre-1997 Legislators and Constitutional Officers defined benefit retirement plans are now financed on a pay-as-you-go basis from annual appropriations — there are no separate assets reserved for these plans. Legislators and Constitutional Officers first elected after July 1, 1997 are members of the State's defined contribution plan.

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APPENDIX H
Selected Economic and Demographic Statistics

Population Trends In The State

Minnesota resident population grew from 4,390,000 in 1990 to 4,934,000 in 2000 or, at an average annual compound rate of 1.2 percent as shown in Table 1. In comparison, U.S. population also grew at an annual compound rate of 1.2 percent during this period. Between 2000 and 2004, data in Table 1 indicate Minnesota population grew at annual compound rate of 0.8 percent compared to 1.0 percent for the U.S. Minnesota population is currently forecast by the U.S. Department of Commerce to grow at an annual compound rate of 0.8 percent through 2030, compared to 0.9 percent nationally.

The Structure Of The State's Economy

Diversity and a significant natural resource base are two important characteristics of the State's economy.

When viewed in 2004 at a highly aggregative level of detail, the structure of the State's economy parallels the structure of the United States economy as a whole. As shown in Table 2 below, State employment in fourteen major sectors was distributed in approximately the same proportions as national employment. In all sectors, the share of total State employment was within two percentage points of national employment share.

Some unique characteristics of the State's economy are apparent in employment concentrations in industries that comprise the durable goods and non-durable goods manufacturing categories summarized in Tables 3 and 4. In the durable goods industries, the State's employment in 2004 was highly concentrated in the fabricated metals, machinery, and computers and electronics categories. Of particular importance is the computers and electronics category in which 24.3 percent of the State's durable goods employment was concentrated in 2004, as compared to 14.9 percent for the United States as a whole. The emphasis is partly explained by the location in the State of Unisys, IBM, Seagate Technology, and other computer equipment manufacturers which are included in the computers and electronics classification. The miscellaneous manufacturing category includes Medtronic and other manufacturers of cardiac pacemakers.

The importance of the State's rich resource base is apparent in the employment mix in non-durable goods industries displayed in Table 4. In 2004, 36.0 percent of the State's non-durable goods employment was concentrated in food manufacturing. This compares to 27.7 percent in the national economy. Food Manufacturing relies heavily on renewable resources in the State. Over half of the State's acreage is devoted to agricultural purposes. Printing and Related is also relatively more important in the State than in the U.S.

Mining is currently a less significant factor in the State economy than it once was. Mining employment, primarily in the iron ore or taconite industry, dropped to 3.5 thousand in 2004, down from 6.1 thousand in 1990. However, Minnesota retains vast quantities of taconite as well as copper, nickel, cobalt, and peat which may be utilized in the future.

Employment Growth In The State

In the period 1990 to 2000, overall employment growth in Minnesota exceeded national growth as shown in Table 5. Manufacturing has been a strong sector, with Minnesota employment outperforming its U.S. counterpart in both the 1990-2000 and 2000-2004 periods.

In the 1990 to 2000 period, total employment in Minnesota increased 23.9 percent while increasing 19.9 percent nationally. Non-farm employment data indicate the recession which began in July 1990 was less severe in Minnesota than in the national economy, and that Minnesota's recovery was more rapid than the nation's. The recent recession and recovery presents a mixed picture. For the 2000 to 2004 period, Minnesota non-farm employment declined 0.4 percent compared to 1.0 percent nationally. However since 2000, Minnesota seasonally adjusted non-farm employment has grown more slowly than its national counterpart.

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 2004, Minnesota per capita personal income was 109.5 percent of its U.S. counterpart.

Tables 7, 8, and 9 show the performance of the Minnesota economy relative to the eleven other states in the North Central Region. Measures used for comparison are total personal income, population, personal income per capita, and non-agricultural employment. In the level of personal income per capita, as shown in Table 7, Minnesota ranked second among the twelve states in 1990 and first in 2004. During the period 1990 to 2000, Minnesota ranked first in growth of personal income and fourth during the period 2000 to 2004. Table 8 shows that Minnesota ranked second in personal income growth among neighboring states in 2003-2004. Over the period 1990 to 2000, Table 9 shows Minnesota non-farm employment grew 25.7 percent while the entire North Central Region grew 18.6 percent. During the 2000-2004 period, Minnesota non-farm employment declined 0.3 percent, while regional employment declined 2.9 percent.

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

TABLE 1
RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	% Change U.S.	% Change Minnesota
1990	249,623	4,390	0.9	0.7
1991	252,981	4,441	1.3	1.2
1992	256,514	4,496	1.4	1.2
1993	259,919	4,556	1.3	1.4
1994	263,126	4,610	1.2	1.2
1995	266,278	4,660	1.2	1.1
1996	269,394	4,713	1.2	1.1
1997	272,647	4,763	1.2	1.1
1998	275,854	4,813	1.2	1.0
1999	279,040	4,873	1.2	1.2
2000	282,192	4,934	1.2	1.2
2001	285,102	4,986	1.0	1.1
2002	287,941	5,025	1.0	0.8
2003	290,789	5,064	1.0	0.8
2004	293,655	5,101	1.0	0.7

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

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

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

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data, March 2005. Minnesota Leisure and Hospitality data includes Indian gaming.

Minnesota employment data benchmarked to March 2004 levels.

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

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

Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Employment and Economic Development.

U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January 2005.

Columns may not add due to rounding.

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

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

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota employment data benchmarked to March 2004. U.S. data benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 4
EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2004
(Thousands of Jobs)

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

Sources: U.S. Employment — Global Insight (USA), Inc., U.S. Central Data Bank.

Minnesota Employment — Minnesota Department of Employment and Economic Development, unpublished data.

Minnesota data benchmarked to March 2004. U.S. data benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

TABLE 5
EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2004
(Thousands of Jobs)

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

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

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

Minnesota employment data benchmarked to March 2004. Minnesota Leisure and Hospitality data includes Indian gaming. U.S. employment benchmarked to March 2004. Both Minnesota and U.S. industry detail determined according to the North American Industrial Classification System (NAICS).

Minnesota agricultural employment: Unpublished estimate from Minnesota Department of Employment and Economic Development. U.S. Agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings January 2005.

U.S. and Minnesota agricultural employment data for 2004 not necessarily comparable with earlier years because of changes in methodology.

TABLE 6
MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1994	22,985	22,172	103.7
1995	24,078	23,076	104.3
1996	25,716	24,175	106.4
1997	26,953	25,334	106.4
1998	28,993	26,883	107.9
1999	30,106	27,939	107.8
2000	32,017	29,845	107.3
2001	32,609	30,575	106.7
2002	33,229	30,814	107.8
2003	34,221	31,487	108.7
2004	36,173	33,041	109.5

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

TABLE 7
PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2004

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2004 Personal Income (Millions)	2000-2004 Rate of Increase (%)	Regional Rank 2000-2004	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2004 Population (Thousands)	2004 Per Capita Personal Income ($)	2004 Regional Rank
Illinois	238,499	400,373	5.32	6	441,485	2.47	12	12,440	20,824	1	12,714	34,725	2
Ohio	203,630	320,538	4.64	12	356,774	2.71	10	11,364	18,743	4	11,459	31,135	6
Michigan	176,189	294,227	5.26	7	324,134	2.45	11	9,956	18,922	3	10,113	32,052	5
Indiana	97,213	165,285	5.45	4	187,565	3.21	9	6,092	17,491	9	6,238	30,070	11
Wisconsin	88,635	153,548	5.65	2	176,636	3.56	6	5,374	18,072	6	5,509	32,063	4
Missouri	90,407	152,722	5.38	5	175,611	3.55	7	5,606	17,627	8	5,755	30,516	10
Minnesota	87,318	157,964	6.11	1	184,515	3.96	4	4,934	19,891	2	5,101	36,173	1
Iowa	48,358	77,763	4.86	10	91,500	4.15	3	2,928	17,389	10	2,954	30,970	8
Kansas	44,876	74,570	5.21	9	84,810	3.27	8	2,693	18,085	5	2,736	31,003	7
Nebraska	28,444	47,329	5.22	8	56,393	4.48	2	1,713	17,983	7	1,747	32,276	3
South Dakota	11,273	19,438	5.60	3	23,602	4.97	1	756	16,172	11	771	30,617	9
North Dakota	10,166	16,097	4.70	11	18,553	3.61	5	641	15,943	12	634	29,247	12

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

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

Rank	State	Percent Growth
1	Iowa	8.89
2	MINNESOTA	6.47
3	South Dakota	6.17
4	Nebraska	5.55
5	Wisconsin	5.40
6	Missouri	5.16
7	Kansas	4.97
8	Indiana	4.89
9	Ohio	4.19
10	Illinois	3.34
11	North Dakota	1.97
12	Michigan	1.77
	REGION	4.33

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

(1) Refer to Table 7 for Personal Income figures.

TABLE 9
NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION
(Thousands of Jobs)

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

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

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

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

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

Month	Minnesota	U.S.
2005		
January	5.2%	5.7%
February	4.7%	5.8%
March	5.0%	5.4%
April	4.1%	4.9%
May	3.8%	4.9%
June	3.9%	5.2%
July	3.4%	5.2%
August	3.4%	4.9%
September	3.7%	4.8%
October	3.1%	4.6%
November	3.6%	4.8%

Source: Minnesota Department of Employment and Economic Development.

TABLE 11
MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

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

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

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APPENDIX I

Continuing Disclosure Undertaking

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

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated February 1, 2006 (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 2006 (each a "Reporting Date"):

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

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

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

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

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

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

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults;

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

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

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

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

(G) Modifications to rights to security holders;

(H) Bond calls;

(I) Defeasances;

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

(K) Rating changes.

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

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

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

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

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

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

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

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

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

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

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

(d) *Term; Amendments; Interpretation.*

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

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

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

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

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

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

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

APPENDIX J
Definition of Ratings

Moody's Investors Service, Inc.:

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

Standard & Poor's Ratings Group:

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

Fitch Ratings:

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

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APPENDIX K

Form of Legal Opinion

The Honorable Peggy S. Ingison
Commissioner of Finance
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $3,000,000 General Obligation Taxable State Bonds

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Finance of the State of Minnesota on behalf of the State, preliminary to and in issuance of $3,000,000 General Obligation Taxable State Bonds dated February 1, 2006 (the "Bonds"). The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue.

From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, rules, regulations and judicial decisions now in effect, it is our opinion that: the Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

We express no opinion regarding federal, state and other tax consequences to holders of the Bonds.

Dated: February , 2006.