NEW ISSUE: FULL BOOK ENTRY ONLY **RATING:** S&P: "AA+"
(See "RATING" herein)

In the opinion of Briggs and Morgan, Professional Association, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Certificates, the interest on the Certificates is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the certificates is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; interest on the Certificates is not taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on corporations because the Certificates are being issued in 2009. The opinions are subject to the condition that the State complies with all applicable federal requirements. Failure to comply with certain of such requirements may cause interest on the Certificates to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences. See "TAX EXEMPTION" herein.

OFFICIAL STATEMENT

$74,980,000 CERTIFICATES OF PARTICIPATION, SERIES 2009
STATE OF MINNESOTA
As Lessee
Pursuant to a Technology Systems Lease Purchase Agreement

Dated: Date of Delivery **Due**: June 1, as shown below.

The $74,980,000 Certificates of Participation, Series 2009 (the "Certificates"), are being issued by the State of Minnesota (the "State" or "Lessee") to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system (the "Accounting and Procurement Project"); (ii) the acquisition, development, and implementation of an integrated tax software project (the "Revenue Project") (collectively referred as the "Projects"); and, (iii) the payment of all fees and expenses incurred in connection to the issuance of the Certificates. The Certificates are being issued under the Declaration of Trust, dated as of September 1, 2009 (the "Trust Agreement"), by U.S. Bank National Association (the "Trustee" or "Lessor") and joined in by the State and are payable from the rental payments (the "Rental Payments") made pursuant to the Technology Systems Lease Purchase Agreement, dated September 1, 2009 (the "Lease") between the Trustee and the State. The Certificates do not constitute or create a general or moral obligation or indebtedness of the State.

The Certificates will be issued as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Principal of the Certificates, payable annually on June 1 as set forth below, and interest, payable semiannually on each June 1 and December 1, commencing December 1, 2009, at the rates set herein, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein.

MATURITY SCHEDULE

Year	Amount	Interest Rate	Yield	CUSIP	Year	Amount	Interest Rate	Yield	CUSIP
2010	$ 1,000,000	2.000%	0.750%	604140 US 0	2015	$ 8,920,000	4.000%	2.350%	604140 UX 9
2011	500,000	4.000%	1.000%	604140 UT 8	2016	9,270,000	4.500%	2.620%	604140 UY 7
2012	7,925,000	4.000%	1.270%	604140 UU 5	2017	9,690,000	5.000%	2.790%	604140 UZ 4
2013	8,245,000	4.000%	1.590%	604140 UV 3	2018	10,175,000	5.000%	3.030%	604140VA 8
2014	8,575,000	4.000%	1.980%	604140 UW 1	2019	10,680,000	5.000%	3.220%	604140 VB 6

The Certificates are subject to optional redemption and extraordinary redemption prior to their stated maturities at the option of the State at any time as further described herein under "Description of the Certificates - Redemption Provisions" herein.

LEGAL OPINION: Briggs and Morgan, Professional Association, Minneapolis, Minnesota

J.P. Morgan Securities, Inc. has agreed to purchase the Certificates from the State for the purchase price of **$82,390,600.80**. The Certificates will be available for delivery on or about September 1, 2009.

The date of this Official Statement is August 18, 2009.

(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, the Financial Advisor or the purchaser(s) of the Certificates (the "Underwriter(s)"), to give any information or to make any representations with respect to the Certificates other than those contained in this Official Statement or the Final Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State, the Financial Advisor or the Underwriter(s). Certain information contained herein has been obtained from sources other than records of the State and the Financial Adviser and is believed to be reliable, but is not guaranteed. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been any changes in the affairs of the State since the date hereof.

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

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

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INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding issuance of the $74,980,000 Certificates of Participation, Series 2009 (the "Certificates") issued by the State of Minnesota, and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Capitalized terms used but not defined herein shall have the meanings given to them in the Technology Systems Lease Purchase Agreement, dated September 1, 2009 (the "Lease") and the Declaration of Trust, dated September 1, 2009 (the "Trust Agreement")

Issuer:	State of Minnesota (the "State" or "Lessee")
Authority for Issuance:	The Certificates are being issued pursuant to the Lease, between the State and the Trustee; the Trust Agreement; Minnesota Laws of 2009, Chapter 101, Article 2, Sections 50, 51, 71 and 104 (the "Act"); and the order, signed by the Commissioner of Management and Budget (the "Commissioner"), authorizing and ordering the issuance of the Certificates (the "Order.")
Security:	The Certificates will be payable from the Rental Payments and the moneys held in the funds and accounts established in the Trust Agreement. Funds to pay the Rental Payments are appropriated from the general fund according to the Act subject to annual Non-Appropriation. The Certificates do not constitute or create a general or moral obligation or indebtedness of the State.
Purpose:	The Certificates are being issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system (the "Accounting and Procurement Project"); (ii) the acquisition, development and implementation of an integrated tax software project (the Revenue Project") (collectively referred as the "Projects"); and, (iii) the payment of all fees and expenses incurred in connection to the issuance of the Certificates.
Principal Payments:	Principal is payable annually on June 1 of the years 2010 through 2019.
Interest Payments:	Interest of the Certificates is payable on June 1 and December 1, commencing December 1, 2009.
Redemption Provisions:	The Certificates are subject to optional and extraordinary redemption prior to their stated maturities at the option of the State as further described herein under "Redemption Provisions."
Denominations:	$5,000 or multiples thereof.
Book-Entry Only:	The Certificates will be issued as book-entry only securities through the DTC.
Tax Status:	The Certificates are exempt from federal and Minnesota income taxes, as further provided and described in this Official Statement. See "Tax Exemption" herein. The Certificates will not be designated as Qualified Tax-Exempt Certificates.
Legal Matters:	Validity, tax exemption, and legal matters incident to the authorization and issuance of the Certificates are subject to the opinion of Briggs and Morgan, Professional Association, Bond Counsel. The opinion will be substantially in the form set forth in Appendix F attached hereto.

Professional Consultants:	*Financial Advisor:*	Public Financial Management, Inc. Minneapolis, Minnesota
	Bond Counsel:	Briggs and Morgan, Professional Association Minneapolis, Minnesota
	Lessor/Trustee:	U.S. Bank National Association St. Paul, Minnesota

Conditions Affecting Issuance of the Certificates: The Certificates are offered when, as and if issued, subject to the approving legal opinion of Briggs and Morgan, Professional Association.

Continuing Disclosure: By a Continuing Disclosure Certificate, the State will covenant and agree to provide to nationally recognized securities repositories and any Minnesota state information repository, certain annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain material events. The State is the only "obligated person" in respect of the Certificates within the meaning of Securities and Exchange Commission Regulations, 17 C.F.R. Section 240.15c2-12. A copy of the proposed certificate is in Appendix G.

Dated Date/Delivery Date: On or about September 1, 2009.

The information set forth herein has been obtained from the State and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor or Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the State or in any other information contained herein, since the date hereof.

Questions regarding the Certificates or the Official Statement can be directed to, and additional copies of the Official Statement, the State's audited financial reports and the documents described herein may be obtained from Katherine Kardell, Assistant Commissioner of Minnesota Management and Budget, 400 Centennial Office Building, 658 Cedar Street, St. Paul, Minnesota 55155, (651) 201-8030 or from Jessica Cameron at Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402, (612) 338-3535.

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OFFICIAL STATEMENT

STATE OF MINNESOTA

$74,980,000 CERTIFICATES OF PARTICIPATION, SERIES 2009

DESCRIPTION OF THE CERTIFICATES

This Official Statement sets forth information concerning the issuance by the State of the Certificates. The Certificates mature on the dates and in the amounts as set forth on the cover pages of this Official Statement and contain other terms as set forth herein.

Authorization and Purpose

The Certificates are being issued pursuant to the Lease; the Trust Agreement; Minnesota Laws of 2009, Chapter 101, Article 2, Sections 50, 51, 71 and 104 (the "Act"); and the Order, signed by the Commissioner. The Certificates are being issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system (the "Accounting and Procurement Project"); (ii) the acquisition, development and implementation of an integrated tax software project (the Revenue Project") (collectively referred as the "Projects"); and, (iii) the payment of all fees and expenses incurred in connection to the issuance of the Certificates.

Interest Computation

Interest payable with respect to the Certificates will be payable semiannually commencing December 1, 2009. It will be computed on a 360-day year, 30-day month basis, and paid to the owners of record as of the close of business on the fifteenth of the immediately preceding month. Payments coming due on a non-business day will be paid on the next business day.

Redemption Provisions

Optional Redemption

The Certificates maturing on or after June 1, 2017 are subject to redemption, at the option of the State, on June 1, 2016 and any date thereafter in whole or in part as selected by the State with respect to maturities and by lot within each maturity, at a price of par plus accrued interest to the date of redemption.

Extraordinary Redemption

The Certificates are subject to extraordinary redemption and prepayment, in whole or in part, at the option of the State on any date the agreements contained in the Trust Agreement shall have become impossible to perform in accordance with the intent and purposes of the State, or unreasonable burdens or excessive liabilities shall have been imposed upon the State as a result (i) of any changes in the Constitution of the State of Minnesota or the Constitution of the United States of America, or of any legislative or administrative action, whether state or federal, (ii) of any final decree, judgment or order of any court or administrative body, whether state or federal, entered after the contest thereof by the State in good faith, or (iii) of the imposition of new state or local ad valorem, property, income or other taxes not imposed on the date of the Trust Agreement, other than special assessments levied in amounts proportionate to and not exceeding the benefits of future public improvements to the Projects. Certificates redeemed as a result of any of the events described in this section shall be redeemed at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date without premium.

Notice of Redemption

The Trustee shall give notice of redemption to the registered owners of the Certificates (the "Owners") not less than thirty days prior to the redemption date by mailing a copy of the redemption notice by first class. The notice shall specify: (a) the Certificates to be redeemed; (b) the date of redemption; and, (c) the place or places where the redemption will be made.

Book-Entry Only System

The information contained in the following paragraphs of this subsection "Book-Entry Only System" has been extracted from a schedule prepared by Depository Trust Company ("DTC") entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE." The State makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each annual maturity of the Certificates, each in the aggregate principal amount of such annual maturity, and such certificates 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. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only identity of the Direct Participants to whose accounts such Certificates 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.

Redemption notices shall be sent to Cede & Co.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect 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.

Neither DTC nor Cede & Co. will consent or vote with respect to Certificates. 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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 the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

NEITHER THE STATE NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE CERTIFICATES; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO CERTIFICATEHOLDERS; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS CERTIFICATEHOLDER; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF CERTIFICATES.

Continuing Disclosure

The Commissioner, in the Order, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Certificates 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 the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System, 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 Certificates. The State is the only "obligated person" in respect of the Certificates within the meaning of paragraph (b)(5). A description of the Commissioner's undertaking is set forth in Appendix G. The Commissioner has never failed to comply with any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates will be applied approximately as follows:

Table 1
Estimated Sources and Uses of Funds

Sources of Funds	
Par Amount	$ 74,980,000
Reoffering Premium	7,646,243
Total Sources of Funds	$ 82,626,243
Uses of Funds	
Deposit to Project Account:	
Accounting and Procurement Project	$ 65,800,000
Revenue Project	16,450,000
Costs of Issuance/Underwriter's Discount	376,243
Total Uses of Funds	$ 82,626,243

SOURCE OF PAYMENT AND SECURITY

The Certificates are payable from the Rental Payments due under the Lease by the Trustee and joined in by the State. Funds sufficient to make Rental Payments have been appropriated in the Act for the Projects provided that the State is not obligated to continue such appropriation of funds or to make lease payments in any future fiscal year. Any unexpended portions of the appropriations for each biennium cancel to the general fund at the close of that biennium. The Lease will commence on September 1, 2009 and will end on the date upon which all the Rental Payments have been made. **The Certificates do not constitute or create a general or moral obligation or indebtedness of the State.**

There is no assurance that the legislature will not rescind or repeal appropriations to fund Rental Payments. Accordingly, the likelihood that there will be sufficient funds to pay the principal of and interest on the Certificates depends upon certain factors which are beyond the control of the Owners of the Certificates, including (a) a continuing need of the State to utilize the Projects, and (b) the economic and demographic conditions within the State permitting the generation of funds sufficient to pay obligations associated with Rental Payments and other obligations of the State (whether now existing or hereafter created).

In the event the appropriations are insufficient to pay the Rental Payments, the State will have no further payment obligations under the Lease

No Rights to the Projects

The Certificates are not secured by any security interest in or lien on the physical assets comprising the Projects and upon termination of the Lease for any reason, including failure by the State to make Rental Payments, title to the Projects is conveyed to the State free and clear of any encumbrance. Accordingly, upon the occurrence of an Event of Default under the Lease resulting in nonpayment of principal and interest on the Certificates, the remedies available to the Trustee are limited. If the State does not make Rental Payments in the amounts sufficient to pay principal and interest on the Certificates when due, there is no other source of funds or collateral available for such purpose (except to the limited extent of amounts on deposit or available to be drawn in the Project Account).

Schedule of Aggregate Rental Payments

The table shown below shows the Aggregate Rental Payments payable under the Trust Agreement, which are equal to the payments of principal and interest on the Certificates.

Table 2
Schedule of Aggregate Rental Payments

	Accounting and Procurement Project		Revenue Project		
Date	Principal	Interest	Principal	Interest	Total
2010	$ 830,000	$ 1,998,038	$ 170,000	$ 500,212	$ 3,498,250
2011	415,000	2,647,450	85,000	663,550	3,811,000
2012	6,335,000	2,630,850	1,590,000	660,150	11,216,000
2013	6,590,000	2,377,450	1,655,000	596,550	11,219,000
2014	6,855,000	2,113,850	1,720,000	530,350	11,219,200
2015	7,130,000	1,839,650	1,790,000	461,550	11,221,200
2016	7,410,000	1,554,450	1,860,000	389,950	11,214,400
2017	7,745,000	1,221,000	1,945,000	306,250	11,217,250
2018	8,135,000	833,750	2,040,000	209,000	11,217,750
2019	8,540,000	427,000	2,140,000	107,000	11,214,000
Total	$ 59,985,000	$ 17,643,488	$ 14,995,000	$ 4,424,562	$ 97,048,050

SUMMARY OF CERTAIN TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the Lease and the Trust Agreement. These summaries do not purport to be complete and reference is made to the full text of the respective agreements for a complete recital of their terms. Investors are urged to review the various provisions of the documents carefully in order to ascertain precisely how any particular subject is treated herein. Copies of the documents described herein can be obtained from Public Financial Management, Inc., the State's financial advisor.

The Lease

General Description

The Lease will be entered into by and between the State acting through the Commissioner as the Lessee and the Trustee as Lessor to finance the Projects pursuant to the Act.

Term of Lease

The Lease will be in effect for a period commencing on September 1, 2009, and ending on the date when all Rental Payments have been made (June 1, 2019), which date is the lesser of the useful life of each of the Projects or ten years from the date of the execution of the Lease and the issuance of the Certificates (the "Lease Term"). The Lease is subject to termination with respect to each Project upon the earliest of (the "Termination of Lease Term"):

(a) termination by the Lessee with respect to such Project upon an act of Non–Appropriation (an act of Non-Appropriation is the State's affirmative action to discontinue or reduce the appropriation);
(b) the prepayment by the Lessee of all unpaid Rental Payments for such Project;
(c) the discharge by the Lessee of its obligation to pay the Rental Payments with respect to such Project by depositing irrevocably in an escrow account, cash or securities sufficient to pay or prepay all unpaid Rental Payments; and

(d) a default by the Lessee and the Trustee's election to terminate this Lease.

Rental Payments

Rent during the Lease Term is payable not later than the business day immediately prior to each June 1 and December 1, beginning on December 1, 2009, and on any Termination of Lease Term. Interest shall accrue from the first day of the closing date expected to be on September 1, 2009 (the “Closing Date”). The State shall have the right to terminate the Lease, in whole but not in part, at the end of any Fiscal Year of the State upon an act on Non-Appropriation. The Commissioner is authorized by the Laws of 2009, Chapter 101, Article 2, Section 16A.81 to make rental payments each year during the lease term from the general fund of the State.

The obligations of the State under the Lease, including its obligation to pay the Rental Payments due with respect to each of the Projects, in any Fiscal Year for which this Lease is in effect, shall constitute a current expense of the State for such Fiscal Year and shall not constitute an indebtedness of the State within the meaning of the Constitution and laws of the State. Nothing herein shall constitute a pledge by the State of any taxes or other moneys, other than moneys lawfully appropriated from time to time by or for the benefit of the State and the net proceeds from any insurance or awards in the event of the damage or destruction of the Projects, to the payment of any Rental Payment or other amount coming due.

Prepayment of Rent

The State has the option to prepay the unpaid Rental Payments in whole or in part with respect to each Project by giving notice to the Trustee not less than forty-five days in advance of the expected prepayment date. In addition, the State may at any time discharge its obligation to make Rental Payments with respect to one or both of the Projects by depositing irrevocably in an escrow account the moneys sufficient to pay or prepay the unpaid Rental Payments with respect to one or both of the Projects, together with computations and an opinion letter of a certified public accountant or a financial consulting firm attesting to the sufficiency of such moneys for this purpose and an opinion letter of independent counsel stating that such deposit will not cause the Certificates to become “arbitrage bonds” under Section 148(a) of the Internal Revenue Code.

Fees, Taxes and Charges

The State shall pay all taxes and other charges of any kind which are at any time lawfully assessed or levied with respect to the Projects, the Rental Payments, or which become due during the Term of this Lease, whether assessed against the State or the Lessor. The State shall also pay when due all gas, water, steam, electricity and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Projects. The State shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by the Lessor, its successors or assigns, unless such tax is made in lieu of or as a substitute for any tax, assessment or charge which is the obligation of the Lessee. The State may, at its own expense and in its own name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments, utility or other charges to remain unpaid during the period of such contest and any appeal unless the Lessor shall notify the State that, in the opinion of Independent Counsel, by nonpayment of any such items the interest of the Lessor in the Projects will be materially endangered or the Projects or any, part thereof will be subject to loss or forfeiture, in which event the State shall promptly pay such taxes, assessments, utility or other charges or provide the Lessor with full security against any loss which may result from nonpayment, in form satisfactory to the Lessor.

Maintenance

The State shall maintain, preserve and keep each of the Projects in good repair, working order and condition, and shall from time to time make all repairs, replacements and improvements necessary to keep each of the Projects in such condition. In addition, the State shall, at its own expense, have the right to make additions, modifications and improvements to each of the Projects.

Insurance

The State shall furnish a certification by the appropriate official within the State to the effect that the State at its own expense has caused public liability or property damage insurance to be carried and maintained with respect to the Projects in an amount to be determined in the sole discretion of the State or shall furnish a certification by the appropriate official of the

State to the effect that self-insurance is provided with respect to each of the Projects sufficient in each case to replace such Project and to protect the State from liability in all events. The State agrees to maintain evidence of blanket insurance coverage which applies automatically to the Projects and which does not require the Lessor to be specifically named by endorsement, or if the State maintains a program of self-insurance for similar projects, the State may insure each of the Projects in its self-insurance program.

Any insurance policy maintained by the State shall be so written or endorsed as to make losses, if any, payable to the State or the Lessor as their respective interests may appear but the State shall have the right to administer and approve all settlements thereunder without the necessity of the Lessor's participation or consent. The net proceeds of the insurance required shall be applied to damage and destruction or insufficiency of net proceeds.

Warranties

The Lessor makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the Lessee of the Projects, or any other representation or warranty with respect to the Projects.

Covenants

The State represents, covenants and warrants as follows:

(a) The State is authorized under the Constitution and laws of the State, including the Act, to enter into this Lease and the Trust Agreement;
(b) The officers of State executing this Lease, and the Trust Agreement have been duly authorized to execute and deliver such documents under the terms and provisions of appropriate official action;
(c) The State has complied with all public bidding and other State and Federal Laws applicable to the development and implementation of the Projects;
(d) The planned expenditures for the Projects are permitted under the policies, procedures and requirements established for technology system projects;
(e) The Lease Term does not exceed the lesser of the useful lives of the Projects or ten years from the date of the execution of the Lease and the issuance of the Certificates;
(f) The State will not pledge or assign this Lease to any other person, firm or corporation except as provided under the terms of this Lease.
(g) The State will use the Projects during the Lease Term primarily to carry out the governmental or proprietary purposes of the Lessee and its departments, agencies, institutions, instrumentalities and political subdivisions.
(h) Subject to the termination of the Lease, the State will take all other actions necessary to provide moneys for the payment of the obligations of the Lessee under this Lease from sources lawfully available for this purpose. This Lease does not constitute a general obligation of the State, and the full faith and credit and taxing powers of the State are not pledged for the payment of the Rental Payments or other amounts coming due, or other actions required to be performed (other than the Rental Payments or other amounts coming due, or other action required to be performed in any Fiscal Year prior to termination and the Fiscal Year in which termination of this Lease occurs).
(i) The State is not obligated to appropriate or otherwise provide additional moneys for the payment of the Rental Payments or any other amounts coming due; and in the event of a Non-Appropriation by the Legislature the State shall not be liable for general, special, incidental, consequential or other damages, except as provided in the Lease;
(j) The State presently intends to continue this Lease for its entire stated Term and to pay all Rental Payments. The Lessee reasonably believes that moneys in an amount sufficient to make all such Rental Payments will lawfully be made available for this purpose pursuant to the Act;
(k) The State has no actual knowledge of any pending or threatened litigation which, if determined adversely to the State, would materially and adversely affect the ability of the State to carry out its obligations under the Lease.

Tax Covenants

The State covenants in the Lease that it will do all things necessary to comply with the Internal Revenue Code, and will refrain from taking any actions which may cause the interest component of the Rental Payments to become subject to inclusion in gross income for purposes of federal income taxation.

Default and Remedies

The following shall be "Events of Default" under the Lease: (i) failure of the State to pay any Aggregate Rental Payment or other payment required to be paid under this Lease and the continuation of said failure for a period of five business days after notice is given by the Lessor; (ii) failure of the State to observe and perform any material covenant, condition or agreement, other than as referred to in clause (i) of this Section, for a period of sixty days after written notice specifying such failure and requesting that it be remedied has been given to the State by the Lessor; (iii) the filing by the State of a voluntary petition in bankruptcy.

Upon the occurrence of an Event of Default, the Lessor shall have the right, without any further demand or notice, to take one or any combination of the following remedial steps: (i) terminate the Lease Term or Terms of either or both of the Projects to which such Event of Default shall apply, and upon such termination the Lessee shall be responsible for the Rental Payments as described in the Lease; and, (ii) take whatever action at law or in equity may appear necessary to collect the Rental Payments or other payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of Lessee under the Lease. The Lessor does not have the right to take possession of the Projects.

Assignment, Subleasing, Mortgaging and Selling

The State will not encumber, sell, assign, transfer or convey the Projects or any portion thereof during the Term of the Lease, without the written consent of the Lessor.

Security and Enforceability

The Lease is not a general obligation of the State. No ad valorem or other taxes have been or are required to be levied for the payment of the Rental Payments due thereunder, and the full faith and credit of the State is not pledged for the payment of the Rental Payments due thereunder.

The Trust Agreement

Trust Fund

The Trust Agreement creates the Trust Fund. All moneys in the fund shall be held by the Trustee in trust for the benefit of the State and the Owners of the Certificates. All proceeds of the Certificates will be disbursed to the State upon receipt by the Trustee. The State does not anticipate that any moneys will be held by the Turstee during the Term of the Lease.

Moneys in the Trust Fund established pursuant to the Trust Agreement, including the semiannual payments of Rental Payments received from the State, shall be distributed to the Owners of the Certificates on each June 1 and December 1 payment date.

All moneys held by the Trustee under the Trust Agreement may be invested in any investment from time to time authorized by law for the investment of moneys of the State, subject to certain limitations set forth in the Trust Agreement. The State will provide the Trustee with investment parameters.

Application of Rent Payments

All payments under the Lease are paid directly to the Trustee and will be deposited in the Rental Payment Account created under the Trust Fund on or before the date of principal or interest payments due on the Certificates and are irrevocably pledged to the payment of the Certificates.

Additional Certificates

The Trust Agreement permits the issuance of additional certificates to provide for additional costs of the Projects or the refunding of the Certificates which will be payable and secured on a parity with the Certificates upon amending the Lease to include Rental Payments for such additional certificates.

Default on the Part of the State; Enforcement of Lease by Trustee

Upon the occurrence of an event of default on the part of the State under the Lease, the Trustee is authorized but not required to exercise rights or remedies available under the Lease, and shall do so upon written request and authorization and indemnification by the Owners of the Certificates.

Defeasance

If and when the Certificates become due and payable in accordance with their terms, or shall become subject to redemption and have been called for redemption in accordance with the Trust Agreement, the Trust Agreement shall cease, terminate and become void, and the Trustee shall assign and transfer to State all property, money, investments and rights in the Projects.

FUTURE FINANCING

In addition to the issuance of the Certificates, the State has issued approximately $598,385,000 of general obligation bonds on August 11, 2009 and are scheduled to close on August 26, 2009, which are outlined under the "State General Obligation Long-Term Debt" section in Appendix C. In addition, the State currently anticipates the sale of additional general obligation bonds in the fall of 2009.

TAX EXEMPTION

On the date of issuance of the Certificates, Briggs and Morgan, Professional Association, Bond Counsel, will render an opinion, that based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Certificates, the portion of the Rental Payments designated as and constituting interest on the Lease and payable on the Certificates is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts. In addition, such interest is not taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on corporations because the Certificates are being issued in 2009. The opinions are subject to the condition that the State complies with all applicable federal requirements. Failure to comply with certain of such requirements may cause interest on the Certificates to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Though excluded from gross income, the portion of the Rental Payments designated as and constituting interest on the Lease and payable on the Certificates is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (b) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (c) minimum effectively connected net investment income of a foreign insurance company. Such interest is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Certificates may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers of the Certificates who may be subject to such collateral consequences should consult their tax advisors.

There are many events which could affect the value and liquidity or marketability of the Certificates after their issuance, including but not limited to public knowledge of an audit of the Certificates or other certificates of the State by the Internal Revenue Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. Prospective purchasers should consult their tax advisors with respect to the consequences of such events.

In rendering its opinion, Bond Counsel has assumed compliance by the State with its covenants and representations that are intended to comply with the provisions of the Code relating to actions to be taken in respect of the Certificates after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Certificates from federal gross income. Such covenants, representations and requirements relate to, inter alia, the use of and investment of proceeds of the Certificates and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants, representations or requirements could result in the interest on the Certificates becoming includable in gross income for federal income tax purposes from the date of issuance of the Certificates. See Appendix F hereof for the "PROPOSED FORM OF BOND COUNSEL OPINION."

PREMIUM

The Certificates were sold at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Certificate holders who acquire the Certificates at a premium must, from time to time, reduce their federal and Minnesota tax bases for the Certificates for purposes of determining gain or loss on the sale or payment of such Certificates. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Certificate holder's constant yield to maturity or to certain call dates with semiannual compounding. Certificate holders who acquire Certificates at a premium might recognize taxable gain upon sale of the Certificates, even if such Certificates are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Certificate holders who acquire the Certificates at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling the Certificates acquired at a premium.

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

The Certificates will not be designated by the State as "qualified tax-exempt obligations" for purposes of section 265 of the Code relating to the ability of financial institutions to deduct from income for, federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

RATING

Standard and Poor's Rating Group assigned a rating of "AA+" on the Certificates.

The rating reflects only the views of this rating agency. For an explanation of the rating as described by this rating agency, please contact the rating agency. This bond rating is subject to change or withdrawal by the rating agency at any time. Therefore, after the date hereof investors should not assume that such rating is still in effect. A revision or withdrawal of the rating may have an adverse effect on the market price and marketability of the Certificates.

LITIGATION

There is not now pending or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Certificates, or in any manner questioning or affecting the validity of the Certificates 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 20 to the State Financial Statements for the Fiscal Year Ended June 30, 2008, set forth in Appendix F and additional actions, if any, discussed in the paragraphs below, no pending actions are likely to have a material adverse effect in excess of $15 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 20 that occurred and are subsequent to the date of the financial statements contained in Appendix F, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in Appendix F and are material for purposes of this Official Statement.

1. *35W Bridge Collapse.* A panel of three attorneys determined the amount of payments. All 179 claimants accepted payments in the aggregate amount of about $37 million on the condition that they waived the right to sue the State for additional recovery. However, the majority of those claimants have commenced litigation against the original bridge designer, an engineering firm that inspected the bridge under contract with the State, and a construction company that was performing work on the bridge at the time of the collapse. The State has been third-partied into this litigation which is venued in Hennepin County state court. Although the State's position is that its exposure in this litigation is capped at $1 million, the constitutionality of this cap may be challenged.

2. *ACS State and Local Solutions, Inc. v. State of Minnesota, through its Commissioner of the Department of Human Services*. The court's scheduling order sets the case on for a three-week trial beginning March 29, 2010, but because of the size and scope of discovery the State will seek an amended scheduling order setting the trial for late 2010 at the earliest. The Plaintiff has indicated that it has no objections to the State's request for an amended scheduling order.

3. *BNSF Railway Co. vs. Minn. Dept of Revenue and State of Minnesota.* The parties have reached a tentative settlement of the legal issue in this case and are in the process of finalizing the settlement agreement which should be completed by the end of August 2009.

4. *Eminent Domain Actions.* The Department of Transportation has agreed to acquire properties for the Metropolitan Council's Central Corridor light rail transit project. This project is likely to involve eminent domain actions. In the aggregate, the potential cost to the State for property which has been, or will be, acquired exceeds $15 million. Liability arising out of decisions unfavorable to the State may impact funding to be provided to the Department of Transportation by the Metropolitan Council.

5. *Great Lakes Gas Transmission LP v. Commissioner of Revenue, Northern Border Pipeline Co. v. Commissioner of Revenue, Viking Gas Transmission Co. v. Commissioner of Revenue*. In January 2009, the Court of Appeals affirmed the District Court's grant of summary judgment to the Commissioner on all claims. The pipelines subsequently filed a Petition for Review to the Minnesota Supreme Court, which the Court denied in April 2009. The time for any additional appeals has expired.

6. *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry (Ramsey County District Court).* The Home Insurance Company ("Home") seeks a declaration that it is entitled to reimbursement from the Special Compensation Fund for certain workers' compensation payments Home has made. Home, which is in liquidation, seeks the reimbursement to which it claims it is entitled under the State's workers' compensation scheme, and without recourse to the General Fund. Defendants Minnesota Department of Labor and Industry and Special Compensation Fund have denied Home's requests for reimbursement, raising various statutory defenses and that Home is not entitled to reimbursement under the law. Home claims it is entitled to $21 million in past and future reimbursements. The Complaint and Answer have been filed. Defendants expect to bring a summary judgment motion in late 2009. Plaintiffs ask for reimbursement from the workers compensation Special Compensation Fund.

7. *McLane Minnesota, Inc. v. Commissioner of Revenue*. Oral argument was held in April 2009 and a decision is expected in the fall of 2009.

8. *Merrill Lynch Pierce Fenner & Smith, Inc. v. Commissioner of Revenue*. Shortly before trial was scheduled in February 2009, the parties stipulated to all facts eliminating the need for trial. The parties tentatively agreed to a settlement pending the outcome of an audit by the Department of Revenue.

9. *Stewart Title Guaranty Company v. Commissioner of Revenue*. On December 4, 2008 the Minnesota Supreme Court issued an opinion upholding the Commissioner's assessment. Stewart Title has not initiated any additional appeals. The time for any additional appeals has expired.

FINANCIAL ADVISOR

The State has assigned Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Certificates. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the State to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Certificates.

Requests for information concerning the State should be addressed to Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535).

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Certificates are subject to the opinion of Briggs and Morgan, Professional Association, Bond Counsel, as to validity and tax exemption. The opinion will be substantially in the form set forth in Appendix F attached hereto. Except as to the information contained under the captions "Source of Payment and Security" and "Tax Exemption," Bond Counsel has not been requested to, and has not undertaken to, verify the accuracy of the information contained in this Official Statement and expresses no opinion with respect thereto.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract or agreement with the owners of any Certificates.

This Official Statement has been approved by the State for distribution by the Commissioner to prospective purchasers of the Certificates.

STATE OF MINNESOTA

By /s/ Tom J. Hanson
Commissioner of Management and Budget

APPENDIX A

State Government and Fiscal Administration

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STATE GOVERNMENT AND FISCAL ADMINISTRATION

State Government

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

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

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

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

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 below. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.

Fiscal Administration

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

Preparation of State biennial budget and capital budget.

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

Administration of the State payroll system.

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

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

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

Preparation of revenue, expenditure and cash flow estimates.

Banking and cash management activities.

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

Negotiation and administration of bargaining agreements and compensation plans.

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

Accounting System

State law requires the Commissioner 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 law requires the Commissioner 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.

Effective July 1, 2009 the Commissioner has been authorized to acquire a new statewide accounting and procurement system. A request for proposal process has been completed, proposals have been evaluated, and the Commissioner is currently in contract negotiations with vendors for the new system. A two year implementation period is planned with the new system expected to go live on July 1, 2011, the beginning of fiscal year 2012.

Financial Reporting

State law requires the Commissioner 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 2008 basic financial statements are presented in Appendix E, and general long-term debt unaudited schedules are presented in Appendix C.

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.

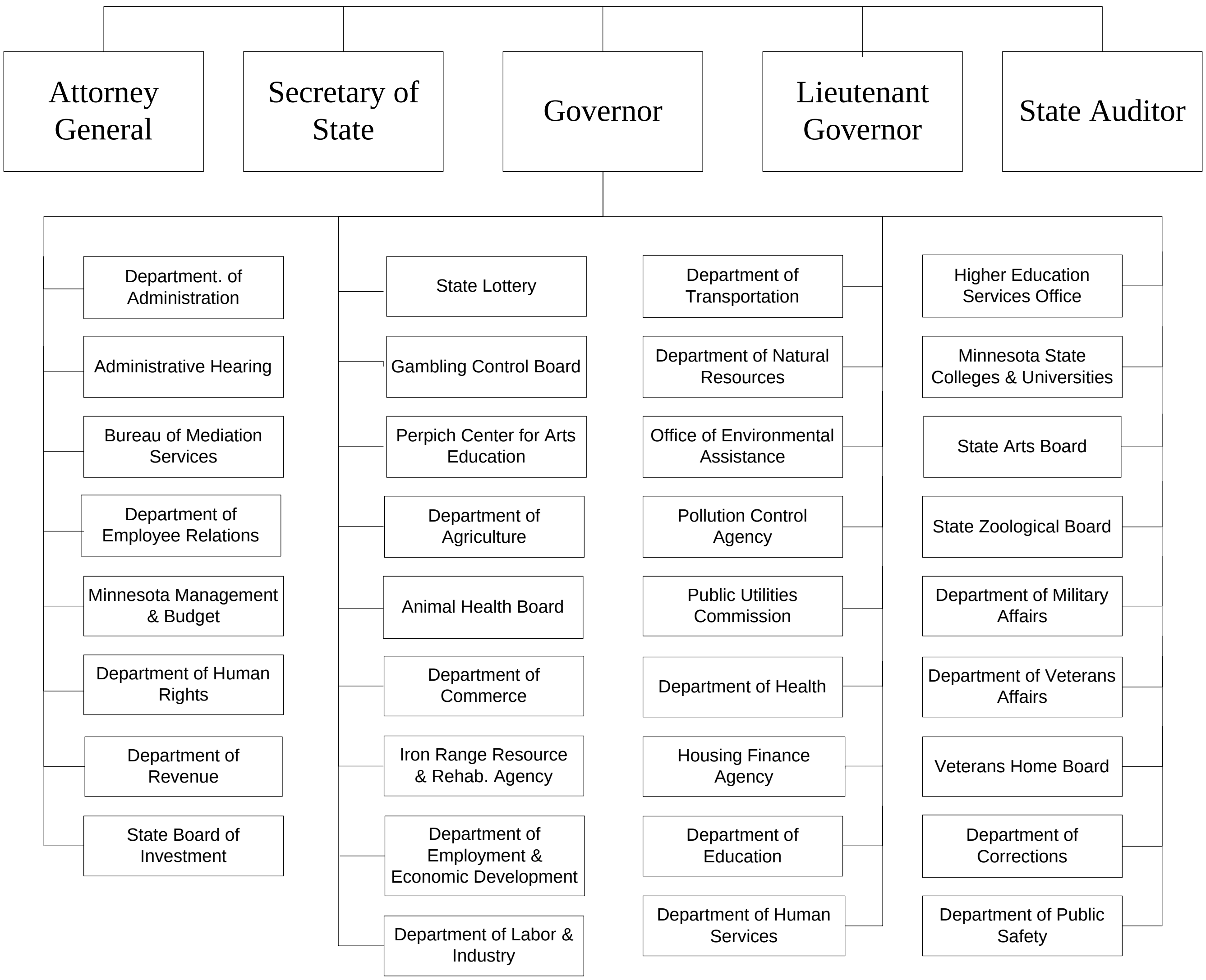
Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.

Various retirement funds — investment of assets and reserves.

Trust Funds — investment of assets and reserves.

Other departmental funds.

STATE ORGANIZATION CHART



Revenues and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

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

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2009, however, these contracts remain in effect until subsequent agreements are reached or contracts are cancelled. The State currently has agreements with twelve of the sixteen units, AFSCME (7 units-craft, service, health care non-professional, clerical, technical, correctional officers and radio communications operators), MAPE, MMA, IFO, MSCF and MSUAF for the Current Biennium employee contract which expired on June 30, 2011. The State has tentative agreements, subject to ratification by the unit membership, with three units, MNA, SRSEA and MLEA. The State is continuing to negotiate with the remaining unit, MGEC.

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

Information on State Bargaining Units

UNIT Union or Association	Employees as of April 2009
AFSCME (7 bargaining units)	18,054
MN Association of Professional Employees (MAPE)	12,402
Middle Management Association (MMA)	2,872
MN Government Engineers Council (MGEC)	940
MN Nurses Association (MNA)	764
MN Law Enforcement Association (MLEA)	764
State Residential Schools Education Association (SRSEA)	186
State College Faculty Association (MSCF)	5,294
State University Interfaculty Organization (IFO)	3,839
State University Admin and Service Faculty (MSUAF)	749
Total Represented Employees	45,864
Total State Employment	52,767
Percent of All Executive Branch Employees Unionized	87%

APPENDIX B

State Finances

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APPENDIX B

Table of Contents

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STATE FINANCES

Financial Statements

The basic financial statements for the State for the fiscal year ended June 30, 2008 are included herein as Appendix E. 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 E and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise funds, 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 E. 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 Appendix E in reliance upon the report of the Legislative Auditor. Revenues and expenditures on a budgetary basis for the twelve-month period ending June 30, 2009 and comparative data for the same period ending June 30, 2008 are summarized on pages B-6.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2008 and prior years are available at www.mmb.state.mn.us.Financial statements for the fiscal year ending June 30, 2009 will be available by December 31, 2009.

FINANCIAL INFORMATION

Budgeting Process

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (i.e. in odd-numbered calendar years). Supplemental appropriations and changes in revenue and expenditure measures are usually adopted during legislative sessions in even-numbered calendar years.

The Minnesota constitution limits the number of days that the Minnesota legislature (the "Legislature") may meet to a maximum of 120 days during a biennium. The number of days may be split between the two years in a biennium, provided that the Legislature may not meet in a regular session after the first Monday following the third Saturday in May of any year. The regular sessions of the Legislature are scheduled for and occur between January 2 and the first Monday following the third Saturday in May of each year.

Revenue and expenditure forecasts are performed in February and November of each calendar year. See "Revenue and Expenditure Forecasting" later in this appendix. Forecasts are performed for the biennium during which the forecasts are made and for next succeeding biennium. Based upon the results of these forecasts, the Governor may recommend tax law and expenditure changes that are then recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve tax law changes and budget changes.

The February and November forecasts for the biennium during which the forecasts are made are used to evaluate if the State is on track to finish that biennium with a balanced budget, and may be used by the Governor and the Legislature to fine-tune the budget for that biennium.

The November forecast in even-numbered years for the next succeeding biennium becomes the basis for the Governor's budget recommendations for that biennium. All subsequent February and November forecasts for that biennium supplement and fine-tune the original even-numbered year November forecast with more current data, and the Governor may use these forecasts to submit modifications to the budget that was developed from the original even-numbered year November forecast.

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 E). 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 amount and use of funds in the Cash Flow Account is governed by statute.

Budget Reserve Account

A budget reserve account (the "Budget Reserve Account") was established in the General Fund, as a special account (separate from the Cash Flow Account) that serves as a savings account to be used to offset budget shortfalls during economic downturns. Funds in the Budget Reserve Account may be spent in the event that projected general fund receipts will be less than forecast, and the amount of resources available for the remainder of the biennium will be less than needed to cover authorized spending. Funds in the Budget Reserve Account may be used, after consultation with the Legislative Advisory Commission, to the extent needed to balance expenditures with revenues. The amount and use of funds from the Budget Reserve Account and its replenishment are governed by statute.

Control Procedures

Dollar Control: Expenditures in excess of legislative appropriations are prohibited by law. In order to prevent spending in excess of appropriations, MMB 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, MMB 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: MMB 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: MMB 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.

Balanced Budget

Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of a biennium. Options for dealing with a projected deficit are provided for in statute. Borrowing for cash flow purposes within a biennium is allowed; however, revenues for the entire biennium plus any balances carried forward from the previous biennium must be greater than or equal to expenditures for the entire biennium.

If a forecast shows a shortfall for the General Fund for the then existing biennium, the Commissioner shall use funds in and reduce the Budget Reserve Account as needed to balance revenues with expenditures. If there are not enough funds in the Budget Reserve Account to balance the General Fund in the current biennium, the Commissioner, with the consent of the Governor and after consulting with the Legislative Advisory Commission may also reduce outstanding appropriations, commonly referred to as "unalloting." The decision of when to use these powers is solely that of the Commissioner with the consent of the Governor

If a forecast shows a shortfall for the General Fund for the next succeeding biennium, the Governor's budget recommendations must propose revenue and/or expenditure changes in order for the budget for that biennium to be in balance at the end of that biennium.

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 MMB by the Economic Analysis Division. Expenditure forecasts for the State are prepared by MMB 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, MMB prepares a new cash flow analysis for the biennium.

Forecasting Risks

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

Current Forecast Methods and Assumptions

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

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

Forecasts of individual income tax receipts are based on IHS GII forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The IHS GII forecasts are then entered into an economic model of Minnesota maintained by MMB. 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. 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.
Corporate income tax receipts are forecast using IHS 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. This data is 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 MMB and others by the agencies responsible for their collection. In general, none is of significant size, and historically, variances among them have frequently been offsetting.

The February 2009 baseline forecast from IHS GII, the scenario which IHS GII considered to be the most likely at the time it was made, was used for the February 2009 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. IHS GII estimated potential GDP growth at 2.1 percent over the 2007 to 2011 period. The Forecast and Actual growth rates for 2007 through 2011 average 1.0% which is less than potential GDP growth. The gap between forecast GDP and potential is due to the recession which began in December 2007 and according to IHS GII February forecast is expected to end with weak positive GDP growth in the fourth quarter of 2009. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS GII February 2009 Gross Domestic Product (GDP)
<u>Baseline Forecast</u>
(Chained Rates of Growth)

	Calendar Year2007 Actual %	Calendar Year 2008 Forecast %	Calendar Year 2009 Forecast %	Calendar Year 2010 Forecast %	Calendar Year 2011 Forecast %
Real GDP Growth Rate	2.0	1.3	2.7	2.0	3.5
GDP Deflator (Inflation)	2.7	2.2	1.9	.8	1.3
Nominal GDP Growth Rate	4.8	3.4	1.7	2.9	4.9

A report is published with each forecast and is available at www.mmb.state.mn.us. The November 2009 revenue and expenditure forecast is expected to be released in late November 2009. The November 2009 IHS GII Baseline Forecast will in all likelihood be used as the baseline for the next revenue and expenditure forecast.

Economic Update

The July 2009 Economic Update shows General Fund tax receipts for Fiscal Year 2009 are now estimated to be $150 million or 1.0 percent less than forecast in February 2009.

Individual income tax receipts were the primary source of the shortfall, $232 million less than the forecast. Net sales tax revenue was $16 million under forecast. Receipts from corporate income tax, motor vehicle sales tax and other taxes and other revenues, were more than forecast by $98 million. This revenue shortfall reduces the balance carried forward to the Current Biennium.

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ending June 30, 2006 through 2008, and for the additional time periods shown. For the Fiscal Years ended June 30, 2006 through 2008 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such fiscal years. For the twelve-month periods ending June 30, 2008 and June 30, 2009, such revenues and expenditures include only cash receipts and disbursements allocable to Fiscal Years 2008 and 2009, 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 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, Expenditures and Changes in Fund Balances
(Thousands of Dollars)

	Fiscal Year Ended June 30 (1)			July 1,2007 through June 30 2008 (1)	July 1,2008 through June 30 2009 (1)
	2006	2007	2008		
NET REVENUES:					
Individual Income Taxes	$ 7,068,712	$ 7,412,381	$ 7,932,036	$ 7,752,305	$ 6,988,910
Corporation Income Taxes	1,189,915	1,163,095	1,024,040	1,048,625	707,599
Sales Taxes	4,471,993	4,512,957	4,499,400	4,555,377	4,335,481
Property Taxes	631,279	665,746	704,246	606,845	918,860
Motor Vehicle Excise Taxes	372,880	368,279	319,599	319,713	247,271
Other Taxes	1,294,442	1,232,758	1,209,366	1,170,711	1,228,733
Tobacco Settlement	180,790	183,911	184,411	184,411	179,854
Federal Revenues	8,842	7,328	-	-	-
Licenses and Fees	255,244	254,026	254,691	216,614	227,441
Departmental Services	42,729	44,170	47,326	28,934	29,537
Investment/Interest Income (2)	55,867	108,689	95,900	103,676	49,704
Securities Lending Income (3)	5,612	10,063	9,197	-	-
All Other Revenues	324,919	284,756	320,652	451,309	414,335
NET REVENUES	$ 15,903,224	$ 16,248,159	$ 16,600,864	$ 16,438,520	$ 15,327,725
EXPENDITURES:					
Current:					
Public Safety and Corrections	$ 492,538	$ 540,999	$ 578,464	$ 580,928	$ 599,075
Transportation	226,107	230,195	252,390	252,266	235,646
Agricultural, Environmental and Energy Resources (4)	153,154	177,342	216,220	226,746	222,489
Economic and Workforce Development (4) (5)	126,891	128,870	203,457	95,158	71,874
General Education (6)	6,675,827	6,614,672	6,969,053	6,914,153	7,018,831
Higher Education (7)	722,870	784,191	870,322	979,104	848,178
Health and Human Services	4,047,550	4,377,724	4,713,362	4,577,847	4,387,072
General Government (8)	588,897	641,915	710,433	701,084	759,965
Intergovernment Aid	1,400,265	1,489,229	1,511,504	1,514,066	1,433,072
Securities Lending Rebates and Fees (3)	5,543	9,956	8,793	-	-
Total Current Expenditures	$ 14,439,642	$ 14,995,093	$ 16,033,998	$ 15,841,352	$ 15,576,202
Capital Outlay (9)	192,094	4,783	15,587	-	-
Debt Service	18,873	36,059	36,965	23,261	19,071
TOTAL EXPENDITURES	$ 14,650,609	$ 15,035,935	$ 16,086,550	$ 15,864,613	$ 15,595,273
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ 1,252,615	$ 1,212,224	$ 514,314	$ 573,907	$ (267,548)
OTHER FINANCING SOURCES (USES)					
Transfer-In	$ 488,874	$ 500,911	$ 443,647	$ 359,905	$ 479,605
Transfer-Out	(1,175,652)	(1,271,835)	(1,395,442)	(1,438,373)	(1,361,830)
Capital Leases (10)	180,005	-	-	-	-
NET OTHER FINANCING SOURCES (USES)	$ (506,773)	$ (770,924)	$ (951,795)	$ (1,078,468)	$ (882,225)
NET CHANGE IN FUND BALANCES	$ 745,842	$ 441,300	$ (437,481)	$ (504,561)	$ (1,149,773)

(1) For fiscal years 2006, 2007 and 2008, the schedule of revenues and expenditures includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30. For the twelve-month periods ended June 30, 2008 and 2009, only current receipts and disbursements have been included.

(2) For the twelve-month periods ended June 30, 2008 and 2009, Investment/Interest Income does not include changes in the fair market value of investments.

(3) For the twelve-month periods ended June 30, 2008 and 2009, Securities Lending activity is included in Investment/Interest Income.

(4) Beginning in fiscal year 2008, the Department of Commerce financial activity has been moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.

(5) Fiscal year 2008 Economic and Workforce Development function spending increased due to grants to businesses and residents of southeastern Minnesota for flooding damage.

(6) Fiscal year 2008 General Education function spending increased due to a two percent increase in the per pupil grant formula, as well as increases in special education and one-time appropriations for school technology and deferred maintenance.

(7) Fiscal year 2008 Higher Education function spending increased due to additional grants to the University of Minnesota.

(8) Fiscal year 2008 General Government function spending increased due to a one-time settlement appropriation for claimants who died or were injured as a result of the I-35W bridge collapse.

(9) Fiscal Year 2006 Capital Leases and the corresponding portion of Capital Outlay represents the capital leases on the Human Services and Agriculture/Health buildings.

BIENNIUM BUDGETS

The biennium which began on July 1, 2005, and which ended on June 30, 2007, is referred to herein as the "FY 2006-2007 Biennium." The biennium that began on July 1, 2007 and ended on June 30, 2009, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2009 and will end on June 30, 2011 is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2011 and will end on June 30, 2013 is referred to herein as the "Next Biennium".

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

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BUDGET — PREVIOUS BIENNIUM

Previous Biennium Estimates - Revenues and Expenditures

The following table displays a summary of the estimated amounts of revenues and expenditures allocable to the General Fund for the Previous Biennium based on the end of the 2009 legislative session. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

PREVIOUS BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2009 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Previous Biennium
Forecast Resources			
Prior Year Ending Balance (1)	$2,244,935	$1,920,021	$2,244,935
Net Non-dedicated Revenues	16,236,155	14,954,415	31,190,570
Dedicated Revenues	74,439	88,469	162,908
Transfers From Other Funds	344,549	471,136	815,685
Prior Year Adjustments	24,951	21,618	46,569
Subtotal Current Resources	16,680,094	15,535,638	32,215,732
Total Revenues Plus Prior Year Ending Balance	18,925,029	17,455,659	34,460,667
Authorized Expenditures & Transfers			
K-12 Education	6,822,644	6,957,053	13,779,697
Higher Education	1,563,413	1,556,056	3,119,469
Property Tax Aids & Credits	1,581,087	1,483,079	3,064,166
Health & Human Services	4,630,471	4,419,046	9,049,517
Public Safety	817,020	967,006	1,784,026
Transportation	236,552	116,563	353,115
Environment, Energy & Natural Resources	199,969	226,496	426,465
Agriculture & Veterans	126,936	143,001	269,937
Economic Development	249,994	148,743	398,737
State Government	314,652	379,357	694,009
Debt Service	409,296	452,775	862,071
Capital Projects	10,247	20,901	31,148
Deficiencies/Other	7,322	6,486	13,808
Cancellation Adjustment	0	(23,700)	(23,700)
Subtotal Expenditures & Transfers	16,969,603	16,852,862	33,822,465
Dedicated Revenue Expenditures	35,405	64,877	100,282
Total Expenditures and Transfers	17,005,008	16,917,739	33,922,747
Balance Before Reserves	1,920,021	537,920	537,920
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	654,922	0	0
Appropriations Carried Forward	217,207	0	0
Budgetary Balance	$697,892	$187,920	$187,920

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

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

PREVIOUS BIENNIUM
GENERAL FUND
ESTIMATES OF NONDEDICATED REVENUES
END OF 2009 LEGISLATIVE SESSION
($ in Thousands)

	Fiscal Year 2008	Fiscal Year 2009	Previous Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	7,759,209	7,208,220	14,967,429
Income Tax - Corporate	1,020,181	652,385	1,672,566
Sales Tax	4,570,848	4,377,601	8,948,449
Motor Vehicle Sales Tax	185,820	107,336	293,156
Statewide Property Tax	704,246	743,211	1,447,457
Estate Tax	121,349	121,000	242,349
Liquor, Wine & Beer	73,108	75,477	148,585
Cigarette & Tobacco	173,479	187,160	360,639
Mining	11,521	9,007	20,528
Mortgage Registry Tax	114,388	95,900	210,288
Deed Transfer Tax	84,314	62,700	147,014
Gross Earnings Taxes	291,937	275,850	567,787
Lawful Gambling Taxes	47,939	44,090	92,029
Medical Assistance Surcharges	214,975	214,976	429,951
Income Tax Reciprocity	69,050	75,880	144,930
Tobacco Settlements	184,411	176,982	361,393
Investment Income	97,259	28,000	125,259
DHS SOS Collections	62,649	40,460	103,109
Lottery Revenue	51,138	53,573	104,711
Departmental Earnings	247,927	254,000	501,927
Fines & Surcharges	81,272	96,700	177,972
All Other Nondedicated Revenue	118,929	105,832	224,761
Tax and Non-Tax Refunds	(49,794)	(51,925)	(101,719)
Total Net Nondedicated Revenues	16,236,155	14,954,415	31,190,570

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BUDGET — CURRENT BIENNIUM

February 2009 Forecast

MMB prepared revised forecasts of General Fund revenues and expenditures for the Current Biennium at the end of February 2009. The February 2009 Current Biennium forecast of resources, expenditures, and fund balances is detailed below:

Current Biennium - General Fund
February 2009 Forecast
($ in millions)

Resources		
Unreserved Balance at June 30, 2009		$ 586
Non Dedicated Revenues	$29,905	
Dedicated Revenues, Transfers In and Other	795	
Total Revenues and Transfers		$30,700
Total Resources		$31,286
Expenditures		$35,506
Projected Unreserved Balance at June 30, 2011		(4,220)
Cash Flow Account	$ 350	
Budget Reserve Account	0	
Total for Statutorily Mandated Accounts		$ 350
Projected Unrestricted Balance at June 30, 2011		$(4,570)

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Current Biennium
February 2009 ForecastChanges From November 2008 Forecast
($ in millions)

	Nov 2008 Forecast	Feb 2009 Forecast	Change
Balance Forward From Prior Year	$ 79	$ 586	$ 507
Current Resources			
Income tax receipts	15,611	14,909	(702)
Corporate tax receipts	1,406	1,175	(229)
Sales tax receipts	8,687	8,485	(202)
Motor vehicle sales tax receipts	98	92	(6)
Statewide property tax receipts	1,559	1,551	(8)
Other taxes	2,228	2,263	35
Miscellaneous non-tax revenues, transfers	2,277	2,225	(52)
Total Current Resources	$31,866	$30,700	$(1,166)
Total Resources	$31,945	$31,286	$ (658)
Expenditures			
K-12 Education	$13,903	$13,894	$ (9)
Higher Education	3,158	3,157	1
Property Tax Aids & Credits	3,419	3,435	16
Health & Human Services	11,407	13,182	(1,214)
Public Safety	1,697	1,697	0
All Other spending	3,129	3,129	95
Total Spending	$36,713	$35,506	$(1,207)
Cash Flow Account	350	350	0
Budget Reserve	155	0	(155)
Projected balance at June 30, 2011	$ (5,273)	$ (4,570)	$ 703

The shortfall for the Current Biennium was projected to be $4.570 billion. This was an improvement of $703 million from the $5.273 billion shortfall projected in November 2008. However, the improvement was largely due to the projected balance in FY 2009 that carried forward into the Current Biennium. A reduction in health and human services spending of $1.359 billion due to the federal stimulus bill was almost completely offset by other underlying forecast changes.

Forecast General Fund revenues were expected to be $1.166 billion less than projected in November 2008. The forecasts for all three major taxes were reduced. Forecast spending increased $152 million primarily due to increased caseloads in the health and human services area.

ARRA was signed into law on February 17, 2009 by President Obama. ARRA is a $787 billion package, providing tax relief, fiscal stabilization for states and additional spending for infrastructure and other federal programs. The State is expected to receive a total of $4.6 billion in ARRA funds. Of this amount, $2.6 billion was used to offset General Fund spending in the Current Biennium. The additional $2.0 billion in ARRA funds to be received is for competitive or formula grants for a variety of infrastructure and program categories including transportation and energy projects. The following table shows the effect of the federal stimulus package, which includes both the State stabilization and the enhanced matching funds for the Federal Medical Assistance Program ("FMAP").

Impact of ARRA Stabilization Funds and FMAP Funds
($ in millions)

	FY 2009	FY 2010	FY 2011	Total
K-12 Education	$ 0	$ 500	$ 0	$ 500
Higher Education				
University of MN	15	74	0	89
MNSCU	15	64	0	79
Health & Human Services				
Medical Assistance	464	862	497	1,822
Other Human Services	0	110	0	110
Corrections	0	38	0	38
Total – Federal Stimulus	$494	$1,648	$497	$2,639

The table below reflects changes to the Current Biennium, as a result of receipt of federal stimulus funds.

Current Biennium - General Fund
November 2008 Comparison to After Federal Stimulus Package
($ in millions)

	November 2008 Forecast	Federal Stimulus	Other Forecast Changes	Revised Forecast
Beginning Balance	$ 79		$ 507	$ 586
Revenues	31,866		(1,166)	30,700
Expenditures	36,713	(1,359)	152	35,506
Cash Flow Account	350		0	350
Budget Reserve	155		(155)	0
Balance	($5,273)	$1,359	($656)	($4,570)

2009 Legislative Session

During the 2009 legislative session, the Legislature enacted a number of revenue and appropriations measures in the General Fund and non-general funds for the Current Biennium.

The 2009 legislative session ended on the constitutional deadline of May 18, 2009 without balancing the budget for the Current Biennium.

The end of 2009 legislative session estimates of resources, expenditures, and fund balances are detailed below.

Current Biennium – General Fund
End of 2009 Legislative Session
($ in millions)

Resources		
Unreserved Balance at June 30, 2009		$ 538
Non-Dedicated Revenues	$30,101	
Dedicated Revenues, Transfers In and Out	824	
Total Revenues and Transfers		$30,925
Total Resources		$31,463
Expenditures		$33,789
Projected Unreserved Balance at June 30, 2011		($2,326)
Cash Flow Account	$ 350	
Budget Reserve Account	0	
Total for Statutorily Mandated Accounts		$ 350
Projected Unrestricted Balance at June 30, 2011		($2,676)

Revenues in the Enacted Budget

The approved budget reflects little change in General Fund revenues from the February 2009 forecast for the Current Biennium. The legislature proposed tax increases and fee adjustments that would increase revenues by $1 billion. The Governor and Legislature failed to agree on an omnibus tax bill, resulting in a gubernatorial veto. Without these proposed changes, forecast revenues for the biennium increased by $225 million from forecast levels, primarily reflecting increases in non-tax revenues and transfers.

Giving effect to enacted legislative changes, general fund resources were then expected to total $31.463 billion. Current Biennium revenues, excluding the balance brought forward from the Previous Biennium, were estimated to be $30.925 billion, $1.29 billion less than the Previous Biennium. General fund expenditures after session actions were forecasted to be $33.789 billion, $133 million less than the Previous Biennium. Budgeted revenues and expenditures were expected to leave an estimated General Fund deficit of $ 2.676 billion, including a Cash Flow Account of $350 million.

The end of 2009 legislative session estimates of resources, expenditures, and fund balances is detailed below.

Current Biennium
Budget Forecast (End of 2009 Session)
($ in millions)

	February 2009 Forecast	End of 2009 Session	Change
Beginning Balance	$ 586	$ 538	$ (48)
Revenues	30,700	30,925	225
Expenditures	35,506	33,789	(1,717)
Cash Flow Acct.	350	350	--
Budget Reserve	--	--	--
Balance	$(4,570)	$(2,676)	$1,894

Executive Branch Actions to Balance Budget

Since the Current Biennium budget was not balanced at the end of the 2009 legislative session, the Governor announced that he would direct the Commissioner to use his statutory powers to balance the budget for the Current Biennium.

On June 16, 2009, the Commissioner submitted to the Governor a preliminary proposal of unallotment and administrative actions that could be used to balance the Current Biennium budget. On June 18, the Commissioner convened the Legislative Advisory Commission to consult on potential unallotments as required by statute. Following this consultation, the Commissioner issued a revised unallotment and executive branch action plan on June 29. The actions necessary to implement the executive branch action plan are scheduled to be completed by August 7, 2009. Following is a summary of the action plan:

Current Biennium
Summary of Executive Branch Actions
($ in millions)

Current Biennium Shortfall End-of Session Forecast	($2,676)
Unallotments	**695**
Local aids and credits	300
Health & Human Services	210
Higher Education	100
Agency Operating budgets	23
Other refunds and payments	51
Political Contribution Refund[1]	10
Deferrals	**1,771**
Property Tax Shift	601
Aid Payments Shift	1,170
Administrative Authority	**211**
Modified WI Tax Reciprocity	106
Delay Capital Equipment Refunds	63
Delay Corporate Franchise Refunds	42
Total	**$ 2,676**

(1) A request for a Political Contribution Refund for a contribution made on or after July 1, 2009 was submitted to the Department of Revenue, and a putative class action has been filed against the State demanding injunctive relief and refunds of any contributions. The State anticipates filing a motion to dismiss.

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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 2009 legislative session and executive branch actions. Authorized expenditures are presented by function.

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
2009 SESSION AND EXECUTIVE ACTIONS
($ in Thousands)

	Fiscal Year 2010	Fiscal Year 2011	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	537,920	337,849	537,920
Net Non-dedicated Revenues	14,436,773	15,881,234	30,318,007
Dedicated Revenues	88,436	82,254	170,690
Transfers From Other Funds	303,806	299,823	603,629
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	14,854,015	16,288,311	31,142,326
Total Revenues Plus Prior Year Ending Balance	15,391,935	16,626,160	31,680,246
Authorized Expenditures & Transfers			
K-12 Education	5,395,044	6,238,494	11,633,538
Higher Education	1,425,312	1,430,843	2,856,155
Property Tax Aids & Credits	1,578,903	1,483,300	3,062,203
Health & Human Services	4,331,358	4,725,198	9,056,556
Public Safety	886,872	927,069	1,813,941
Transportation	96,651	94,150	190,801
Environment, Energy & Natural Resources	178,750	177,694	356,444
Agriculture & Veterans	126,792	122,846	249,638
Economic Development	133,434	131,748	265,182
State Government	309,691	313,770	623,461
Debt Service	518,925	558,615	1,077,540
Capital Projects	13,500	16,300	29,800
Cancellation Adjustment	(6,000)	(15,000)	(21,000)
Subtotal Expenditures & Transfers	14,989,232	16,205,027	31,194,259
Dedicated Revenue Expenditures	64,854	71,133	135,987
Total Expenditures and Transfers	15,054,086	16,276,160	31,330,246
Balance Before Reserves	337,849	350,000	350,000
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	0	0	0
Budgetary Balance	(12,151)	0	0

(1) On a budgetary basis, Fiscal Year 2009 is forecast to end with an Unrestricted General Fund balance of $538 million and an Unreserved Accounting General Fund balance of $188 million.

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
2009 SESSION AND EXECUTIVE ACTIONS

($ in Thousands)

	Fiscal Year 2010	Fiscal Year 2011	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	7,042,465	7,884,239	14,926,704
Income Tax - Corporate	447,790	771,065	1,218,855
Sales Tax	4,156,973	4,391,032	8,548,005
Motor Vehicle Sales Tax	64,318	27,794	92,112
Statewide Property Tax	769,470	781,973	1,551,443
Estate Tax	123,000	125,900	248,900
Liquor, Wine & Beer	75,999	77,081	153,080
Cigarette & Tobacco	185,348	184,065	369,413
Mining	10,000	7,500	17,500
Mortgage Registry Tax	96,700	79,600	176,300
Deed Transfer Tax	55,400	64,000	119,400
Gross Earnings Taxes	278,650	284,950	563,600
Lawful Gambling Taxes	44,090	44,090	88,180
Medical Assistance Surcharges	223,729	226,590	450,319
Income Tax Reciprocity	103,427	140,783	244,210
Tobacco Settlements	175,189	176,943	352,132
Investment Income	10,000	20,000	30,000
DHS SOS Collections	51,923	57,196	109,119
Lottery Revenue	56,939	57,829	114,768
Departmental Earnings	248,854	248,852	497,706
Fines & Surcharges	116,318	122,805	239,123
All Other Nondedicated Revenue	137,412	130,483	267,895
Tax Compliance	13,750	27,760	41,510
Tax and Non-Tax Refunds	(50,971)	(51,296)	(102,267)
Total Net Nondedicated Revenues	14,436,773	15,881,234	30,318,007

Other Factors Affecting the Current Biennium Budget

While wage and price inflation is included in revenue planning estimates for the Current Biennium, State law prohibits including a general inflation adjustment for projected expenditures. A general inflation adjustment of 1.9 percent in FY 2010 and 1.9 percent in FY 2011, applied to total projected spending, would add $1.041 billion to expenditures for the Current Biennium.

The larger than anticipated downturn in the economy has reduced state revenues through the end of the forecast horizon. Other things equal, the further decline in the national economic outlook would have increased the budget deficit by $1.318 billion for the Current Biennium. But the federal stimulus package, coupled with use of the budget reserve and the Governor's unallotment in FY 2009 more than offset the additional projected decline in revenue and increase in spending.

Minnesota's General Fund revenues are now forecast to total $30.7 billion in the Current biennium (3.8) percent less than in the November 2008 forecast. State General Fund expenditures are now expected to be $35.506 billion, $1.165 billion (3.3 percent) less than in the November 2008 forecast. The budget reserve has been eliminated, but the state's cash flow account continues to have a balance of $350 million.

HISTORICAL AND PROJECTED REVENUE AND EXPENDITURE GROWTH

The following tables display historical and projected General Fund revenue and expenditure growth by year for the General Fund for the Previous and Current Biennia. Information is provided by major revenue and expenditure categories based on the 2009 legislative session and executive actions.

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Historical and Projected Revenue Growth

2009 Legislative Session and Executive Actions

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
Individual Income Tax	$6,863	$7,231	$7,759	$7,208	$7,042	$7,884	
$ change		368	528	(551)	(166)	842	
% change		**5.4%**	**7.3%**	**-7.1%**	**-2.3%**	**12.0%**	**2.8%**
Sales Tax	4,464	4,506	4,571	4,378	4,157	4,391	
$ change		42	65	(193)	(221)	234	
% change		**0.9%**	**1.4%**	**-4.2%**	**-5.0%**	**5.6%**	**-0.3%**
Corporate Tax	1,062	1,171	1,020	652	448	771	
$ change		109	(151)	(368)	(204)	323	
% change		**10.3%**	**-12.9%**	**-36.1%**	**-31.3%**	**72.1%**	**-6.2%**
Statewide Property Tax	631	666	704	743	769	782	
$ change		34	38	39	26	13	
% change		**5.5%**	**5.7%**	**5.5%**	**3.5%**	**1.7%**	**4.4%**
Motor Vehicle Sales	250	247	186	107	64	28	
$ change		(2)	(61)	(79)	(43)	(36)	
% change		**-1.0%**	**-24.7%**	**-42.5%**	**-40.2%**	**-56.3%**	**-35.4%**
Other Tax Revenue	1,380	1,211	1,172	1,131	1,179	1,230	
$ change		(169)	(39)	(41)	48	51	
% change		**-12.2%**	**-3.2%**	**-3.5%**	**4.2%**	**4.3%**	**-2.3%**
Total Tax Revenue	$14,649	$15,032	$15,412	$14,219	$13,659	$15,086	
$ change		383	380	(1,193)	(560)	1,427	
% change		**2.6%**	**2.5%**	**-7.7%**	**-3.9%**	**10.4%**	**0.6%**
Non-Tax Revenues	861	876	824	735	778	795	
$ change		15	(52)	(89)	43	17	
% change		**1.7%**	**-6.0%**	**-10.8%**	**5.9%**	**2.2%**	**-1.6%**
Dedicated, Transfers, Other	452	471	444	581	417	407	
$ change		19	(27)	137	(164)	(10)	
% change		**4.1%**	**-5.7%**	**30.9%**	**-28.2%**	**-2.4%**	**-2.1%**
Total Current Resources	$15,962	$16,379	$16,680	$15,535	$14,854	$16,288	
$ change		417	301	(1,145)	(681)	1,434	
% change		**2.6%**	**1.8%**	**-6.9%**	**-4.4%**	**9.7%**	**0.4%**

Historical and Projected Spending Growth

2009 Legislative Session and Executive Actions

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
K-12 Education	$6,301	$6,438	$6,820	$6,957	$5,384	$6,239	
$ change		138	382	137	(1,573)	855	
% change		**2.2%**	**5.9%**	**2.0%**	**-22.6%**	**15.9%**	**-0.2%**
Higher Education	1,348	1,414	1,563	1,556	1,425	1,431	
$ change		66	149	(7)	(131)	6	
% change		**4.9%**	**10.6%**	**-0.4%**	**-8.4%**	**0.4%**	**1.2%**
Prop. Tax Aids & Credits	1,464	1,559	1,581	1,483	1,590	1,483	
$ change		96	22	(98)	107	(107)	
% change		**6.5%**	**1.4%**	**-6.2%**	**7.2%**	**-6.7%**	**0.3%**
Health & Human Services	3,910	4,311	4,630	4,419	4,334	4,728	
$ change		401	319	(211)	(85)	394	
% change		**10.3%**	**7.4%**	**-4.6%**	**-1.9%**	**9.1%**	**3.9%**
Public Safety	812	895	909	967	887	927	
$ change		83	14	58	(80)	40	
% change		**10.3%**	**1.6%**	**6.4%**	**-8.3%**	**4.5%**	**2.7%**
Debt Service	352	400	409	453	519	559	
$ change		47	9	44	66	40	
% change		**13.4%**	**2.3%**	**10.8%**	**14.6%**	**7.7%**	**9.7%**
All Other	1,356	931	1,093	1,083	913	911	
$ change		(426)	162	(10)	(170)	(2)	
% change		**-31.4%**	**17.5%**	**-0.9%**	**-15.7%**	**-0.2%**	**-7.7%**
Total Spending	$15,542	$15,947	$17,005	$16,918	$15,052	$16,278	
$ change		405	1,058	(87)	(1,866)	1,226	
% change		**2.6%**	**6.6%**	**-0.5%**	**-11.0%**	**8.1%**	**0.9%**

Next Biennium Planning Outlook:

The long-term budget outlook for Next Biennium has improved slightly since February 2009. General fund revenues are $62 million above February 2009 projections while projected spending is $641 million lower. The gap between ongoing revenues and spending has lessened by $703 million for Next Biennium. The impact of inflation is not reflected in expenditure projections. The consumer price index (CPI) is projected to fall by 0.7 percent for FY 2010, then grow by 2.3 percent for FY 2011, 2.2 percent for FY 2012, and 2.4 percent for FY 2013.

GENERAL FUND REVENUE SOURCES

Tax Sources

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

Income Tax: The income tax rate schedules for 2009 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 $346. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents. A refundable low income motor fuels credit is effective for Tax Year 2009.

Single Filer

Taxable Income	Tax
on the first $22,730	5.35 percent
on all over $22,730, but not over $74,650	7.05 percent
on all over $74,650	7.85 percent

Married Filing Jointly

Taxable Income	Tax
on the first $33,220	5.35 percent
on all over $33,220 but not over $131,970	7.05 percent
on all over $131,970	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 $27,980	5.35 percent
on all over $27,980 but not over $112,420	7.05 percent
on all over $112,420	7.85 percent

Sales and Use Tax: The sales tax rate of 6.875 percent is applicable to most retail sales of goods with the exception of food, clothing, and drugs. Purchases made by non-profit organizations and the federal government and school districts are exempt. In November 2008, Minnesota voters voted to amend the constitution to raise the sales tax rate beginning on July 1 2009 by 3/8 of 1 percentage point. The proceeds from the incremental increase are dedicated to funds other than the general fund for the purpose of protecting the environment and preserving Minnesota's arts and cultural heritage. The new general statewide rate is 6.875%. The 3/8 of 1 percentage point increment will be in place through 2034.

Statewide Property Tax: A State general property tax is levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. The tax is levied at a uniform rate across the State. The levy amount is adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the U.S. Bureau of Economic Analysis.

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income on the basis of a three factor formula that in Tax Year 2009 gives an 84% weight to sales, an 8.0% weight to payroll and a 9.5% weight to property. Laws enacted in 2005 called for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in began in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

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

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

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

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

1.5% Life insurance
2.0% Domestic and foreign company premiums.
1.0% Mutual property and casualty companies with assets of 5 million or less on 12/31/89.
1.26% Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89.
3.0% Surplus line agents.
0.5% Fire Marshal tax on fire premiums.
2.0% Surcharge on fire premiums for property located in cities of the first class.
1.0% Health Maintenance Organizations.

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5% motor vehicle sales tax. The tax is collected at the time of title registration or transfer. For fiscal year 2010, 83.75% of the collections are dedicated to transportation related funds. Under a constitutional amendment adopted by the voters in 2006, all of the collections will be dedicated to transportation related funds beginning in fiscal year 2012.

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

A tax of 2.5% is imposed on alcoholic beverages sold at retail; this is in addition to the 6.875% sales tax on alcoholic beverages.

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

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

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

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

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

Legalized Gambling 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 Tax: The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. Beginning in tax year 2006, the rate of the tax was 2.45%. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

Health Care Provider Tax: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $2,815 tax per licensed nursing home bed, a 1.56% tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6% tax on the total premium revenue of health maintenance organizations.

Other Sources

In addition to the major taxes described above, other sources of non-dedicated revenues include minor taxes, unrestricted grants, certain fees and charges of State agencies and departments, and investment income.
The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs.

Tobacco Settlement

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

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 anticipates that the Statutory General Fund will have a positive cash balance throughout Fiscal Year 2010. Any deficit that may materialize would be managed by the Commissioner by the sale of short-term debt.

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.

The following cash flow tables are based on the May 2009 end of session, including the Executive Actions taken in July, 2009.

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STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
2009 END OF SESSION INCLUDING EXECUTIVE ACTIONS
Fiscal Year Ending June 30, 2010
(Dollars in Thousands)

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Total
Beginning Cash Balance	$ 2,475,390	$ 1,828,040	$ 1,364,908	$ 1,237,549	$ 1,244,560	$ 942,541	$ 1,212,665	$ 1,785,281	$ 1,210,705	$ 726,029	$ 900,301	$ 834,708	
Receipts:													
Individual Income Tax	$ 535,480	$ 440,412	$ 749,444	$ 556,706	$ 479,992	$ 672,251	$ 911,185	$ 52,125	$ 335,811	$ 1,005,498	$ 549,491	$ 754,071	$ 7,042,465
Sales and Use Taxes	167,155	364,154	358,082	382,449	357,433	329,545	412,691	330,171	291,812	335,349	315,057	588,754	4,232,651
Corporate & Bank Excise	15,102	7,073	107,731	(3,648)	(52,630)	70,766	7,891	(8,264)	186,364	20,962	19,477	76,965	447,790
Statewide Property Tax	110	0	0	0	1,390	338,339	4,585	0	0	0	0	425,046	769,471
Motor Vehicle Taxes	19,928	19,161	19,915	17,958	15,384	15,571	14,360	12,991	17,879	18,514	18,224	18,276	208,161
Tobacco Product Taxes	4,126	32,250	11,015	20,084	19,926	15,168	16,436	14,823	7,446	23,652	18,119	2,303	185,350
Insurance Taxes	827	10,758	77,670	1,086	1,277	82,301	2,408	17,425	90,721	2,120	1,415	70,308	358,318
Other Excise Taxes	126,953	101,605	66,268	128,923	87,916	140,318	155,207	95,963	62,377	140,681	88,218	80,344	1,274,772
Investment Earnings	10,402	1,273	10,380	2,820	4,832	5,395	5,468	5,614	5,194	4,463	4,283	4,211	64,336
Tobacco Settlement	0	0	0	0	0	175,189	0	0	0	0	0	0	175,189
Inter-governmental Grants	8,960	9,163	8,688	5,762	7,871	7,418	7,385	6,476	6,189	4,886	5,093	6,748	84,640
Other Sources	303,633	348,665	377,967	264,326	243,611	283,296	425,886	250,281	251,878	248,450	274,440	237,972	3,510,405
Subtotal Receipts	$ 1,192,676	$ 1,334,513	$ 1,787,159	$ 1,376,468	$ 1,167,002	$ 2,135,559	$ 1,963,502	$ 777,605	$ 1,255,670	$ 1,804,577	$ 1,293,818	$ 2,265,000	$ 18,353,548
Total Resources	$ 3,668,066	$ 3,162,553	$ 3,152,067	$ 2,614,017	$ 2,411,562	$ 3,078,100	$ 3,176,167	$ 2,562,886	$ 2,466,375	$ 2,530,605	$ 2,194,119	$ 3,099,707	
Expenditures:													
State Payroll	$ 358,812	$ 211,164	$ 243,988	$ 240,489	$ 241,802	$ 362,139	$ 245,577	$ 233,393	$ 249,822	$ 251,784	$ 272,226	$ 243,300	$ 3,154,496
Agency Operations	213,062	162,808	139,803	144,320	125,714	137,408	125,632	117,482	148,551	128,488	139,997	145,038	1,728,303
Aid to School Districts	102,148	762,616	593,636	338,588	74,062	334,441	551,337	529,985	658,309	661,697	537,076	238,426	5,382,322
Aid to Cities	265,882	8,999	103,865	53,002	11,334	232,094	15,446	9,504	4,145	6,386	8,823	9,339	728,818
Aid to Counties	231,603	40,120	53,093	94,537	26,767	197,405	61,312	32,744	60,125	28,809	32,123	38,948	897,585
Aid to Higher Education Institutions	89,206	76,951	38,902	59,229	64,371	162,231	84,595	10,944	59,325	109,686	53,802	103,194	912,436
Aid to Non-Gov't Organizations	24,770	31,739	18,357	39,663	21,540	51,541	30,291	27,630	18,182	18,986	21,044	17,339	321,081
Aid to Special Districts	30,793	19,997	39,594	30,787	18,093	32,734	22,336	27,829	29,299	23,156	16,232	27,675	318,524
Payments to Individuals	512,810	476,903	679,499	364,637	341,159	344,590	246,943	360,020	508,056	397,292	272,443	249,503	4,753,856
Other	10,940	6,348	3,781	4,207	25,255	10,853	7,416	2,650	4,531	4,020	5,646	3,806	89,453
Debt Service	0	0	0	0	518,925	0	0	0	0	0	0	0	518,925
Total Expenditures	$ 1,840,026	$ 1,797,646	$ 1,914,518	$ 1,369,457	$ 1,469,021	$ 1,865,435	$ 1,390,885	$ 1,352,181	$ 1,740,346	$ 1,630,304	$ 1,359,412	$ 1,076,568	$ 18,805,799
Ending Cash Balance	$ 1,828,040	$ 1,364,908	$ 1,237,549	$ 1,244,560	$ 942,541	$ 1,212,665	$ 1,785,281	$ 1,210,705	$ 726,029	$ 900,301	$ 834,708	$ 2,023,139	
Estimated Lowest Daily Cash Balance	$ 1,484,677	$ 933,658	$ 844,469	$ 842,864	$ 620,249	$ 523,628	$ 910,147	$ 919,947	$ 471,462	$ 153,989	$ 399,993	$ 459,283	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
2009 END OF SESSION INCLUDING EXECUTIVE ACTIONS
Fiscal Year Ending June 30, 2011
(Dollars in Thousands)

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Total
Beginning Cash Balance	$ 2,023,139	$ 1,404,690	$ 766,598	$ 276,380	$ 73,307	$ (197,391)	$ 386,198	$ 1,046,444	$ 609,333	$ 254,939	$ 682,228	$ 697,117	
Receipts:													
Individual Income Tax	$ 503,906	$ 560,121	$ 752,699	$ 543,525	$ 530,195	$ 666,879	$ 1,027,891	$ 214,658	$ 474,785	$ 1,185,043	$ 611,866	$ 812,670	$ 7,884,240
Sales and Use Taxes	162,038	379,657	373,647	398,436	378,051	348,468	435,854	353,003	312,086	358,714	338,389	630,722	4,469,065
Corporate & Bank Excise	24,287	12,328	165,226	26,257	(22,669)	142,157	15,983	(1,975)	236,275	32,710	27,647	112,839	771,066
Statewide Property Tax	112	0	0	0	1,415	344,465	4,652	0	0	(0)	(0)	431,329	781,974
Motor Vehicle Taxes	15,920	16,017	17,760	14,821	14,411	12,964	12,248	12,281	13,535	14,215	16,141	15,759	176,072
Tobacco Product Taxes	4,079	32,001	11,089	19,939	19,834	15,094	16,314	14,790	7,347	23,538	18,042	1,999	184,067
Insurance Taxes	863	5,155	75,699	2,167	1,720	81,409	428	9,513	104,022	2,118	1,417	82,562	367,072
Other Excise Taxes	126,722	105,455	66,498	139,633	79,951	136,846	161,164	96,850	62,813	135,526	96,669	80,795	1,288,922
Investment Earnings	6,989	6,995	10,011	3,319	7,679	6,250	6,357	6,531	5,851	4,992	4,689	4,733	74,398
Tobacco Settlement	0	0	0	0	0	176,943	0	0	0	0	0	0	176,943
Inter-governmental Grants	8,355	9,909	8,912	5,782	8,110	7,469	7,457	6,640	6,295	4,786	5,298	6,896	85,909
Other Sources	279,944	371,497	379,928	258,457	267,182	258,731	430,854	253,883	257,331	252,747	282,349	243,124	3,536,026
Subtotal Receipts	$ 1,133,218	$ 1,499,136	$ 1,861,468	$ 1,412,337	$ 1,285,879	$ 2,197,676	$ 2,119,202	$ 966,173	$ 1,480,341	$ 2,014,389	$ 1,402,506	$ 2,423,428	$ 19,795,754
Total Resources	$ 3,156,357	$ 2,903,826	$ 2,628,066	$ 1,688,717	$ 1,359,187	$ 2,000,285	$ 2,505,400	$ 2,012,617	$ 2,089,674	$ 2,269,328	$ 2,084,734	$ 3,120,545	
Expenditures:													
State Payroll	$ 319,202	$ 228,328	$ 284,034	$ 245,270	$ 247,238	$ 318,580	$ 253,926	$ 242,935	$ 298,494	$ 256,795	$ 278,109	$ 247,306	$ 3,220,217
Agency Operations	200,482	172,632	139,451	133,160	140,577	131,388	131,770	117,539	148,661	124,665	143,834	145,024	1,729,183
Aid to School Districts	104,226	1,084,474	1,013,471	590,809	77,895	352,079	574,041	546,583	672,440	654,168	500,169	64,370	6,234,724
Aid to Cities	268,884	9,741	105,289	53,336	11,958	170,028	15,701	9,705	4,221	2,664	12,810	9,497	673,835
Aid to Counties	191,437	47,212	59,706	104,887	30,168	53,573	71,637	36,576	67,508	25,609	41,337	43,408	773,058
Aid to Higher Education Institutions	70,497	60,920	31,466	46,587	52,233	131,346	73,515	9,139	47,449	87,105	43,540	82,204	736,002
Aid to Non-Gov't Organizations	23,417	33,407	18,446	38,677	22,997	52,032	30,837	27,722	18,262	18,633	21,596	17,456	323,482
Aid to Special Districts	28,010	20,039	36,231	28,368	17,992	29,662	20,828	25,686	26,748	14,956	23,167	26,127	297,814
Payments to Individuals	504,752	355,351	541,274	333,097	356,469	350,743	261,808	372,238	531,302	377,742	304,740	250,235	4,539,753
Other	40,758	125,124	122,319	41,218	40,435	24,656	24,893	15,161	19,649	24,763	18,315	19,517	516,809
Debt Service	0	0	0	0	558,615	0	0	0	0	0	0	0	558,615
Total Expenditures	$ 1,751,667	$ 2,137,228	$ 2,351,686	$ 1,615,410	$ 1,556,578	$ 1,614,087	$ 1,458,956	$ 1,403,284	$ 1,834,735	$ 1,587,101	$ 1,387,617	$ 905,143	$ 19,603,491
Ending Cash Balance	$ 1,404,690	$ 766,598	$ 276,380	$ 73,307	$ (197,391)	$ 386,198	$ 1,046,444	$ 609,333	$ 254,939	$ 682,228	$ 697,117	$ 2,215,402	
Estimated Lowest Daily Cash Balance	$921,506	$210,128	($184,265)	($348,882)	($604,919)	($665,940)	($146,879)	$66,744	($295,275)	($498,728)	($40,050)	$191,713	

MINNESOTA DEFINED BENEFIT RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriation. Estimates of direct General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in the table on B-50. The table on B-51 provides information on the impact of 2006 legislation on the State Teachers' Retirement Fund. Additionally, the second table on B-52 presents summary data on the financial condition of the plans. Information provided in this table 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.
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. Under the 2008 legislation that dissolved the Post Retirement Investment Fund and consolidated those assets and liabilities with the associated active plans, as of July 1, 2009, benefit increases will be capped at 2.5%.

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

1. *Minnesota State Retirement System ("MSRS"); State Teachers' Retirement Association ("TRA"); Public Employees' Retirement Association ("PERA"); and the Minneapolis, Duluth, and St. Paul Teachers' Retirement Associations.* For each of these funds, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute.

2. *Local police and fire amortization aid.* This aid program is specified in statute. As originally designed, it funded a State's share of amortizing unfunded liabilities of local police or fire relief associations that were being merged into a centralized fund (PERA). In more recent years, part of the money has been redirected to the Minneapolis, St Paul, and Duluth teacher retirement plans. The State's contribution will remain at the level of the Fiscal Year 1992 appropriation, or less, until St. Paul Teacher's Plan becomes fully funded.

3. *Minneapolis Employees' Retirement Fund ("MERF").* 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. In July 2008 the MERF Board of Trustees voted to transfer the management of their assets to the Minnesota State Board of Investment.

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

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

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

Minnesota Retirement Plans Estimated General Fund Appropriation
May 2009 End of Session Estimates
($ in thousands)

	Previous Biennium	Current Biennium	Next Biennium
State Employees			
Constitutional Officers' Retirement	$ 792	$ 925	$ 972
Legislators' Retirement Plan[(1)]	4,449	3,826	4,020
City & County Employees			
Minneapolis Employees Retirement Fund[(2)]	18,000	18,000	18,000
Basic Local Police & Fire Association[(3)]	166,724	178,304	191,144
Local Police or Fire Associations Amortization	7,433	2,747	2,080
Public Employees Retirement Association Aid	29,054	28,862	28,862
Volunteer Firefighter Relief	1,142	1,142	1,142
Local School Districts			
Teachers' Retirement Association (for Mpls)[(4)]	31,255	30,908	30,908
St. Paul Teachers' Retirement Association[(5)]	5,794	5,654	5,654
Duluth Teachers Retirement Association[(5)]	346	692	692
Redistributed P&F Amortization Aid	4,555	5,707	6,866
TOTAL	**$269,544**	**$277,277**	**$290,430**

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

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

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

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

(5) 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.

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

	Current Assets	Accrued Benefit Liability	Funding Ratio
Minneapolis Teachers' Retirement Fund Association. Pre-Consolidation: Actual, 7/1/2005	$ 783	$ 1,756	44.6%
Teachers' Retirement Association Pre-Consolidation: Actual, 7/1/2005	$17,753	$18,021	98.5%
Teachers' Retirement Association Post-Consolidation: Actual, 7/1/2006	$19,036	$20,679	92.0%
Teachers' Retirement Association Post-Consolidation: Actual, 7/1/2007	$18,794	$21,470	87.54%
Teachers' Retirement Association Post-Consolidation: Actual, 7/1/2008 (most recent year available)	$18,227	$22,231	81.99%

Condition of Defined Benefit Pension Plans to Which
Minnesota Provides General Fund Resources, June 30, 2008
($ in Millions)[1]

	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[3]	$9,013	$9,995	90.18%	$48,816	$48,257
— Correctional Employee Fund[3]	573	760	75.34%	4,520	3,036
— State Patrol Employee Fund[3]	595	694	85.79%	840	938
— Judges Retirement Fund[3]	148	232	63.70%	308	306
— Legislators Retirement Fund[2,3]	39	86	45.52%	52	454
— Constitutional Officers Fund[2,3]	.2	4	5.43%	0	16
Public Employees Retirement Association:					
— Public Employees Fund[3]	13,049	17,730	73.60%	143,562	222,429
— PERA Police & Fire Fund[3]	5,233	5,918	91.42%	10,961	8,413
— Local Correctional Service Fund[3]	193	193	100.19%	3,710	1,835
Teachers Retirement Association[3]	18,227	22,231	81.99%	76,515	81,264
2. Other Funds to Which the State Contributes					
Mpls Employees Retirement Fund[3]	1,214	1,577	76.42%	211	4,780
Local Police & Fire Associations	766	839	91.38%	178	1,666
St. Paul Teachers' Retirement Fund	1,076	1,432	75.13%	4,121	5,949
Duluth Teachers' Retirement Fund	298	363	82.10%	1,140	2,229

(1) The information provided in this table reflects the condition of all funds as of June 30, 2008.

(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.

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

2009 Pension Legislation

- The 2009 pension legislation was largely technical and administrative clean up. No new state financial obligations were created, and no changes were made to existing employee or employer contribution rates.

- Two cities currently ineligible for police and fire amortization aids were made eligible for aid. But that change was made within the current funding constraints, so no additional state dollars will be required.

- Minnesota State Colleges and Universities was given authority to develop and implement an early retirement incentive program, however the language is totally permissive and no state funding was provided to implement.

- The legislation contained some administrative changes in the existing volunteer fire relief association statute, including the creation of a new voluntary statewide plan option for volunteer fire fighters. PERA will administer and SBI will provide investment services. Costs are paid through an administrative fee accessed to the groups that participate. Existing fire state aid for entities that choose to become part of the new program will go directly from the department of revenue to PERA. There are no additional costs to the State, but cities may pay higher municipal contributions if fire state aid doesn't cover the benefit cost. However, the current individual plans will receive information up front to help them decide if they want to join the statewide plan.

2008 Pension Legislation

- Postretirement Fund Provisions

  1. Matches the annual postretirement adjustment for benefit recipients covered by the postretirement fund to the consumer price index, up to 2.5 percent. It also states that excess investment earnings can be used to pay an additional amount, if the increase in the consumer price index is more than 2.5 percent, but the five percent benefit cap in any year is maintained in law.

  2. Outlines the postretirement investment fund dissolution if the funded ratio is less than 80 percent in any year, or less than 85 percent for two consecutive years. If the post fund dissolves, the assets will be transferred back to the corresponding retirement plan based on each fund's participation in the postretirement fund. It also provides that if the postretirement fund is dissolved, there will be a flat 2.5 percent postretirement increase each year, regardless of inflation and investment returns.

  3. Dissolution of the Post Fund took effect on June 30, 2009 due to the July 1, 2008 funding ratio of 79.7%. The Post Fund deficit is already reflected in the 2008 valuation results.

Postemployment Benefits Other than Pensions

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. The employees involved are primarily conservation officers, correctional counselors at state correctional facilities, and highway patrol officers. If these employees elect retirement at age 55, the State pays the employer's share of health insurance benefits until the employees reach age 65. As of July 1, 2006, the most recent actuarial valuation, the unfunded actuarial accrued liability was $659 million, and is being amortized over a 30year amortization period. The estimated annual required contribution for the period ended June 30, 2008 is $66 million.

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<u>APPENDIX C</u>

State Debt

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APPENDIX C

Table of Contents

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STATE DEBT

STATE GENERAL OBLIGATION LONG-TERM DEBT (UNAUDITED)

General Obligation Bonds Outstanding as of the Date of Issuance of the Certificates

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

General Obligation Bonds Outstanding
as of the Date of Issuance of the Certificates
($ in Thousands)

Category	Type	Principal Amount	
1	Building	$ 201,595	
	Transportation	193,233	
	Pollution Control	15,000	
	Waste Management	1,005	
	Refunding Bonds	728,450	
	Landfill	225	
	Infrastructure Development Bonds	203,441	
	Various Purpose	2,377,711	
	Total Category 1		$3,720,660
2	School Loan	$ 57,605	
	School Loan Refunding	9,815	
	Municipal Energy Building	105	
	Rural Farm Authority	56,600	
	Total Category 2		$ 124,125
3	Trunk Highway	$ 572,235	
	Total Category 3		$ 572,235
	Total Outstanding August 2, 2009 — Previous Issues[(A)]		$4,417,020
1, 2	Plus Series 2009D Bonds		192,275
3	Plus Series 2009E Bonds		80,000
1	Plus Series 2009F Bonds		297,750
3	Plus Series 2009G Bonds		28,360
1,2	Less Various Purpose Refunded Bonds		(289,725)
3	Less Trunk Highway Refunded Bonds		(27,500)
	Total Outstanding as of the Date of the Bonds — Including These Issues		$4,698,180

[(A)] 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 Category 1 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 Category 2 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 Category 3, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 58.9 percent of the net proceeds of the State fuel, motor vehicle registration taxes, and a portion of the motor vehicle sales tax, pursuant to the State Constitution and related statutory distributions. The Category 4, State Sports and Health Club Tax Bonds, are payable primarily from money appropriated to the Debt Service Fund from the sales tax imposed on membership dues, initiation fees and facilities fees of private sports and health clubs.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
August 1, 2009
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization [(1)(2)]	Previously Issued	The Bonds	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	X1997, Ch. 2	37,432.0	37,335.0	0.0	$97.0
Building	1999, Ch. 240	439,437.0	438,865.0	0.0	$572.0
Various Purpose	2000, Ch. 492	527,684.6	517,330.0	500.0	$9,854.6
Various Purpose	X2001, Ch. 12	116,758.7	115,425.0	0.0	$1,333.7
Various Purpose	2002, Ch. 374	74,411.7	73,560.0	457.0	$394.7
Various Purpose	2002, Ch. 393	600,114.6	598,105.0	250.0	$1,759.6
Various Purpose	X2002, Ch. 1	15,273.0	15,220.0	0.0	$53.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.4	399,750.0	240.0	$201.4
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	0.0	$326.5
Various Purpose	X2003, Ch. 20	219,010.0	219,010.0	0.0	$0.0
Various Purpose	2005, Ch. 20	942,980.0	873,079.0	16,000.0	$53,901.0
Various Purpose	2006, Ch. 258	1,002,863.0	796,975.0	82,000.0	$123,888.0
Rural Finance Authority	2007, Ch. 16	30,000.0	26,500.0	3,500.0	$0.0
Various Purpose	X2007, Ch. 2	56,255.0	32,000.0	0.0	$24,255.0
Trunk Highway	X2007, Ch. 2	20,020.0	16,500.0	1,585.0	$1,935.0
Trunk Highway	2008, Ch. 152	1,801,800.0	86,500.0	75,475.0	$1,639,825.0
Transportation	2008, Ch. 152	60,060.0	27,500.0	4,000.0	$28,560.0
Various Purpose	2008, Ch. 179	801,022.0	237,000.0	50,068.0	$513,954.0
Various Purpose	2008, Ch. 365	105,500.0	17,900.0	20,500.0	$67,100.0
Trunk Highway	2009, Ch. 36	40,000.0	0.0	0.0	$40,000.0
Various Purpose	2009, Ch. 93	347,920.0	0.0	15,000.0	$332,920.0
Trunk Highway	2009, Ch. 93	2,705.0	0.0	2,700.0	$5.0
Totals		**$8,541,468.2**	**$5,428,229.0**	**$272,275.0**	**$2,840,964.2**

X indicates Special Session Laws.

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

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

Pursuant to state law, in the Order authorizing the issuance of the Bonds the Commissioner 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.

The following table shows all debt service payments for outstanding general obligation bonds as of July 31, 2009, not including the Bonds.

Debt Service Payments on General Obligation Bonds
Bonds Outstanding as of June 30, 2009
($ in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2010	$367,645	$196,696	$564,341	$38,665	$28,301	$66,966
2011	342,960	173,858	516,818	38,665	25,589	64,254
2012	318,985	157,617	476,602	38,665	23,765	62,430
2013	327,140	141,869	469,009	37,020	21,950	58,970
2014	298,690	126,020	424,710	36,400	20,185	56,585
2015	271,935	111,746	383,681	36,230	18,415	54,645
2016	260,140	98,350	358,490	36,230	16,649	52,879
2017	237,470	85,788	323,258	35,855	14,868	50,723
2018	227,105	74,134	301,239	35,400	13,138	48,538
2019	203,075	63,276	266,351	35,070	11,429	46,499
2020	193,320	53,317	246,637	34,525	9,760	44,285
2021	177,455	44,015	221,470	34,525	8,092	42,617
2022	165,280	35,414	200,694	33,025	6,446	39,471
2023	142,525	27,685	170,210	30,200	4,903	35,103
2024	129,350	20,872	150,222	29,550	3,447	32,997
2025	115,755	14,823	130,578	22,425	2,179	24,604
2026	96,160	9,670	105,830	16,420	1,247	17,667
2027	70,835	5,360	76,195	8,435	602	9,037
2028	56,760	2,314	59,074	5,240	294	5,534
2029	15,540	349	15,889	3,185	70	3,255
	$4,018,125	$1,443,173	$5,461,298	$585,730	$231,329	$817,059

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 August 1, 2009, is set forth below.

Minnesota Housing Finance Agency (MHFA). The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. Its enabling legislation authorizes the MHFA to issue bonds and notes for any of its authorized purposes but the aggregate principal amount outstanding at any instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to $5.0 billion. The proceeds of 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 acquisition, construction and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds may be general or limited 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, and the Governor must include in the

State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized, *but is not legally obligated*, to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds.. The MHFA has never needed to certify a deficiency to the Governor.

The following table lists the principal amounts of indebtedness, that are general obligations of the MHFA, which were outstanding as of August 1, 2009 and which are secured by a debt service reserve fund as described in the immediately preceding paragraph:

Minnesota Housing Finance Agency
General Obligation Bonds Outstanding as of August 1, 2009

	Number of Series	Final Maturity	Original Principal Amount (in thousands)	Outstanding Principal Amount 1/01/2009 (in thousands)
Rental Housing	23	2047	$ 473,770	$ 157,785
Residential Housing Finance	61	2048	2,033,370	1,680,995
Single Family Mortgage	54	2035	1,074,960	193,990
	138		$3,582,100	$2,032,770

The MHFA has also issued and there were outstanding as of August 1, 2009: three series of its limited obligation notes outstanding in the aggregate principal amount of $363,985,000, and one series of its conduit multifamily revenue bonds outstanding in the aggregate principal amount of $31,664,000

These bonds and notes are limited obligations of the MHFA and subject to the MHFA's $5 billion debt limit, but are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above.

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

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

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of August 1, 2009 will be $858,349,727. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University.

Minnesota Office of Higher Education (MOHE). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000. The loans are made in accordance with MOHE's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of August 1, 2009, MOHE will have $627,000,000 of bonds outstanding payable from the Student Educational Loan Fund

II and III. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MOHE, and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the state universities within the Minnesota State Colleges and Universities System. As of August 1, 2009, the MnSCU will have $170,060,000 tax exempt bonds and $21,320,000 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 $3,482,113 and the other for $13,520,000. 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 $950,000,000. As of August 1, 2009, the MHEFA will have $827,084,406 principal amount of bonds outstanding. Each issue is payable solely from and secured by a first lien on the revenues of the project financed, reserve funds and a guarantee of the institution for which the project is financed.

Minnesota State Armory Building Commission (MSABC). The MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at anytime may not exceed $15,000,000. As of August 1, 2009, the MSABC will have $3,620,600 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State’s use.

Minnesota Rural Finance Authority (RFA). In 1986 the Legislature created the Minnesota Rural Finance Authority and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA’s authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA’s authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of August 1, 2009, the RFA has no revenue bonds outstanding for these programs.

The Commissioner is authorized to issue up to $171.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $167.6 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 August 1, 2009, the RFA had issued $34,910,000 of revenue bonds for these programs.

Minnesota Public Facilities Authority (MPFA). The MPFA was established in 1987 and amended in 1994 by Minnesota Statutes, Chapter 446A which authorized it to make loans to local government units for wastewater treatment projects. In 1994, Chapter 446A was amended to authorize the MPFA to also make loans for drinking water projects, and amended again in 1997 to authorize the MPFA to also make loans for transportation projects. As of August 1, 2009, the MPFA will have outstanding bonds of: Water Pollution Control Revenue Bonds, $803,845,000, Drinking Water Revenue Bonds, $141,025,000, and Transportation Revenue Bonds, $26,985,000, for a total outstanding amount of $971,845,000. The MPFA’s bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed $1,500,000,000, excluding bonds issued under Minnesota Statutes, Section 446.087.

Chapter 446A was amended in 2008 to create the Credit Enhanced Bond Program (446A.087). Minnesota counties and cities that have received grant funding from certain state programs may apply to MPFA for a limited state guarantee of bond payments on general obligation bonds issued to MPFA. If a county or city issuer is unable to make a debt service payment on bonds enrolled in the program, the state will make the payment, provided that funds are available in the State General Fund. If the State pays part or all of a bond payment, the issuer's full faith and credit pledge on the bonds automatically becomes a full faith and credit pledge to repay the State, with interest. The amount of debt outstanding under section 446A.087 must not exceed $500,000,000.

Minnesota Agricultural and Economic Development Board (MAEDB). The MAEDB was established by Minnesota Statutes, Chapter 41A, to provide for agricultural and economic development in the State, and is authorized to issue revenue bonds for these purposes. The revenue bonds issued by the MAEDB are not general obligations of the State. As of August 1, 2009, MAEDB will have outstanding $8,810,000 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 $435,776,937 of revenue bonds that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Office of the Commissioner of the Iron Range Resources & Rehabilitation Authority (IRRRA). The IRRRA was established by Minnesota Statutes, Chapter 298, to perform certain functions for the Northeastern portion of the State, including the promotion of economic development. The IRRRA is authorized to issue revenue bonds to accomplish the promotion of economic development. As of August 3, 2009 the IRRRA will have $11,310,000 of bonds outstanding to finance the Giant's Ridge Recreation Area.

Minnesota Department of Management and Budget. 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 sold $29,000,000 of the revenue bonds in June 2000. As of August 1, 2009, there will be $24,900,000 of Minnesota State Retirement System bonds outstanding.

The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of state revenue bonds. These revenue bonds are to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The 2007 Legislature authorized an additional $186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner sold $35,000,000 of the revenue bonds in November 2006 and an additional $42,205,000 of revenue bonds in November 2008. As of August 1, 2009 there will be $69,250,000 of the 911 Revenue Bonds outstanding.

CONTINGENT LIABILITIES

State Standing Appropriations

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

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

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

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

Lease Purchase Financing For Equipment

The Commissioner 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 August 1, 2009, principal in the amount of $18,474,348 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 moneys are appropriated from time to time for this purpose.

Various State agencies, with the Commissioner 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 August 3, 2009, principal in the amount of $3,544,124 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.

Lease Purchase Financing For Real Estate

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued $8,275,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. In September 2008 the city of Bemidji issued refunding bonds for this project. As of August 1, 2009, $6,395,000 of the bonds will remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The savings on the debt service due to the refunding bond issue will reduce the State's annual rent payments. The State's obligation to make rent payments is not a general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent moneys are appropriated from time to time for this purpose. The legislature has appropriated from the General Fund up to $700,000 per year in each of 20 years, beginning in 2002.

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds sold to finance both of the facilities was $193,105,000, of which $162,715,000 will be outstanding, on August 1, 2009. In August 2008 the amount of $3,210,000 was defeased thereby reducing the State's liability. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The legislature appropriates an annual rental payment from the General Fund up to $13.5 million per year in each of 20 years, beginning in 2004.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner, under certain circumstances and subject to the availability of funds, to issue a warrant and authorize the Commissioner of Education to pay debt service due on school district and intermediate school district certificates of indebtedness issued under Minnesota Statutes, Section 126C.52, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40 Subdivision 6, and school district and intermediate school district general obligation bonds, in the event that the school district or intermediate school district notifies the Commissioner of Education that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Commissioner of Education that it has not received from the school district timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Commissioner of Education the amounts needed to pay any warrants which are issued.

The amounts paid on behalf of any school district or intermediate school district are required to be repaid by it with interest, by a reduction in state aid payable to the school district or intermediate school district or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education. Furthermore, the State is subrogated to the rights of a school district or intermediate school district in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the district in full.

Under Minnesota Statutes, Section 126C.52, school districts and intermediate school districts are authorized to issue tax and state aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of state aids in the process of collection. As of June 30, 2009, there were approximately $157 million of certificates of indebtedness enrolled in the program all of which will mature within a fourteen month period. The State expects that school districts and intermediate school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

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

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

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due. As of June 30, 2009 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 $12.0 billion. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the amount of certificates of indebtedness and capital notes for equipment, certificates of participation and bonds now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of June 30, 2009 is about $1.6 billion, with the maximum amount of principal and interest payable in any one month being $564 million.

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

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

City and County Credit Enhancement Program

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

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

The amounts paid on behalf of any city or county are required to be repaid to the State with interest, either through a reduction of subsequent state-aid payments or by the levy of an ad valorem tax, which may be made with the approval of the MPFA, or will be made mandatory by the MPFA if the State is not repaid in full by November 30 of the following calendar year. Furthermore, the State is subrogated to the rights of a city or county in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the city or county in full.

As of June 30, 2009, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2031, is approximately $398 million. More bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the bonds enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of June 30, 2009, is $40.5 million with the maximum amount of principal and interest payable in any one month being $15.1 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments on behalf of cities or counties in the future. If such payments are made, the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the cities or counties.

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APPENDIX D

State Economic and Demographic Information

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Resident Population
(Thousands of Persons)

Year	U.S.	Minnesota	% Change U.S.	% Change Minnesota
1999	279,040	4,873	1.2	1.2
2000	282,172	4,934	1.1	1.3
2001	285,040	4,982	1.0	1.0
2002	287,727	5,071	0.9	0.7
2003	290,211	5,047	0.9	0.6
2004	292,892	5,078	0.9	0.6
2005	295,561	5,105	0.9	0.5
2006	298,363	5,143	0.9	0.7
2007	301,290	5,182	1.0	0.8
2008	304,060	5,220	0.9	0.7

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.census.gov/popest. Population data extracted June, 2009.

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Employment Mix in United States and Minnesota for 2008
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durables	215.4	7.7	8,476	6.1
Manufacturing Non-Durables	119.7	4.3	4,955	3.5
Natural Resources and Mining	6.2	0.2	774	0.6
Construction	109.8	3.9	7,215	5.2
Trade	428.6	15.2	21,320	15.2
Transportation, Warehousing, Utilities	94.6	3.4	5,065	3.6
Information	57.7	2.1	2,997	2.2
Financial Activities	177.1	6.3	8,146	5.9
Professional and Business Services	326.3	11.6	17,778	12.8
Education and Health Services	442.6	15.7	18,885	13.5
Leisure and Hospitality	245.0	8.7	13,459	9.7
Other Services	117.7	4.2	5,528	4.0
Government	418.1	14.9	22,500	16.1
Agriculture	51.1	1.8	2,168	1.6
Total	2,809.9	100.0	139,236	100.0

Sources: U.S. Employment — IHS Global Insight (USA), Inc., U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov
Minnesota Employment — Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Minnesota employment data benchmarked to March 2008.
U.S. employment data extracted June 3, 2009.
Industry detail determined according to the North American Industry Classification System (NAICS).
Minnesota agricultural employment: Unpublished estimate from the Minnesota Department of Employment and Economic Development, based on the first five months of 2009 and the last seven months of 2008.
U.S. agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/cps.

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Employment in Durable Goods Industries in
United States and Minnesota For 2008
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Wood Products	13.0	6.0	460	5.4
Fabricated Metals Production	43.1	20.0	1,528	18.0
Machinery	33.7	15.6	1,186	14.0
Computers and Electronic Products	52.5	24.4	1,248	14.7
Electrical Equipment	9.1	4.2	425	5.0
Transportation Equipment	13.1	6.1	1,607	19.1
Furniture and Related	11.2	5.2	481	5.7
Miscellaneous Manufacturing	23.4	10.9	631	7.4
Other Durables	16.3	76.0	910	10.7
Total	215.4	100.0	8,476	100.0

Sources: U.S. Employment — IHS Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov /ces
Minnesota Employment — Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Minnesota employment data benchmarked to March 2008. U.S. data extracted June 3, 2008. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

Employment in Non-Durable Goods Industries in
United States and Minnesota For 2008
(Thousands of Jobs)

Non-Durable Goods	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	42.7	35.7	1,485	30.0
Paper Mfg. & Printing	41.7	34.8	1,040	21.0
Other Non Durables	35.3	29.5	2,430	49.0
Total	119.7	100.0	4,955	100.0

Sources: U.S. Employment — IHS Global Insight (USA), U.S. Central Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov /ces.
Minnesota Employment — Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Minnesota data benchmarked to March 2008. U.S. data extracted June 2009. Both Minnesota and U.S. industry detail determined according to the North American Industry Classification System (NAICS).

Columns may not add due to rounding.

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Employment Mix in the United States and Minnesota
for 1990, 2000 and 2008
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	**1990**	**2000**	**2008**	**1990-2000**	**2000-2008**	**1990**	**2000**	**2008**	**1990-2000**	**2000-2008**
Manufacturing Durables	217.2	255.4	215.4	17.6	(15.7)	10,737	10,877	8,476	1.3	(22.1)
Manufacturing Non-Durables	124.2	141.1	119.7	13.6	(15.2)	6,958	6,386	4,955	(8.2)	(22.4)
Natural Resources and Mining	8.4	8.1	6.2	(3.6)	(23.5)	765	599	774	(21.7)	29.2
Construction	77.9	118.8	109.8	52.5	(7.6)	5,263	6,787	7,215	29.0	6.3
Trade	362.4	436.1	428.6	20.3	(1.7)	18,451	21,213	21,320	15.0	0.5
Transportation Warehousing and Utilities	85.8	103.3	94.6	20.4	(8.4)	4,216	5,012	5,065	18.9	1.1
Information	54.3	69.2	57.7	27.4	(16.6)	2,688	3,630	2,997	35.1	(17.4)
Financial Activities	129.3	164.8	177.1	27.5	7.5	6,614	7,687	8,146	16.2	6.0
Professional and Business Services	214.5	319.2	326.3	48.8	2.2	10,848	16,666	17,778	53.6	6.7
Education and Health Services	241.8	324.5	442.6	34.2	36.3	10,984	15,109	18,855	37.6	24.8
Leisure and Hospitality	180.5	221.6	245.0	22.4	10.6	9,288	11,862	13,459	27.7	13.5
Other Services	91.3	114.6	177.7	25.5	2.7	4,261	5,168	5,528	21.3	7.0
Government	347.9	407.6	418.1	17.2	2.6	18,415	20,790	22,500	12.9	8.2
Agriculture	103.1	73.4	51.1	(28.8)	(30.4)	3,223	2,464	2,168	(23.5)	(12.0)
Total	2,238.6	2,757.7	2,809.9	23.2	1.9	112,711	134,250	139,236	19.9	3.7

Sources: Minnesota 1990, 2000 and 2008 — Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
U.S. 1990, 2000 and 2008, IHS Global Insight (USA), Inc., U.S. Central Data Bank, and U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota employment data benchmarked to March 2008. U.S. employment extracted June 3, 2008. Both Minnesota and U.S. industry detail determined according to the North American Industrial Classification System (NAICS).
Minnesota agricultural employment: Unpublished estimate from Minnesota Department of Employment and Economic Development. U.S. Agricultural employment: U.S. Department of Labor, Bureau of Labor Statistics, http://stats.bls.gov/cps/cpsaat1.pdf/.
U.S. and Minnesota agricultural employment data for 2008 not necessarily comparable with earlier years because of changes in methodology.

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Minnesota and United States Per Capita Personal Income

Year	Minnesota	U.S.	Minnesota as % of U.S.
1999	$ 30,106	$ 27,939	107.8
2000	32,017	29,847	107.3
2001	32,631	30,582	106.7
2002	33,283	30,838	107.9
2003	34,378	31,530	109.0
2004	36,199	33,157	109.2
2005	37,275	34,690	107.5
2006	38,944	36,794	105.8
2007	41,105	38,615	106.4
2008	42,772	39,751	107.6

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi. Data extracted December 11, 2008.

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Personal Income Growth and Resident Population for
Twelve State North Central Region
1990-2000 and 2000-2008

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2008 Personal Income (Millions)	2000-2008 Annual Compound Rate of Increase (%)	Regional Rank 2000-2008	2000 Population (Thousands)	1990 Per Capita Personal Income ($)	1990 Regional Rank	2008 Population (Thousands)	2008 Per Capita Personal Income ($)	2008 Regional Rank
Illinois	238,499	400,373	5.32	6	546,985	3.17	8	12,438	20,824	1	12,902	42,397	2
Ohio	203,630	320,538	4.64	12	407,874	2.44	11	11,364	18,743	4	11,486	35,511	9
Michigan	176,189	294,227	5.26	7	353,113	1.84	12	9,955	18,922	3	10,003	35,299	10
Indiana	97,213	165,285	5.45	4	217,467	2.78	10	6,091	17,491	9	6,377	34,103	12
Minnesota	87,318	157,964	6.11	1	223,288	3.52	6	4,934	19,891	2	5,220	42,772	1
Missouri	90,407	152,722	5.38	5	208,255	3.15	9	5,606	17,627	8	5,912	35,228	11
Wisconsin	88,635	153,548	5.65	2	209,999	3.18	7	5,374	18,072	6	5,628	37,314	7
Iowa	48,358	77,763	4.86	10	110,135	3.54	5	2,928	17,389	10	3,003	36,680	8
Kansas	44,876	74,570	5.21	9	106,421	3.62	3	2,693	18,085	5	2,802	37,987	4
Nebraska	28,444	47,329	5.22	8	67,288	3.58	4	1,713	17,983	7	1,783	37,730	5
South Dakota	11,273	19,438	5.60	3	30,057	4.46	2	756	16,172	11	804	37,375	6
North Dakota	10,166	16,097	4.70	11	25,224	4.59	1	641	15,943	12	641	39,321	3

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of the Census, www.census.gov/popest/states/tables, and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi. Population data extracted June, 2009. Income data extracted June, 2009.

Growth of Personal Income by States in North Central Region[1] 2007-2008

Rank	State	Percent Growth
1	North Dakota	2.4
2	South Dakota	1.2
3	Nebraska	0.8
3	Kansas	0.8
6	Illinois	(0.5)
4	Missouri	(0.1)
5	Iowa	(0.3)
6	MINNESOTA	(0.5)
6	Wisconsin	(0.5)
7	Indiana	(0.9)
8	Ohio	(1.1)
9	Michigan	(2.6)
	REGION	(1.7)

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi. Data extracted June 2009.

[1] Refer to Table 7 for Personal Income figures.

Non-Farm Employment in Twelve State North Central Region (Thousands of Jobs)

State	1990 Employment	2000 Employment	2008 Employment	% Increase 1990-2000	2000-2008
Illinois	5,287.6	6,044.8	5,948.3	14.3	(1.6)
Ohio	4,882.3	5,624.7	5,368.0	15.2	(4.6)
Michigan	3,946.5	4,676.9	4,159.2	18.5	(11.1)
Indiana	2,521.9	3,000.1	2,958.2	19.0	(1.4)
Wisconsin	2,291.5	2,833.8	2,870.2	23.7	1.3
Missouri	2,345.0	2,748.7	2,792.3	17.2	1.6
MINNESOTA	2,135.9	2,684.9	2,758.8	25.7	2.8
Iowa	1,226.4	1,478.5	1,523.2	20.6	3.0
Kansas	1,091.9	1,346.1	1,391.1	23.3	3.3
Nebraska	730.9	910.7	964.7	24.6	5.9
South Dakota	288.5	377.9	411.4	31.0	8.9
North Dakota	265.8	327.7	367.0	23.2	12.0
Region	27,014.2	32,054.8	31,512.4	18.7	(1.7)

Source: IHS Global Insight (USA), Inc., @ Markets Data Bank and U.S. Department of Labor, Bureau of Labor Statistics, http://bls.gov/sae/home.html. Minnesota employment, Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi/tools/ces. Data extracted June 2009.

Minnesota and U.S. Unemployment Rates Not Seasonally Adjusted

Year	Annual Average: Minnesota	Annual Average: U.S.
2000	3.1%	4.0%
2001	3.8%	4.7%
2002	4.5%	5.8%
2003	4.9%	6.0%
2004	4.6%	5.6%
2005	4.2%	5.1%
2006	4.1%	4.6%
2007	4.6%	4.6%
2008	5.4%	5.8%

Month	Minnesota	U.S.
2008		
January	5.5%	5.4%
February	5.3%	5.2%
March	5.5%	5.2%
April	5.0%	4.8%
May	4.9%	5.2%
June	5.3%	5.7%
July	5.4%	6.0%
August	5.4%	6.1%
September	5.4%	6.0%
October	5.1%	6.1%
November	5.8%	6.5%
December	6.8%	7.1%
Annual Average	5.4%	5.8%

Month	Minnesota	U.S.
2009		
January	8.5%	8.5%
February	8.7%	8.9%
March	8.9%	9.0%
April	8.1%	8.6%
May	7.8%	9.1%
June	8.4	9.7

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

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2008	Rank 2007	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Rank
21	25	UnitedHealth Group	81,186,000	55,815,000	2,977,000	Health Care: Insurance and MC	1
28	31	Target	64,948,000	44,106,000	2,214,000	General Merchandisers	2
51	62	Supervalu	44,048,000	21,062,000	593,000	Food and Drug Stores	5
56	66	Best Buy	40,023,000	12,758,000	1,407,000	Specialty Retailers	4
72	145	Cenex Harvest States	32,167,500	8,772,000	803,000	Wholesalers: Food and Grocery	2
95	100	Minnesota Mining & Mfg. (3M)	25,269,000	25,547,000	3,460,000	Miscellaneous	1
129	122	U.S. Bancorp	19,229,000	265,912,000	2,946,000	Commercial Banks	9
193	214	General Mills	13,652,100	19,041,600	1,294,700	Food Consumer Products	4
196	217	Medtronic	13,515,000	22,198,000	2,231,000	Medical Products & Equipment	1
224	294	Land O'Lakes	12,039,300	4,981,300	159,600	Food Consumer Products	8
242	260	Xcel Energy	11,203,200	24,958,500	645,600	Utilities: Gas & Electric	13
276	422	Mosaic	9,812,600	11,819,800	2,082,800	Chemicals	8
300	341	C.H. Robinson Worldwide	8,578,600	1,815,700	359,200	Transportation and Logistics	1
348	296	Ameriprise Financial	7,149,000	95,676,000	(38,000)	Diversified Financials	8
373	390	Hormel Foods	6,754,900	3,616,500	285,500	Food Consumer Products	12
403	438	Ecolab	6,137,500	4,756,900	448,100	Chemicals	15
409	398	Thrivent Financial for Lutherans	6,060,600	52,498,900	(329,700)	Insurance: Life, Health (mutual)	6
478	---	PepsiAmericas	4,937,200	5,054,100	226,400	Beverages	3
492	---	Nash Finch	4,703,700	955,000	36,200	Wholesalers: Food and Grocery	3

Source: Fortune Magazine, dated May 4, 2009.

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APPENDIX E

State Financial Statements for the Fiscal Year Ended June 30, 2008

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APPENDIX E

Table of Contents

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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Mr. Tom Hanson, Commissioner of Finance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the state's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund and 71 percent, 64 percent, and 40 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, ClearWay Minnesota, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors.

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

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2008, and the respective changes in financial position and, where

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applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* and Statement No. 50, *Pension Disclosures,* for the year ended June 30, 2008.

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA
Deputy Legislative Auditor

December 9, 2008

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Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2008, 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 public safety. Most of the costs of these activities are financed by taxes, fees, and federal grants.

Business-type Activities

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

Discretely Presented Component Units

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

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

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

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

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

- Agricultural and Economic Development Board
- ClearWay Minnesota
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains 29 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balances* for the General and Federal funds, which are reported as major funds. Information from the remaining 27 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

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

Proprietary Funds

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

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

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets.* Information from the 8 nonmajor enterprise funds and the 7 internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 19 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pools), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units *statements of net assets* and the component units *statement of changes in net assets* provide detail for each major component unit and aggregate the detail for nonmajor component units. Individual nonmajor component unit detail can be found in the combining financial statements included in this report.

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. This section includes maintenance data regarding certain portions of the state's infrastructure, actuarial measures of pension and Other Postemployment Benefits 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, 2008, by $13.2 billion (presented as *net assets*). Of this amount, $484 million was reported as *unrestricted net assets.* Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors or the constitution. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

- The state's total net assets increased by $325 million (2.5 percent) during fiscal year 2008. Net assets of governmental activities increased by $156 million (1.4 percent), while net assets of the business-type activities showed an increase of $169 million (8.1 percent). For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $5.1 billion, a decrease of $325 million compared to the prior year. This amount includes an unreserved fund balance of $3.0 billion. For discussion on the variances from prior year, see the State Funds Financial Analysis section.

Long-Term Debt

- The state's total long-term liabilities increased by $443 million (7.4 percent) during the current fiscal year. The increase is partially due to the issuance of general obligation bonds for trunk highway projects and other various state purposes and revenue bonds for the Minnesota State Colleges and Universities. The beginning balance has been restated due to the implementation of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." As a result of implementing this statement, the state recognized a change in accounting principle of $91,812,000, which restated the liability recognized for other postemployment benefits at the beginning of the year to zero.

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 $13.2 billion at the end of 2008, compared to $12.9 billion at the end of the previous year.

Net Assets
June 30, 2008 and 2007
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current Assets	$ 9,679,864	$ 10,341,404	$ 1,588,517	$ 1,522,925	$ 11,268,381	$ 11,864,329
Noncurrent Assets:						
Capital Assets	10,531,680	9,799,769	1,462,138	1,308,504	11,993,818	11,108,273
Other Assets	781,787	784,933	143,908	134,667	925,695	919,600
Total Assets	$ 20,993,331	$ 20,926,106	$ 3,194,563	$ 2,966,096	$ 24,187,894	$ 23,892,202
Current Liabilities	$ 4,702,255	$ 5,087,004	$ 349,690	$ 361,293	$ 5,051,945	$ 5,448,297
Noncurrent Liabilities	5,331,720	5,036,122	602,567	531,219	5,934,287	5,567,341
Total Liabilities	$ 10,033,975	$ 10,123,126	$ 952,257	$ 892,512	$ 10,986,232	$ 11,015,638
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 7,775,939	$ 6,781,966	$ 1,108,136	$ 1,016,955	$ 8,884,075	$ 7,798,921
Restricted	2,693,756	2,703,598	1,140,070	1,058,032	3,833,826	3,761,630
Unrestricted	489,661	1,317,416	(5,900)	(1,403)	483,761	1,316,013
Total Net Assets	$ 10,959,356	$ 10,802,980	$ 2,242,306	$ 2,073,584	$ 13,201,662	$ 12,876,564

The largest portion, $8.9 billion of $13.2 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $3.8 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used.

The remaining net assets balance of $484 million represents primarily unrestricted net assets of the governmental activities that may be used to meet the state's ongoing obligations to citizens and creditors. As noted previously, within this balance, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors.

The state's combined net assets for governmental and business-type activities increased $325 million (2.5 percent) over the course of this fiscal year. This resulted from a $156 million (1.4 percent) increase in net assets of governmental activities, and a $169 million (8.1 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services[1]	$ 1,202,566	$ 1,117,489	$ 2,325,325	$ 2,309,047	$ 3,527,891	$ 3,426,536
Operating Grants and Contributions	6,677,323	6,500,439	217,224	187,530	6,894,547	6,687,969
Capital Grants	449,765	236,700	1,142	1,839	450,907	238,539
General Revenues:						
Individual Income Taxes	7,929,096	7,463,959	-	-	7,929,096	7,463,959
Corporate Income Taxes	1,039,843	1,160,380	-	-	1,039,843	1,160,380
Sales Taxes	4,474,576	4,600,984	-	-	4,474,576	4,600,984
Property Taxes	703,972	667,395	-	-	703,972	667,395
Motor Vehicle Taxes	1,011,494	1,025,820	-	-	1,011,494	1,025,820
Fuel Taxes	651,988	647,168	-	-	651,988	647,168
Other Taxes[1]	2,149,162	2,195,880	-	-	2,149,162	2,195,880
Tobacco Settlement	186,425	184,924	-	-	186,425	184,924
Investment/Interest Income	121,638	155,016	48,126	26,786	169,764	181,802
Other Revenues	103,416	91,867	1,649	17,811	105,065	109,678
Total Revenues	$ 26,701,264	$ 26,048,021	$ 2,593,466	$ 2,543,013	$ 29,294,730	$ 28,591,034
Expenses:						
Public Safety and Corrections	$ 901,641	$ 855,328	$ -	$ -	$ 901,641	$ 855,328
Transportation	2,047,500	1,795,056	-	-	2,047,500	1,795,056
Agricultural, Environmental and Energy Resources[1]	825,842	762,549	-	-	825,842	762,549
Economic and Workforce Development[1]	704,501	568,064	-	-	704,501	568,064
General Education	7,675,567	7,323,406	-	-	7,675,567	7,323,406
Higher Education	981,943	921,339	-	-	981,943	921,339
Health and Human Services[1]	10,296,359	9,596,061	-	-	10,296,359	9,596,061
General Government	816,111	771,733	-	-	816,111	771,733
Intergovernmental Aid	1,511,715	1,489,439	-	-	1,511,715	1,489,439
Interest	221,162	208,719	-	-	221,162	208,719
State Colleges and Universities	-	-	1,675,051	1,550,936	1,675,051	1,550,936
Unemployment Insurance	-	-	828,857	735,987	828,857	735,987
Lottery	-	-	346,834	311,893	346,834	311,893
Other	-	-	228,361	215,005	228,361	215,005
Total Expenses	$ 25,982,341	$ 24,291,694	$ 3,079,103	$ 2,813,821	$ 29,061,444	$ 27,105,515
Excess (Deficiency) Before Transfers	$ 718,923	$ 1,756,327	$ (485,637)	$ (270,808)	$ 233,286	$ 1,485,519
Transfers[1]	(654,359)	(551,769)	654,359	551,769	-	-
Change in Net Assets	$ 64,564	$ 1,204,558	$ 168,722	$ 280,961	$ 233,286	$ 1,485,519
Net Assets, Beginning	$ 10,802,980	$ 9,600,210	$ 2,073,584	$ 1,783,151	$ 12,876,564	$ 11,383,361
Prior Period Adjustments	-	7,684	-	-	-	7,684
Change in Accounting Principle	91,812	-	-	-	91,812	-
Change in Fund Structure	-	(9,472)	-	9,472	-	-
Net Assets, Ending	$ 10,959,356	$ 10,802,980	$ 2,242,306	$ 2,073,584	$ 13,201,662	$ 12,876,564

[1] 2007 has been restated for reclassifications to be consistent with 2008 presentation.

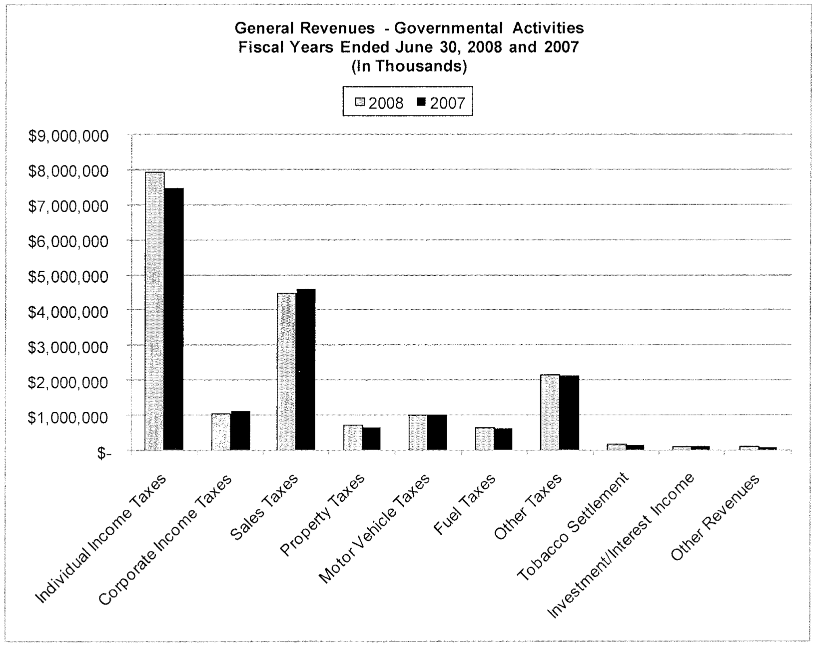
Approximately 61 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 25 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 12 percent of the total revenues. The remaining 2 percent came from other general revenues.

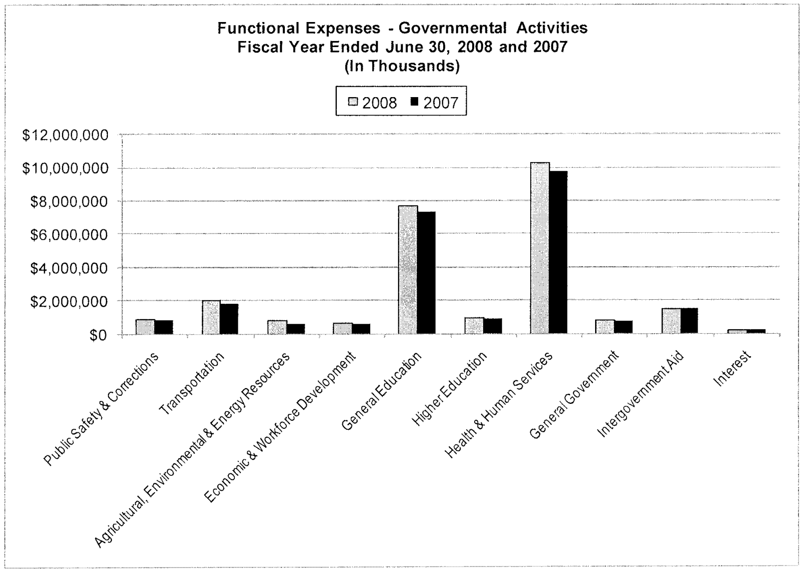
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

Governmental activities increased the state's net assets by $156 million compared to an increase of $1.2 billion in the prior year.

The increase in revenues was primarily attributable to an increase in individual income taxes and an increase in grants and contributions. The increase in grants and contributions was primarily attributable to revenue from the federal government for their participation in the increase in medical assistance expenses and the increase in transportation expenses resulting from the rebuilding of the I-35W bridge, which collapsed in August 2007. These revenue increases were slightly offset by a decrease in corporate income taxes due to a decline in corporate profits and a decrease in mortgage and deed taxes due to a decline in real estate values and housing sales.

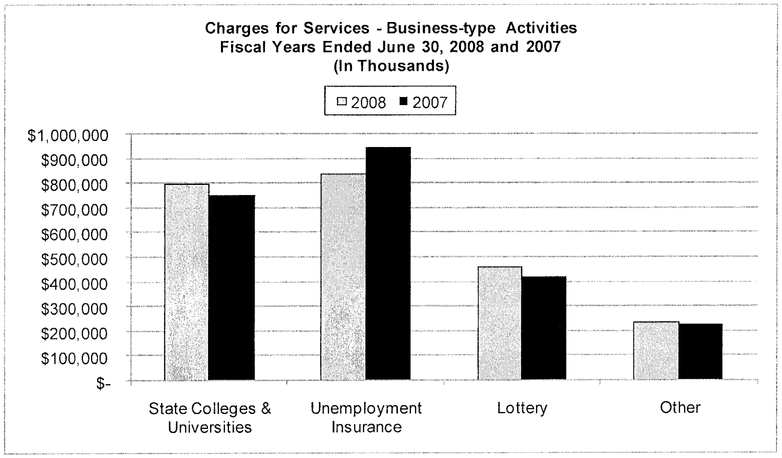




The increase in expenses resulted from increases in several functional expense categories. Economic and Workforce Development, Transportation and General Government expenses increased primarily due to one-time unusual events. Economic and Workforce Development and part of the Transportation expenses increase resulted from flooding in southeastern Minnesota. Grants were provided for damages to businesses and residences as well as repairing infrastructure. Transportation expenses also increased due to the rebuilding the I-35W bridge. As stated above, these expenses were reimbursed by the federal government. The bridge collapse also resulted in an increase in General Government expenses due to a settlement to claimants who died or were injured from the bridge collapse. Health and Human Services expenses increased mainly due to an increase in the number of eligible participants for medical assistance and an increase in the average health care costs. As stated above, this increase was partially offset by the federal government's share of these expenses. General Education expenses increased due to a 2 percent increase in the per pupil formula, an increase in special education funding, and onetime appropriations for school technology and deferred maintenance. Higher Education expenses increased primarily due to grants to the University of Minnesota (component unit).

Business-type Activities

The state's proprietary funds net assets increased by $169 million during the current year. This primarily resulted from a $120 million increase in net assets in the State Colleges and Universities Fund, which compared to a similar increase of $126 million in the prior year. Transfers from the General Fund increased $64 million and tuition revenue increased $46 million. These increases were offset by an increase in salaries and fringe benefits of $88 million. The increases in tuition and salaries and fringe benefits primarily resulted due to an increase in the number of students. The remaining increase in net assets of $49 million resulted primarily from an $38 million increase in net assets of the Unemployment Insurance Fund. This compares to an increase of $175 million in the prior year. This change resulted from increased benefit payment as the unemployment rate increased.



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 financial condition. The unreserved fund balance serves as a useful measure of the state's net resources available for future spending at the end of the fiscal year.

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $5.1 billion, a decrease of $325 million over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $689 million, a decrease of $435 million compared to the prior year. This compared to an unreserved fund balance of $1.1 billion in the prior year with an increase of $514 million from fiscal year 2006.

As the General Fund is the chief operating fund of the state, most of the same variances impacting Governmental Activities impacted the General Fund. Economic and Workforce Development and General Government expenditures increased primarily due to one-time unusual events. Economic and Workforce Development expenditures increased due to grants issued to businesses and residents of southeastern Minnesota for flooding damage. The increase in General Government expenditures primarily resulted from a settlement to claimants who died or were injured from the I-35W bridge collapse. Health and Human Services expenditures increased mainly due to an increase in the number of eligible participants for medical assistance and increased average health care costs. General Education expenditures increased due to an increase in the per pupil formula by 2 percent, an increase in special education funding, and a onetime appropriation for school technology and deferred maintenance. Higher Education expenditures increased primarily due to grants to the University of Minnesota (component unit).

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 $169 million during the current year. This primarily resulted from a $120 million increase in net assets in the State Colleges and Universities Fund and an increase of $38 million in net assets of the Unemployment Insurance Fund. For further discussion, see the Government-wide Financial Analysis – Business-type Activities section.

General Fund Budgetary Highlights

During fiscal year 2008, the state legislature appropriated $80 million from the General Fund for flood cleanup and recovery assistance in southeastern Minnesota and $37 million to create a fund for payment of settlements to the victims of the I-35W bridge collapse.

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

Based on the November 2007 and February 2008 forecasts, the state's financial outlook has deteriorated by approximately $1.2 billion since enactment of the fiscal year 2008-09 budget during the 2007 legislative session. This was primarily the result of a decrease in projected revenues from individual and corporate income taxes and sales taxes. Expenditures remained consistent with the originally enacted budget. The budget was rebalanced primarily by using budgetary reserves and increasing transfers from other funds.

Based on the November 2008 forecast, the state's financial outlook continued to weaken and a deficit of $426 million is currently forecast for fiscal year 2009. A $4.8 billion budget shortfall is now projected for the state's fiscal year 2010-11 budget, which will be enacted in the fiscal year 2009 legislative session. Both state statutes and constitution require a balanced budget for the biennium and prohibit borrowing for operating purposes beyond the end of the biennium. Minnesota's budget reserve is available for use, but is not sufficient to solve the entire problem fiscal year 2009 deficit. The budget reserve was $655 million as of June 30, 2008. However, the state used $500 million of this reserve to solve the forecast deficit in the February forecast leaving a current budget reserve of $155 million. The Governor also has the authority to unallot expenditures after the budget reserve has been depleted. The state's cash flow account, used to smooth timing differences between the receipts of revenues and expenditure cash outlays within a fiscal year, is currently $350 million.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2008, was $14.2 billion, less accumulated depreciation of $2.2 billion, resulting in a net book value of $12.0 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, 2008 and 2007
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Capital Assets not Depreciated:						
Land	$ 1,904,657	$ 1,807,456	$ 80,852	$ 79,488	$ 1,985,509	$ 1,886,944
Buildings, Structures, Improvements	28,040	28,975	-	-	28,040	28,975
Construction in Progress	261,251	183,997	174,345	132,191	435,596	316,188
Infrastructure	6,876,135	6,351,250	-	-	6,876,135	6,351,250
Art and Historical Treasures	1,989	500	-	-	1,989	500
Total Capital Assets not Depreciated	$ 9,072,072	$ 8,372,178	$ 255,197	$ 211,679	$ 9,327,269	$ 8,583,857
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 2,011,326	$ 1,925,399	$ 2,071,380	$ 1,918,343	$ 4,082,706	$ 3,843,742
Infrastructure	69,216	65,505	-	-	69,216	65,505
Library Collections	-	-	48,168	48,264	48,168	48,264
Equipment, Furniture, Fixtures	397,033	390,001	288,172	282,764	685,205	672,765
Total Capital Assets Depreciated	$ 2,477,575	$ 2,380,905	$ 2,407,720	$ 2,249,371	$ 4,885,295	$ 4,630,276
Less: Accumulated Depreciation	1,017,967	953,314	1,200,779	1,152,546	2,218,746	2,105,860
Capital Assets Net of Depreciation	$ 1,459,608	$ 1,427,591	$ 1,206,941	$ 1,096,825	$ 2,666,549	$ 2,524,416
Total	$ 10,531,680	$ 9,799,769	$ 1,462,138	$ 1,308,504	$ 11,993,818	$ 11,108,273

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 3,000 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 2007, indicated that the average PQI for principal arterial pavement was 3.3 and 3.2 for all other pavements. The state has maintained a stable condition of pavement over the past five years with a slight decline in the current year.

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 2007, indicated that 98 percent of principal arterial system bridges and 93 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.

In August 2007, the I-35W bridge over the Mississippi River collapsed. As a result of rebuilding the bridge, actual expenditures for both capitalized and maintenance projects increased from the original budget during the current year. These increases were partially offset by a projected decrease in other projects as resources were devoted to this project.

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, 2008 and 2007
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General Obligation	$ 4,070,056	$ 3,791,494	$ 215,024	$ 188,096	$ 4,285,080	$ 3,979,590
Revenue	14,500	15,145	206,585	170,941	221,085	186,086
Total	$ 4,084,556	$ 3,806,639	$ 421,609	$ 359,037	$ 4,506,165	$ 4,165,676

During fiscal year 2008, the state issued the following bonds:

- $656 million in general obligation state various purpose bonds
- $14 million in general obligation state trunk highway bonds
- $8 million in general obligation Rural Finance Authority bonds
- $41 million in revenue bonds for Minnesota State Colleges and Universities

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Liabilities – Primary Government 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, 2008
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 5,320,012	$ 1,146,381	$ 6,466,393	$ 1,285,663
Investments	1,220,812	29,899	1,250,711	1,286,466
Accounts Receivable	2,007,346	380,517	2,387,863	386,819
Due from Component Units	17,743	-	17,743	-
Due from Primary Government	-	-	-	73,850
Accrued Investment/Interest Income	38,409	17	38,426	46,674
Federal Aid Receivable	795,698	15,002	810,700	1,710
Inventories	25,080	20,189	45,269	39,961
Loans and Notes Receivable	57,342	8,740	66,082	100,564
Internal Balances	20,333	(20,333)	-	-
Securities Lending Collateral	173,279	5,768	179,047	308,568
Other Assets	3,810	2,337	6,147	71,372
Total Current Assets	$ 9,679,864	$ 1,588,517	$ 11,268,381	$ 3,601,647
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 117,005	$ 117,005	$ 506,716
Investments-Restricted	-	-	-	226,810
Accounts Receivable-Restricted	-	-	-	17,932
Due from Primary Government	-	-	-	26,105
Other Assets-Restricted	-	89	89	24,855
Due from Component Units	103,405	-	103,405	-
Investments	-	-	-	3,223,440
Accounts Receivable	361,569	-	361,569	478,299
Loans and Notes Receivable	269,643	26,814	296,457	4,670,112
Depreciable Capital Assets (Net)	1,459,608	1,206,941	2,666,549	3,963,650
Nondepreciable Capital Assets	2,195,937	255,197	2,451,134	714,308
Infrastructure (Not depreciated)	6,876,135	-	6,876,135	-
Other Assets	47,170	-	47,170	9,521
Total Noncurrent Assets	$ 11,313,467	$ 1,606,046	$ 12,919,513	$ 13,861,748
Total Assets	$ 20,993,331	$ 3,194,563	$ 24,187,894	$ 17,463,395
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,383,951	$ 228,117	$ 3,612,068	$ 397,717
Due to Component Units	23,842	-	23,842	-
Due to Primary Government	-	-	-	21,233
Unearned Revenue	539,457	54,905	594,362	141,869
Accrued Interest Payable	78,881	297	79,178	79,358
General Obligation Bonds Payable	354,275	14,525	368,800	398,991
Loans and Notes Payable	11,742	702	12,444	264,471
Revenue Bonds Payable	785	6,540	7,325	450,074
Claims Payable	84,334	-	84,334	95,127
Compensated Absences Payable	30,857	16,303	47,160	170,814
Workers' Compensation Liability	14,605	1,948	16,553	-
Capital Leases Payable	6,247	2,401	8,648	525
Securities Lending Liabilities	173,279	5,768	179,047	308,568
Other Liabilities	-	18,184	18,184	9,075
Total Current Liabilities	$ 4,702,255	$ 349,690	$ 5,051,945	$ 2,337,822
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 83,933
Unearned Revenue-Restricted	-	-	-	72,603
Accrued Interest Payable-Restricted	-	-	-	8,852
Due to Primary Government	-	-	-	103,405
Unearned Revenue	-	-	-	3,759
General Obligation Bonds Payable	3,976,016	209,565	4,185,581	1,072,061
Loans and Notes Payable	48,147	5,127	53,274	3,668
Revenue Bonds Payable	13,715	203,179	216,894	3,712,846
Claims Payable	721,687	-	721,687	624,097
Compensated Absences Payable	244,860	121,602	366,462	21,738
Workers' Compensation Liability	81,136	3,464	84,600	-
Capital Leases Payable	161,630	20,246	181,876	12,495
Funds Held in Trust	-	-	-	92,577
Due to Component Units	18,917	-	18,917	-
Other Liabilities	65,612	39,384	104,996	125,862
Total Noncurrent Liabilities	$ 5,331,720	$ 602,567	$ 5,934,287	$ 5,937,896
Total Liabilities	$ 10,033,975	$ 952,257	$ 10,986,232	$ 8,275,718

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2008
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 7,775,939	$ 1,108,136	$ 8,884,075	$ 2,946,064
Restricted for:				
Capital Projects	$ 34,274	$ -	$ 34,274	$ -
Debt Service	410,772	-	410,772	-
Transportation	740,673	-	740,673	-
Environmental Resources	623,759	-	623,759	-
Economic and Workforce Development	98,742	6,149	104,891	-
School Aid-Nonexpendable	698,506	-	698,506	-
School Aid-Expendable	87,030	-	87,030	-
Health & Human Services	-	25,485	25,485	-
Unemployment Benefits	-	730,883	730,883	-
State Colleges and Universities	-	347,619	347,619	-
Other Purposes	-	29,934	29,934	
Component Units	-	-	-	5,520,324
Total Restricted	$ 2,693,756	$ 1,140,070	$ 3,833,826	$ 5,520,324
Unrestricted	$ 489,661	$ (5,900)	$ 483,761	$ 721,289
Total Net Assets	$ 10,959,356	$ 2,242,306	$ 13,201,662	$ 9,187,677

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
Public Safety and Corrections	$ 901,641	$ 143,073	$ 158,169	$ 7,775	$ (592,624)		$ (592,624)	
Transportation	2,047,500	21,474	566,869	436,336	(1,022,821)		(1,022,821)	
Agricultural, Environmental and Energy Resources	825,842	360,056	186,932	5,654	(273,200)		(273,200)	
Economic and Workforce Development	704,501	52,400	227,414	-	(424,687)		(424,687)	
General Education	7,675,567	54,662	610,968	-	(7,009,937)		(7,009,937)	
Higher Education	981,943	-	-	-	(981,943)		(981,943)	
Health and Human Services	10,296,359	330,570	4,909,527	-	(5,056,262)		(5,056,262)	
General Government	816,111	240,331	17,444	-	(558,336)		(558,336)	
Intergovernment Aid	1,511,715	-	-	-	(1,511,715)		(1,511,715)	
Interest	221,162	-	-	-	(221,162)		(221,162)	
Total Governmental Activities	$ 25,982,341	$ 1,202,566	$ 6,677,323	$ 449,765	$ (17,652,687)		$ (17,652,687)	
Business-type Activities:								
State Colleges and Universities	$ 1,675,051	$ 794,091	$ 210,874	$ 1,142		$ (668,944)	$ (668,944)	
Unemployment Insurance	828,857	835,725	6,350	-		13,218	13,218	
Lottery	346,834	461,565	-	-		114,731	114,731	
Other	228,361	233,944	-	-		5,583	5,583	
Total Business-type Activities	$ 3,079,103	$ 2,325,325	$ 217,224	$ 1,142		$ (535,412)	$ (535,412)	
Total Primary Government	$ 29,061,444	$ 3,527,891	$ 6,894,547	$ 450,907	$ (17,652,687)	$ (535,412)	$ (18,188,099)	
Component Units:								
University of Minnesota	$ 3,025,030	$ 1,300,509	$ 847,471	$ 173,547				$ (703,503)
Metropolitan Council	772,386	326,842	198,826	95,939				(150,779)
Housing Finance	412,474	201,152	178,477	-				(32,845)
Others	392,593	171,627	72,794	-				(148,172)
Total Component Units	$ 4,602,483	$ 2,000,130	$ 1,297,568	$ 269,486				$ (1,035,299)
General Revenues:								
Taxes:								
Individual Income Taxes					$ 7,929,096	$ -	$ 7,929,096	$ -
Corporate Income Taxes					1,039,843	-	1,039,843	-
Sales Taxes					4,474,576	-	4,474,576	-
Property Taxes					703,972	-	703,972	-
Motor Vehicle Taxes					1,011,494	-	1,011,494	-
Fuel Taxes					651,988	-	651,988	-
Other Taxes					2,149,162	-	2,149,162	189,971
Tobacco Settlement					186,425	-	186,425	-
Unallocated Investment/Interest Income					121,638	48,126	169,764	(60,194)
Other Revenues					103,416	1,649	105,065	91,365
State Grants Not Restricted					-	-	-	1,055,644
Transfers					(654,359)	654,359	-	-
Total General Revenues and Transfers					$ 17,717,251	$ 704,134	$ 18,421,385	$ 1,276,786
Change in Net Assets					$ 64,564	$ 168,722	$ 233,286	$ 241,487
Net Assets, Beginning, as Reported					$ 10,802,980	$ 2,073,584	$ 12,876,564	$ 8,946,190
Change in Accounting Principle					91,812	-	91,812	-
Net Assets, Beginning, as Restated					$ 10,894,792	$ 2,073,584	$ 12,968,376	$ 8,946,190
Net Assets, Ending					$ 10,959,356	$ 2,242,306	$ 13,201,662	$ 9,187,677

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 2,206,711	$ 7,721	$ 2,845,403	$ 5,059,835
Investments	29,200	-	1,171,101	1,200,301
Accounts Receivable	1,801,508	143,487	417,555	2,362,550
Interfund Receivables	125,096	4,911	170,613	300,620
Due from Component Units	836	-	120,312	121,148
Accrued Investment/Interest Income	28,459	-	9,669	38,128
Federal Aid Receivable	-	773,783	21,915	795,698
Inventories	-	-	23,855	23,855
Loans and Notes Receivable	43,176	15	283,794	326,985
Advances to Other Funds	1,750	-	-	1,750
Securities Lending Collateral	45,204	-	123,663	168,867
Investment in Land	-	-	15,476	15,476
Total Assets	$ 4,281,940	$ 929,917	$ 5,203,356	$ 10,415,213
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 2,046,767	$ 840,417	$ 446,314	$ 3,333,498
Interfund Payables	25,400	50,482	204,346	280,228
Due to Component Units	13,001	2,245	5,028	20,274
Deferred Revenue	1,295,942	29,281	189,440	1,514,663
Accrued Interest Payable	13,000	-	-	13,000
Securities Lending Liabilities	45,204	-	123,663	168,867
Total Liabilities	$ 3,439,314	$ 922,425	$ 968,791	$ 5,330,530
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 108,224	$ -	$ 201,242	$ 309,466
Reserved for Trust Principal	-	-	1,142,825	1,142,825
Other Reserved Fund Balances	44,926	7,492	580,194	632,612
Total Reserved Fund Balances	$ 153,150	$ 7,492	$ 1,924,261	$ 2,084,903
Unreserved Fund Balances:				
Designated for:				
General Fund	$ 689,476	$ -	$ -	$ 689,476
Special Revenue Funds	-	-	1,266,623	1,266,623
Debt Service Fund	-	-	707,086	707,086
Permanent Funds	-	-	9,479	9,479
Undesignated, reported in:				
Capital Project Funds	-	-	(12,873)	(12,873)
Special Revenue Funds	-	-	339,989	339,989
Total Unreserved Fund Balance	$ 689,476	$ -	$ 2,310,304	$ 2,999,780
Total Fund Balances	$ 842,626	$ 7,492	$ 4,234,565	$ 5,084,683
Total Liabilities and Fund Balances	$ 4,281,940	$ 929,917	$ 5,203,356	$ 10,415,213

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, 2008
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 5,084,683
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 6,876,135	
Depreciable Capital Assets	2,399,054	
Nondepreciable Capital Assets	2,180,461	
Accumulated Depreciation	(969,026)	
Total Capital Assets		10,486,624
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		979,925
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		45,633
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		240,372
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	$ (4,070,056)	
Bond Premium Payable	(260,235)	
Revenue Bonds Payable	(14,500)	
Accrued Interest Payable on Bonds	(65,881)	
Loans and Notes Payable	(39,625)	
Claims Payable	(806,021)	
Workers' Compensation Liability	(95,741)	
Capital Leases Payable	(167,877)	
Compensated Absences Payable	(269,990)	
Net Pension Obligation	(34,285)	
Net Other Post-Employment Benefits Obligation	(31,185)	
Due to Component Units	(22,485)	
Total Liabilities		(5,877,881)
Net Assets of Governmental Activities		$ 10,959,356

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2008
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 7,932,036	$ -	$ -	$ 7,932,036
Corporate Income Taxes	1,024,040	-	-	1,024,040
Sales Taxes	4,499,400	-	150	4,499,550
Property Taxes	704,246	-	-	704,246
Motor Vehicle Taxes	319,599	-	691,895	1,011,494
Fuel Taxes	-	-	651,860	651,860
Other Taxes	1,209,366	-	729,858	1,939,224
Tobacco Settlement	184,411	-	-	184,411
Federal Revenues	-	6,203,927	654,264	6,858,191
Licenses and Fees	254,691	1,349	522,335	778,375
Departmental Services	47,326	19,044	203,738	270,108
Investment/Interest Income	95,900	1,013	37,705	134,618
Securities Lending Income	9,197	-	13,921	23,118
Other Revenues	320,652	46,010	308,551	675,213
Net Revenues	$ 16,600,864	$ 6,271,343	$ 3,814,277	$ 26,686,484
Expenditures:				
Current:				
Public Safety and Corrections	$ 578,464	$ 102,807	$ 177,114	$ 858,385
Transportation	252,390	272,707	1,504,665	2,029,762
Agricultural, Environmental and Energy Resources	216,220	155,200	410,961	782,381
Economic and Workforce Development	203,457	226,630	289,714	719,801
General Education	6,969,053	630,075	74,092	7,673,220
Higher Education	870,322	-	112,997	983,319
Health and Human Services	4,713,362	4,770,605	814,495	10,298,462
General Government	710,433	14,791	47,611	772,835
Intergovernment Aid	1,511,504	-	211	1,511,715
Securities Lending Rebates and Fees	8,793	-	12,741	21,534
Total Current Expenditures	$ 16,033,998	$ 6,172,815	$ 3,444,601	$ 25,651,414
Capital Outlay	15,587	56,562	746,552	818,701
Debt Service	36,965	945	556,666	594,576
Total Expenditures	$ 16,086,550	$ 6,230,322	$ 4,747,819	$ 27,064,691
Excess of Revenues Over (Under) Expenditures	$ 514,314	$ 41,021	$ (933,542)	$ (378,207)
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 637,744	$ 637,744
Loan Proceeds	-	-	414	414
Bond Issue Premium	-	-	34,016	34,016
Transfers-In	443,647	1,404	2,280,087	2,725,138
Transfers-Out	(1,395,442)	(43,331)	(1,908,820)	(3,347,593)
Capital Leases	-	1,070	238	1,308
Net Other Financing Sources (Uses)	$ (951,795)	$ (40,857)	$ 1,043,679	$ 51,027
Net Change in Fund Balances	$ (437,481)	$ 164	$ 110,137	$ (327,180)
Fund Balances, Beginning, as Reported	$ 1,280,107	$ 7,328	$ 4,122,141	$ 5,409,576
Change in Inventory	-	-	2,287	2,287
Fund Balances, Ending	$ 842,626	$ 7,492	$ 4,234,565	$ 5,084,683

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, 2008
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ (327,180)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation of $90,940 in the current period	727,761
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	2,291
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	59,228
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used	2,287
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(20,508)
Bond and loan proceeds provide current financial resources to governmental funds; however issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(672,174)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase	(1,308)
Repayment of bonds and loans are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	363,234
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	(69,067)
Change in Net Assets of Governmental Activities	$ 64,564

The notes are an integral part of the financial statements.

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS
YEAR ENDED JUNE 30, 2008
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 7,550,700	$ 7,583,000	$ 7,759,209
Corporate Income Taxes	1,140,800	900,785	1,020,181
Sales Taxes	4,615,751	4,575,246	4,541,776
Property Taxes	691,162	702,517	704,246
Motor Vehicle Taxes	306,527	307,204	315,595
Other Taxes	1,222,029	1,146,892	1,174,176
Departmental Earnings/Licenses & Fees	269,005	254,662	290,154
Investment/Interest Income	53,200	108,679	97,287
Tobacco Settlement	181,415	182,004	184,411
Other Revenues	414,296	347,013	411,259
Net Revenues	$ 16,444,885	$ 16,108,002	$ 16,498,294
Expenditures:			
Public Safety and Corrections	$ 590,364	$ 595,063	$ 574,730
Transportation	251,121	258,594	252,792
Agricultural, Environmental and Energy Resources	288,466	293,124	235,455
Economic and Workforce Development	183,720	202,733	193,838
General Education	6,954,185	6,951,618	6,935,728
Higher Education	907,121	904,670	897,423
Health and Human Services	4,663,727	4,672,512	4,548,449
General Government	1,159,860	768,775	688,236
Intergovernment Aid	1,526,302	1,529,057	1,528,444
Total Expenditures	$ 16,524,866	$ 16,176,146	$ 15,855,095
Excess of Revenues Over (Under) Expenditures	$ (79,981)	$ (68,144)	$ 643,199
Other Financing Sources (Uses):			
Transfers-In	$ 312,185	$ 328,044	$ 336,420
Transfers-Out	(850,606)	(1,334,952)	(1,335,702)
Net Other Financing Sources (Uses)	$ (538,421)	$ (1,006,908)	$ (999,282)
Net Change in Fund Balances	$ (618,402)	$ (1,075,052)	$ (356,083)
Fund Balances, Beginning, as Reported	$ 2,314,669	$ 2,314,669	$ 2,314,669
Prior Period Adjustments	-	-	23,325
Fund Balances, Beginning, as Restated	$ 2,314,669	$ 2,314,669	$ 2,337,994
Budgetary Fund Balances, Ending	$ 1,696,267	$ 1,239,617	$ 1,981,911
Less: Appropriation Carryover	-	-	231,091
Less: Reserved for Long-Term Receivables	-	-	43,176
Less: Budgetary Reserve	-	-	1,004,922
Undesignated Fund Balances, Ending	$ 1,696,267	$ 1,239,617	$ 702,722

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 555,193	$ 490,276	$ 100,912	$ 1,146,381	$ 260,177
Investments	29,899	-	-	29,899	20,511
Accounts Receivable	37,645	310,344	32,528	380,517	27,191
Interfund Receivables	19,814	-	-	19,814	-
Accrued Investment/Interest Income	-	-	17	17	281
Federal Aid Receivable	14,024	978	-	15,002	-
Inventories	13,075	-	7,114	20,189	1,225
Deferred Costs	39	-	451	490	3,810
Loans and Notes Receivable	8,740	-	-	8,740	-
Securities Lending Collateral	5,768	-	-	5,768	4,412
Other Assets	-	-	1,847	1,847	-
Total Current Assets	$ 684,197	$ 801,598	$ 142,869	$ 1,628,664	$ 317,607
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 115,387	$ -	$ 1,618	$ 117,005	$ -
Other Assets-Restricted	89	-	-	89	-
Deferred Costs	-	-	-	-	1,537
Loans and Notes Receivable	26,814	-	-	26,814	-
Depreciable Capital Assets (Net)	1,175,163	-	31,778	1,206,941	29,580
Nondepreciable Capital Assets	253,484	-	1,713	255,197	-
Total Noncurrent Assets	$ 1,570,937	$ -	$ 35,109	$ 1,606,046	$ 31,117
Total Assets	$ 2,255,134	$ 801,598	$ 177,978	$ 3,234,710	$ 348,724
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 174,194	$ 25,495	$ 28,428	$ 228,117	$ 71,279
Interfund Payables	-	29,367	10,780	40,147	59
Unearned Revenue	37,803	15,853	1,249	54,905	4,719
Accrued Bond Interest Payable	-	-	297	297	-
General Obligation Bonds Payable	14,258	-	267	14,525	-
Loans and Notes Payable	702	-	-	702	6,512
Revenue Bonds Payable	3,090	-	3,450	6,540	-
Workers' Compensation Liability	1,948	-	-	1,948	-
Capital Leases	2,280	-	121	2,401	-
Compensated Absences Payable	14,634	-	1,669	16,303	533
Securities Lending Liabilities	5,768	-	-	5,768	4,412
Other Liabilities	18,158	-	26	18,184	-
Total Current Liabilities	$ 272,835	$ 70,715	$ 46,287	$ 389,837	$ 87,514
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 206,931	$ -	$ 2,634	$ 209,565	$ -
Loans and Notes Payable	5,127	-	-	5,127	13,752
Revenue Bonds Payable	159,476	-	43,703	203,179	-
Workers' Compensation Liability	3,464	-	-	3,464	-
Capital Leases	19,637	-	609	20,246	-
Compensated Absences Payable	111,324	-	10,278	121,602	5,194
Advances from Other Funds	-	-	-	-	1,750
Other Liabilities	39,061	-	323	39,384	142
Total Noncurrent Liabilities	$ 545,020	$ -	$ 57,547	$ 602,567	$ 20,838
Total Liabilities	$ 817,855	$ 70,715	$ 103,834	$ 992,404	$ 108,352
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,089,660	$ -	$ 18,476	$ 1,108,136	$ 9,726
Restricted for:					
Bond Covenants	$ 48,329	$ -	$ -	$ 48,329	$ -
Debt Service	19,814	-	-	19,814	-
Capital Projects	16,682	-	-	16,682	-
Economic and Workforce Development	-	-	6,149	6,149	-
Health and Human Services	-	-	25,485	25,485	-
Other Purposes	13,963	-	29,934	43,897	-
Total Restricted	$ 98,788	$ -	$ 61,568	$ 160,356	$ -
Unrestricted	$ 248,831	$ 730,883	$ (5,900)	$ 973,814	$ 230,646
Total Net Assets	$ 1,437,279	$ 730,883	$ 74,144	$ 2,242,306	$ 240,372

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, 2008
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 694,782	$ -	$ -	$ 694,782	$ -
Net Sales	-	-	503,512	503,512	17,620
Rental and Service Fees	-	-	176,272	176,272	160,456
Insurance Premiums	-	834,166	13,225	847,391	629,492
Federal Revenues	189,202	-	-	189,202	-
State Grants	82,014	-	-	82,014	-
Other Income	17,295	1,559	2,500	21,354	6,597
Total Operating Revenues	$ 983,293	$ 835,725	$ 695,509	$ 2,514,527	$ 814,165
Less: Cost of Goods Sold	-	-	340,289	340,289	5,151
Gross Margin	$ 983,293	$ 835,725	$ 355,220	$ 2,174,238	$ 809,014
Operating Expenses:					
Purchased Services	$ 220,647	$ -	$ 48,561	$ 269,208	$ 146,927
Salaries and Fringe Benefits	1,159,542	-	123,195	1,282,737	50,458
Student Financial Aid	28,135	-	-	28,135	-
Unemployment Benefits	-	822,507	-	822,507	-
Claims	-	-	10,510	10,510	502,886
Depreciation	76,536	-	4,166	80,702	9,402
Amortization	-	-	71	71	264
Supplies and Materials	86,684	-	11,329	98,013	9,518
Repairs and Maintenance	36,842	-	-	36,842	-
Indirect Costs	-	-	7,404	7,404	2,450
Other Expenses	40,567	-	7,772	48,339	2,902
Total Operating Expenses	$ 1,648,953	$ 822,507	$ 213,008	$ 2,684,468	$ 724,807
Operating Income (Loss)	$ (665,660)	$ 13,218	$ 142,212	$ (510,230)	$ 84,207
Nonoperating Revenues (Expenses):					
Investment Income	$ 18,853	$ 24,513	$ 4,704	$ 48,070	$ 12,044
Private Grants	21,672	-	-	21,672	-
Grants and Subsidies	1,142	6,350	-	7,492	-
Securities Lending Income	1,281	-	-	1,281	814
Other Nonoperating Revenues	-	-	420	420	-
Interest and Financing Costs	(16,749)	-	(2,588)	(19,337)	(759)
Grants, Aids and Subsidies	(9,349)	(6,350)	(14,178)	(29,877)	-
Securities Lending Rebates and Fees	(1,225)	-	-	(1,225)	(778)
Other Nonoperating Expenses	-	-	(5,132)	(5,132)	(4,606)
Gain (Loss) on Disposal of Capital Assets	1,200	-	29	1,229	210
Total Nonoperating Revenues (Expenses)	$ 16,825	$ 24,513	$ (16,745)	$ 24,593	$ 6,925
Income (Loss) Before Transfers & Contributions	$ (648,835)	$ 37,731	$ 125,467	$ (485,637)	$ 91,132
Capital Contributions	102,174	-	-	102,174	-
Transfers-In	666,608	-	4,561	671,169	-
Transfers-Out	-	(37)	(118,947)	(118,984)	(31,904)
Change in Net Assets	$ 119,947	$ 37,694	$ 11,081	$ 168,722	$ 59,228
Net Assets, Beginning, as Reported	$ 1,317,332	$ 693,189	$ 63,063	$ 2,073,584	$ 181,144
Net Assets, Ending	$ 1,437,279	$ 730,883	$ 74,144	$ 2,242,306	$ 240,372

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 770,789	$ 881,330	$ 692,903	$ 2,345,022	$ 804,145
Receipts from Grants	269,737	-	-	269,737	-
Receipts from Other Revenues	-	-	2,356	2,356	7,362
Receipts from Repayment of Program Loans	4,426	-	-	4,426	-
Financial Aid Disbursements	(28,216)	-	-	(28,216)	-
Payments to Claimants	-	(820,303)	(291,076)	(1,111,379)	(514,811)
Payments to Suppliers	(442,672)	-	(104,954)	(547,626)	(167,619)
Payments to Employees	(1,133,307)	-	(122,138)	(1,255,445)	(49,437)
Payments to Others	-	-	(27,777)	(27,777)	(1,349)
Payments of Program Loans	(5,794)	-	-	(5,794)	-
Net Cash Flows from Operating Activities	$ (565,037)	$ 61,027	$ 149,314	$ (354,696)	$ 78,291
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 15,368	$ 6,836	$ -	$ 22,204	$ -
Grant Disbursements	(9,349)	(6,660)	(15,098)	(31,107)	-
Transfers-In	665,883	-	4,561	670,444	-
Transfers-Out	-	(7,902)	(124,481)	(132,383)	(31,904)
Advances from Other Funds	-	-	-	-	2,500
Repayments of Advances from Other Funds	-	-	-	-	(2,574)
Repayment of Bond Principal	-	-	(2,590)	(2,590)	-
Interest Paid	-	-	(1,672)	(1,672)	-
Other Nonoperating Expenses	(1,293)	-	(3,135)	(4,428)	(4,605)
Other Nonoperating Revenues	-	-	405	405	-
Net Cash Flows from Noncapital Financing Activities	$ 670,609	$ (7,726)	$ (142,010)	$ 520,873	$ (36,583)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 119,817	$ -	$ -	$ 119,817	$ -
Investment in Capital Assets	(240,016)	-	(3,542)	(243,558)	(12,291)
Proceeds from Disposal of Capital Assets	2,618	-	49	2,667	2,375
Proceeds from Capital Debt	83,090	-	-	83,090	-
Proceeds from Loans	-	-	-	-	11,038
Capital Lease Payments	(2,772)	-	(116)	(2,888)	-
Repayment of Loan Principal	(996)	-	-	(996)	(8,928)
Repayment of Bond Principal	(16,339)	-	(974)	(17,313)	-
Interest Paid	(15,314)	-	(1,201)	(16,515)	(759)
Net Cash Flows from Capital and Related Financing Activities	$ (69,912)	$ -	$ (5,784)	$ (75,696)	$ (8,565)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 7,122	$ -	$ -	$ 7,122	$ 10,291
Purchase of Investments	(8,305)	-	-	(8,305)	(10,592)
Investment Earnings	17,343	24,513	4,753	46,609	11,991
Net Cash Flows from Investing Activities	$ 16,160	$ 24,513	$ 4,753	$ 45,426	$ 11,690
Net Increase (Decrease) in Cash and Cash Equivalents	$ 51,820	$ 77,814	$ 6,273	$ 135,907	$ 44,833
Cash and Cash Equivalents, Beginning, as Reported	$ 618,760	$ 412,462	$ 96,257	$ 1,127,479	$ 215,344
Cash and Cash Equivalents, Ending	$ 670,580	$ 490,276	$ 102,530	$ 1,263,386	$ 260,177

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(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)	$ (665,660)	$ 13,218	$ 142,212	$ (510,230)	$ 84,207
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 76,536	$ -	$ 4,166	$ 80,702	$ 9,402
Amortization	-	-	71	71	264
Loan Principal Repayments	4,426	-	-	4,426	-
Loans Issued	(5,794)	-	-	(5,794)	-
Provision for Loan Defaults	(26)	-	-	(26)	-
Loans Forgiven	746	-	-	746	-
Change in Valuation of Assets	1,335	-	-	1,335	-
Change in Assets and Liabilities:					
Accounts Receivable	634	44,257	(649)	44,242	(6,805)
Inventories	(2,705)	-	376	(2,329)	(279)
Other Assets	(2,332)	-	50	(2,282)	(4,139)
Accounts Payable	16,563	(801)	2,645	18,407	(5,077)
Compensated Absences Payable	11,719	-	163	11,882	387
Unearned Revenues	2,225	4,307	(29)	6,503	189
Other Liabilities	(2,704)	46	309	(2,349)	142
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 100,623	$ 47,809	$ 7,102	$ 155,534	$ (5,916)
Net Cash Flows from Operating Activities	$ (565,037)	$ 61,027	$ 149,314	$ (354,696)	$ 78,291
Noncash Investing, Capital and Financing Activities:					
Change in Fair Value of Investments	$ (176)	$ -	$ -	$ (176)	$ -
Capital Assets Acquired Through Leases	193	-	-	193	199
Capital Assets Purchased on Account	17,544	-	-	17,544	-
Buildings Capitalized under Notes Payable	1,406	-	-	1,406	-
Investment Earning on Account	1,484	-	-	1,484	1,066
Bond Premium Amortization	944	-	264	1,208	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 8,856	$ -	$ 124,842
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,100,149	$ 36,043	$ -
Investments:			
Commercial Paper	$ 2,691	$ 20	$ -
Debt Securities	12,647,223	108,721	-
Equity Securities	34,332,475	301,984	-
Mutual Funds	3,368,397	-	-
Total Investments	$ 50,350,786	$ 410,725	$ -
Accrued Interest and Dividends	$ 141,778	$ 1,510	$ -
Securities Trades Receivables (Payables)	(1,236,387)	(8,681)	-
Total Investment Pool Participation	$ 51,356,326	$ 439,597	$ -
Receivables:			
Employer Contributions	$ 22,939	$ -	$ -
Member Contributions	12,194	-	-
Accounts Receivable	-	-	22,201
Interfund Receivables	6,231	-	-
Other Receivables	31,260	-	-
Accrued Interest and Dividends	111	-	-
Total Receivables	$ 72,735	$ -	$ 22,201
Securities Lending Collateral	$ 4,773,099	$ 44,324	$ -
Depreciable Capital Assets (Net)	25,812	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 56,237,257	$ 483,921	$ 147,043
LIABILITIES			
Accounts Payable	$ 20,564	$ 92	$ 147,043
Interfund Payables	6,231	-	-
Accrued Expense	35	-	-
Revenue Bonds Payable	25,500	-	-
Bond Interest	76	-	-
Compensated Absences Payable	2,278	-	-
Securities Lending Liabilities	4,773,099	44,324	-
Total Liabilities	$ 4,827,783	$ 44,416	$ 147,043
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 51,409,474	$ 439,505	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET ASSETS
YEAR ENDED JUNE 30, 2008
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 789,111	$ -
Member	1,019,670	-
Contributions From Other Sources	29,404	-
Participating Plans	-	109,099
Total Contributions	$ 1,838,185	$ 109,099
Net Investment Income:		
Investment Income	$ (2,570,721)	$ (33,845)
Less: Investment Expense	(69,819)	(419)
Net Investment Income	$ (2,640,540)	$ (34,264)
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 303,304	$ 3,087
Borrower Rebates	(241,274)	(2,573)
Management Fees	(12,580)	-
Net Securities Lending Revenue	$ 49,450	$ 514
Total Investment Income	$ (2,591,090)	$ (33,750)
Transfers From Other Funds	$ 15,751	$ -
Other Additions	15,249	-
Total Additions	$ (721,905)	$ 75,349
Deductions:		
Benefits	$ 3,071,016	$ -
Refunds/Withdrawals	228,680	121,734
Administrative Expenses	41,897	-
Transfers to Other Funds	15,751	-
Total Deductions	$ 3,357,344	$ 121,734
Net Increase (Decrease)	$ (4,079,249)	$ (46,385)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 55,488,723	$ 485,890
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 51,409,474	$ 439,505

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2007 and JUNE 30, 2008
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 340,635	$ 158,024	$ 322,509	$ 464,495	$ 1,285,663
Investments	292,750	273,814	142,588	577,314	1,286,466
Accounts Receivable	4,687	23,667	312,702	45,763	386,819
Due from Other Governmental Units	-	12,491	-	-	12,491
Due from Primary Government	-	66,989	3,293	3,568	73,850
Accrued Investment/Interest Income	21,365	2,022	3,660	19,627	46,674
Federal Aid Receivable	1,626	-	-	84	1,710
Inventories	-	20,003	19,914	44	39,961
Deferred Costs	14,362	-	-	4,853	19,215
Loans and Notes Receivable	-	-	8,579	91,985	100,564
Securities Lending Collateral	-	-	301,218	7,350	308,568
Other Assets	7,037	1,057	31,248	324	39,666
Total Current Assets	$ 682,462	$ 558,067	$ 1,145,711	$ 1,215,407	$ 3,601,647
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 315,114	$ 115,355	$ 69,309	$ 6,938	$ 506,716
Investments-Restricted	82,001	-	123,108	21,701	226,810
Accounts Receivable-Restricted	-	15,419	-	2,513	17,932
Due from Primary Government-Restricted	-	7,188	-	18,917	26,105
Other Assets-Restricted	-	24,855	-	-	24,855
Investments	-	-	3,105,852	117,588	3,223,440
Accounts Receivable	-	-	114,309	363,990	478,299
Loans and Notes Receivable	2,398,136	40,547	65,469	2,165,960	4,670,112
Depreciable Capital Assets (Net)	3,237	2,006,579	1,952,252	1,582	3,963,650
Nondepreciable Capital Assets	-	379,252	334,667	389	714,308
Other Assets	-	-	3,680	5,841	9,521
Total Noncurrent Assets	$ 2,798,488	$ 2,589,195	$ 5,768,646	$ 2,705,419	$ 13,861,748
Total Assets	$ 3,480,950	$ 3,147,262	$ 6,914,357	$ 3,920,826	$ 17,463,395
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 22,748	$ 206,518	$ 148,469	$ 15,995	$ 393,730
Payable to Other Governmental Units	-	434	-	-	434
Due to Primary Government	-	-	5,407	15,826	21,233
Unearned Revenue	-	9,425	98,521	33,923	141,869
Accrued Bond Interest Payable	53,009	3,995	5,304	17,050	79,358
General Obligation Bonds Payable	-	118,697	280,294	-	398,991
Loans and Notes Payable	-	-	263,600	871	264,471
Revenue Bonds Payable	391,055	1,030	5,294	52,695	450,074
Grants Payable	-	-	-	3,553	3,553
Claims Payable	-	8,100	20,663	66,364	95,127
Compensated Absences Payable	175	2,756	167,797	86	170,814
Securities Lending Liabilities	-	-	301,218	7,350	308,568
Other Liabilities	-	525	8,558	517	9,600
Total Current Liabilities	$ 466,987	$ 351,480	$ 1,305,125	$ 214,230	$ 2,337,822
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 28,610	$ 55,323	$ -	$ 83,933
Unearned Revenue-Restricted	-	72,603	-	-	72,603
Accrued Bond Interest Payable-Restricted	-	8,852	-	-	8,852
Due to Primary Government	-	-	46,109	57,296	103,405
Unearned Revenue	-	-	3,759	-	3,759
General Obligation Bonds Payable	-	1,000,067	71,994	-	1,072,061
Loans and Notes Payable	-	1,405	-	2,263	3,668
Revenue Bonds Payable	2,020,321	6,289	144,761	1,541,475	3,712,846
Claims Payable	-	7,831	12,630	603,636	624,097
Compensated Absences Payable	1,693	5,059	14,151	835	21,738
Funds Held in Trust	84,445	-	8,132	-	92,577
Other Liabilities	38	27,777	105,929	4,613	138,357
Total Noncurrent Liabilities	$ 2,106,497	$ 1,158,493	$ 462,788	$ 2,210,118	$ 5,937,896
Total Liabilities	$ 2,573,484	$ 1,509,973	$ 1,767,913	$ 2,424,348	$ 8,275,718
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 3,237	$ 1,415,716	$ 1,525,140	$ 1,971	$ 2,946,064
Restricted-Expendable	904,229	127,004	2,256,571	1,268,101	4,555,905
Restricted-Nonexpendable	-	-	964,419	-	964,419
Unrestricted	-	94,569	400,314	226,406	721,289
Total Net Assets	$ 907,466	$ 1,637,289	$ 5,146,444	$ 1,496,478	$ 9,187,677

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND JUNE 30, 2008
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 412,474	$ 772,386	$ 3,025,030	$ 392,593	$ 4,602,483
Program Revenues:					
Charges for Services	$ 201,152	$ 326,842	$ 1,300,509	$ 171,627	$ 2,000,130
Operating Grants and Contributions	178,477	198,826	847,471	72,794	1,297,568
Capital Grants and Contributions	-	95,939	173,547	-	269,486
Net (Expense) Revenue	$ (32,845)	$ (150,779)	$ (703,503)	$ (148,172)	$ (1,035,299)
General Revenues:					
Taxes	$ -	$ 189,971	$ -	$ -	$ 189,971
Investment Income	-	28,233	(103,061)	14,634	(60,194)
Other Revenues	876	446	87,898	2,145	91,365
Total General Revenues before Grants	$ 876	$ 218,650	$ (15,163)	$ 16,779	$ 221,142
State Grants Not Restricted	87,796	-	743,987	223,861	1,055,644
Total General Revenues	$ 88,672	$ 218,650	$ 728,824	$ 240,640	$ 1,276,786
Change in Net Assets	$ 55,827	$ 67,871	$ 25,321	$ 92,468	$ 241,487
Net Assets, Beginning, as Reported	$ 851,639	$ 1,569,418	$ 5,121,123	$ 1,404,010	$ 8,946,190
Net Assets, Ending	$ 907,466	$ 1,637,289	$ 5,146,444	$ 1,496,478	$ 9,187,677

The notes are an integral part of the financial statements.

2008 Comprehensive Annual Financial Report
Index of Notes to the Financial Statements

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Notes to the Financial Statements

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

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

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

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" was issued in June 2004. The state of Minnesota provides other postemployment benefits (OPEB) as part of its total employee compensation. The statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, and note disclosures. The state implemented this statement for the fiscal year ended June 30, 2008. See Note 9 – Termination and Postemployment Benefits, for more information on the state's OPEB liability.

GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" was issued in September 2006. The statement establishes criteria for determining whether exchanges of future expected cash flows for immediate cash payments should be regarded as sales or as collateralized borrowings. The statement also requires additional note disclosure pertaining to future revenues that have been pledged or sold. The state implemented this statement for the fiscal year ended June 30, 2008. See Note 12 – Long-Term Liabilities – Primary Government for the additional required disclosures.

GASB Statement No. 50, "Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27" was issued in May 2007. The statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The state implemented this statement for the fiscal year ended June 30, 2008. See Note 8 – Pension and Investment Trust Funds for the additional required disclosures.

Financial Reporting Entity of the State of Minnesota

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

Component units may be blended or discretely presented. All of the state's component units are discretely presented, or shown separately from the primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the state's discretely presented component units. They are also identified separately in the note disclosures because of their separate legal status. All component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

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

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

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

- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. The state provides funding and administrative services 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 the Department of Agriculture who is a member of the board. The state has issued general obligation bond debt for RFA programs.

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

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

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

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

Housing Finance Agency 400 Sibley Street Suite 300 St. Paul, Minnesota 55101	National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	Office of Higher Education 1450 Energy Park Drive Suite 350 St. Paul, Minnesota 55108
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Bldg., 332 Minnesota St., Suite E200 St. Paul, Minnesota 55101-1351
ClearWay Minnesota Two Appletree Square, Suite 400 8011 34th Avenue South Minneapolis, Minnesota 55425	Workers' Compensation Assigned Risk Plan Park Glen Management Company 4500 Park Glen Road, Suite 410 Minneapolis, Minnesota 55416

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

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

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

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

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

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

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

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

Financial Reporting Structure of the State of Minnesota

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements report on the state as a whole, while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize activities as either governmental or business-type. Governmental expenditures are classified by function. Each of the state's departments and agencies is included in a functional classification based on its primary mission and objectives.

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental, proprietary, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The emphasis in fund financial statements is on the major funds in the governmental or business-type categories. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

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

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

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

Classification of Funds

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

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

- General Fund which accounts for all financial resources except those required to be accounted for in another fund.
- Special revenue funds which account for revenue sources that are restricted to expenditure for specific purposes (not including major capital projects).
- Capital project funds which account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or special revenue funds.
- Debt Service Fund which accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.
- Permanent Fund which accounts for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

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

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

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

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

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

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

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

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

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

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

All governmental funds focus on the flow of current financial resources and use the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August to be available, and recognizes these receivables as current year revenues in governmental funds. Individual income taxes, property taxes, sales taxes, and federal grants are the major revenue sources susceptible to accrual. Revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are reported as deferred revenue until the related commitment arises, at which time revenue is recognized. Expenditures and related liabilities are recognized when fund obligations are incurred, except for debt service, compensated absences, pension and other postemployment benefits, and claims and judgments, which are recorded when due and expected to be liquidated with available financial resources. The following provides further detail on specific items regarding the modified accrual basis of accounting.

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

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

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

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

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

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

Cash Equivalents and Investments

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

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

See Note 2 – Cash and Investments for additional information regarding cash and investments.

Inventories

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

Securities Lending

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

Restricted Assets

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted assets. After liabilities from restricted assets are paid, any remaining restricted assets in the enterprise funds will be used for debt service.

Income Tax Credits

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

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis.

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.

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.

Compensated Absences

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

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. Capital assets are defined by the state as assets with an initial, individual cost of more than $30,000 for equipment and $300,000 for buildings, and an estimated useful life of at least three years.

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

Capital assets are depreciated using the straight-line method based on the following useful lives: 40-50 years for buildings, 20-50 years for large improvements, 3-10 years for small improvements, and 3-12 years for equipment. Transportation infrastructure assets using the modified approach, land, construction in progress, and works of art and historical treasures, such as the state capitol, are not depreciated.

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

See Note 6 – Capital Assets for further information.

Current and Noncurrent Assets

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

Noncurrent Liabilities

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

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

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

Deferred Compensation Plan

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

Net Assets/Fund Balances

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

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

Restricted Net Assets represent the portion of net assets that are constrained either externally by parties such as creditors or grantors, or legally through constitution provisions or enabling legislation. Restricted net assets are determined at the fund level. For a fund with more than one revenue stream, restricted net assets were determined by the materiality of any restricted revenues in the fund. When both restricted and unrestricted net assets are available for use, the state policy is to use restricted resources first.

Budgeting and Budgetary Control

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

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

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

Interfund Activity and Balances

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

See Note 5 – Interfund Transactions for further information.

Change in Fund Structure

For fiscal year 2008, accounting for special assessments levied on employers for employment and training programs, as well as the relating spending, has been moved from the Miscellaneous Special Revenue Fund to the Workforce Development Fund (special revenue fund).

Note 2 – Cash and Investments

Primary Government

Cash and Cash Equivalents

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

Deposits

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

Investments

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

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

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

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest rate 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, 2008, are presented below using the Standard & Poor's (S & P) rating scale.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
As of June 30, 2008
(In Thousands)

			Lower of S & P or Moody S & P Equivalent Rating			
	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 89,948	4.62	100%	-	-	-
U.S. Agencies	897,667	5.06	98%	-	-	2%
Mortgage-backed Securities	265,464	22.57	95%	5%	-	-
State or Local Government Bonds	47,600	1.00	66%	17%	-	17%
Corporate Bonds	3,127,396	2.40	68%	30%	1%	1%
Commercial Paper	1,426,480	0.11	100%	-	-	-
Repurchase Agreements	409,275	0.08	-	11%	-	89%
Certificates of Deposit	324,971	0.23	-	-	-	100%
Short-term Securities	65,096	0.17	100%	-	-	-
Total Debt Securities	$ 6,653,897					
Equity Investments:						
Corporate Stock	$ 659,965					
Alternative Equities	7,795					
Total Equity Investments	$ 667,760					
Other Investments						
Escheat Property	$ 16,410					
Money Market Accounts	5,538					
Total Other Investments	$ 21,948					
Total Investments	$ 7,343,605 (1)					

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

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

Primary Government
Pension and Investment Trust Funds Investments
As of June 30, 2008
(In Thousands)

			Lower of S & P or Moody S & P Equivalent Rating			
	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 1,001,438	9.39	100%	-	-	-
U.S. Agencies	806,266	3.91	99%	-	-	1%
Mortgage-backed Securities	6,847,785	26.35	99%	1%	-	-
State or Local Government Bonds	281,858	1.66	56%	10%	-	34%
Corporate Bonds	4,362,656	7.99	25%	64%	10%	1%
Commercial Paper	2,711	0.88	-	13%	-	87%
Asset-backed Securities	501,788	11.18	87%	9%	-	4%
Repurchase Agreements	331,576	0.08	80%	18%	-	2%
Short-term Securities	758,769	0.20	87%	-	-	13%
Total Debt Securities	$ 14,894,847					
Equity Investments:						
Corporate Stock	$ 28,617,024					
Stock Options	100,314					
Alternative Equities	5,917,121					
Mutual Funds	3,368,397					
Total Equity Investments	$ 38,002,856					
Total Investments	$ 52,897,703					

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations:

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

Corporate Stock:

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

The state had concentration of credit risk over 5% as of June 30, 2008, in the Federal National Mortgage Association (FNMA). FNMA represented 12.0%, of the primary government's total debt securities investments and 4.3% of the state's total investments. The pension trust and investment trust funds portfolio included in the primary government had 17.3% of debt securities investments and 4.9% of total investments in FNMA.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SBI has established guidelines to be used by investment managers for international investing. Under these guidelines, countries are categorized based on a country's legal structures and standings regarding worker and human rights issues. Managers may invest in countries with legal structures that generally respect the rights of workers and human rights without additional notification to 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, 2008.

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, 2008
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 2,920	$ -	$ 347,132
Brazilian Real	1,370	56	91,235
Canadian Dollar	5,729	1,617	413,958
Euro Currency	43,196	35,028	1,860,083
Hong Kong Dollar	3,373	-	301,566
Indian Rupee	971	-	80,231
Japanese Yen	19,617	-	1,128,154
New Taiwan Dollar	3,219	-	99,564
Norwegian Krone	2,481	-	57,799
Pound Sterling	19,874	-	1,106,729
South African Rand	267	-	82,883
South Korean Won	86	-	118,190
Swedish Krona	4,394	-	94,270
Swiss Franc	1,383	-	420,429
Other	2,225	-	328,421
Total	$ 111,105	$ 36,701	$ 6,530,644

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. Wells Fargo securities lent included U. S. Treasuries and Agencies debt securities. State Street securities lent included both debt securities and equity investments. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

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

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

Primary Government [1]
Securities Lending Analysis
As of June 30, 2008
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 101,584	$ 6,551,076
Collateral Held	$ 102,968	$ 6,775,914
Average Duration	113 days	N/A
Average Weighted Maturity	114 days	37 days

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

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

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

Component Units

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

Housing Finance Agency

As of June 30, 2008, Housing Finance Agency (HFA) had $1,030,500,000 of cash, cash equivalents, and investments. As of June 30, 2008, $162,601,000 of deposits and $224,939,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from .1 - .2 years (corporate notes) to 8.6 - 12.1 years (US Agencies).

HFA cash equivalents included $491,100,000 of investment agreements, which are generally uncollateralized interest bearing contracts. As of June 30, 2008, all investment agreement providers had a Standard & Poor's long-term credit rating of 'A- or higher' and a Moody's Investors Service long-term credit rating of 'A2 or higher' as of June 30, 2008. The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

HFA investments had an estimated fair market value of $374,751,000 as of June 30, 2008. Of these investments, $305,816,000 were US Agencies investments having a Standard & Poor's rating of 'AAA' and Moody's rating of 'Aaa.'

HFA had investments in single issuers as of June 30, 2008, excluding investments issued or explicitly guaranteed by the US Government that exceeded five percent of total investments. These investments amounted to $577,394,000 and involved Federal Home Loan Bank, AIG Matched Funding Corp., Calyon, FSA Capital Management, and Bayerische Landesbank investment agreements.

Metropolitan Council

As of December 31, 2007, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of $547,193,000. Of this amount, $513,011,000 was subject to rating. $320,126,000 of these investments were rated Aaa using the Moody's rating scale. $120,860,000 was commercial paper rated at P-1, while $72,025,000 was not rated.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $214,543,000 United States Treasury and agency investments, MC has a custodial credit risk exposure of $1,009,000 because the related securities are held by a custodial agent in the broker's name.

MC has adopted the simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2007. The investment portfolio has an average yield of 4.8 percent, modified duration of 4.39 years, effective duration of 2.34 years, and convexity of -.74.

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

Metropolitan Council
Estimated Fair Value of Investments
As of December 31, 2007
(In Thousands)

Estimated Fair Value	$	528,841
Fair Value of Portfolio After Basis Point Increase of:		
50 Points	$	524,556
100 Points	$	518,478
150 Points	$	513,237
200 Points	$	508,117

University of Minnesota

As of June 30, 2008, University of Minnesota (U of M), including its discretely presented component units, had $391,818,000 of cash and cash equivalents and $3,371,548,000 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 $339,438,000 and investments of $1,506,170,000.

U of M does not have a policy for custodial risk of deposits. As of June 30, 2008, $10,460,000 of the U of M's bank balance of $10,560,000 was uninsured and uncollateralized.

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

U of M has established policies to address the various types of investment risks. U of M uses Standard & Poor's ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2008, $609,160,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $141,315,000 was rated AAA
- $81,304,000 was rated A- to AA
- $86,971,000 was rated BBB- to BBB
- $299,570,000 was not rated

The securities subject to interest rate risk were comprised of:

- $94,167,000 in government agencies with an average duration of 1.22 years
- 168,274,000 in corporate bonds with an average duration of 0.81 years
- $47,148,000 in mortgage backed securities with an average duration of 4.27 years
- $279,612,000 in cash and cash equivalents with an average duration of .003 year
- $19,959,000 in other types of securities (primarily mutual funds) with an average duration of 0.63 years

As of June 30, 2008, U of M had $100,326,000 of equity investments subject to foreign currency risk. The three largest components of this amount (in thousands) are as follows:

Euro Currency	$	39,419
Japanese Yen	$	23,255
Pound Sterling	$	16,074

Nonmajor Component Units

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

Component Units
Cash, Cash Equivalents and Investments
June 30, 2008 or December 31, 2007 as applicable
(In Thousands)

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 5,947	$ 21,701
ClearWay Minnesota	30	159,669
National Sports Center Foundation	394	-
Office of Higher Education	147,568	39,177
Public Facilities Authority	285,233	149,902
Rural Finance Authority	15,467	-
Workers' Compensation Assigned Risk Plan	16,794	346,154
Total	$ 471,433	$ 716,603

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, 2008:

Components of Net Receivables
As of June 30, 2008
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 591,064	$ -	$ -	$ 591,064
Sales and Use	361,943	-	-	361,943
Property	372,651	-	-	372,651
Health Care Provider	174,581	-	87,548	262,129
Highway Users	-	-	84,651	84,651
Child Support	85,714	84,003	-	169,717
Workers' Compensation	-	-	109,683	109,683
Other	215,555	59,484	142,038	417,077
Net Receivables	$ 1,801,508	$ 143,487	$ 423,920	$ 2,368,915
	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 310,344	$ -	$ 310,344
Tuition and Fees	37,645	-	-	37,645
Other	-	-	32,528	32,528
Net Receivables	$ 37,645	$ 310,344	$ 32,528	$ 380,517
Total Government-wide Net Receivables				$ 2,749,432

[1]Includes $6,365 Internal Service Funds.

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

- Corporate and Individual Taxes $134,385,000
- Sales and Use Taxes $27,500,000
- Child Support $346,901,000
- Other Receivables $55,727,000

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

- Corporate and Individual Taxes $97,463,000
- Sales and Use Taxes $32,775,000
- Child Support $143,895,000
- Health Care Provider $67,673,000
- Other Receivables $19,763,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2008, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2008
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 35,554
Economic Development	43,145	-	71,276	-	-
School Districts	-	-	117,474	-	-
Agricultural, Evironmental and Energy Resources	31	-	71,438	-	-
Transportation	-	-	18,235	4,126	-
Other	-	15	836	409	-
Total	$ 43,176	$ 15	$ 279,259	$ 4,535	$ 35,554

Component Units
Loans and Notes Receivable
As of June 30, 2008
(In Thousands)

Housing Finance Authority	$ 2,398,136
Metropolitan Council	40,547
University of Minnesota	74,048
Agricultural and Economic Development Board	13,640
Office of Higher Education	686,671
Public Facilities Authority	1,501,557
Rural Finance Authority	56,077
Total	$ 4,770,676

Note 5 – Interfund Transactions

Primary Government

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

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

Interfund Receivables and Payables
As of June 30, 2008
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 48,554
Nonmajor Governmental Funds	68,775
Nonmajor Enterprise Funds	7,708
Internal Service Funds	59
Total Due to General Fund From Other Funds	$ 125,096
Due to the Federal Fund From:	
Nonmajor Governmental Funds	$ 4,666
Unemployment Insurance Fund	245
Total Due to Federal Fund From Other Funds	$ 4,911
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 19,814
Total Due to State Colleges and Universities From Other Funds	$ 19,814
Due to Fiduciary Funds From:	
Fiduciary Funds	$ 6,231
Total Due to Fiduciary Funds From Other Fiduciary Funds	$ 6,231
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 25,400
Federal Fund	1,928
Unemployment Insurance Fund	29,122
Nonmajor Governmental Funds	111,091
Nonmajor Enterprise Funds	3,072
Total Due to Nonmajor Governmental Funds From Other Funds	$ 170,613

The Central Motor Pool Fund had an outstanding advance of $1,750,000 from the General Fund as of June 30, 2008. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2008
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 20,656
Nonmajor Governmental Funds	338,136
Nonmajor Enterprise Funds	63,564
Internal Service Funds	21,291
Total Transfers to General Fund From Other Funds	$ 443,647
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	$ 37
Nonmajor Governmental Funds	1,367
Total Transfers to Federal Fund From Other Funds	$ 1,404
Transfers to the State Colleges and Universities Fund From:	
General Fund	$ 666,238
Nonmajor Governmental Funds – Capital Contributions	102,174
Nonmajor Governmental Funds	370
Total Transfers to State Colleges and Universities From Other Funds	$ 768,782
Transfers to the Internal Service Funds From:	
Governmental Capital Assets – Capital Contributions	$ -
Total Transfers to Internal Service Funds From Other Funds	$ -
Transfers to Fiduciary Funds From:	
Fiduciary Funds	$ 15,751
Total Transfers to Fiduciary Funds From Other Fiduciary Funds	$ 15,751
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 729,204
Federal Fund	22,675
Unemployment Insurance Fund	-
Nonmajor Governmental Funds	1,462,212
Nonmajor Enterprise Funds	55,383
Internal Service Funds	10,613
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 2,280,087
Transfers to the Nonmajor Enterprise Funds From:	
Nonmajor Governmental Funds	$ 4,561
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$ 4,561

Component Units

Receivables and payables as of June 30, 2008, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2008
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Metropolitan Council	$ 74,177	$ -
University of Minnesota	3,293	51,516
Total Major Component Units	$ 77,470	$ 51,516
Nonmajor Component Units	$ 22,485	$ 73,122
Total Component Units	$ 99,955	$ 124,638

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ 836	$ 13,001
Federal Fund	-	2,245
Total Major Governmental Funds	$ 836	$ 15,246
Nonmajor Governmental Funds	$ 120,312	$ 5,028
Total Primary Government	$ 121,148	$ 20,274 (1)

(1) Due to component units on the Government-wide Statement of Net Assets totals $42,759 including $22,485 of loans payable to the Public Facilities Authority, a component unit, that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $3,490,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The same is true for the $79,681,000 difference between the Due From Primary Government balance and the Due To Component Units balance.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity
Government-wide
Year Ended June 30, 2008
(In Thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 1,807,456	$ 100,999	$ (3,798)	$ 1,904,657
Buildings, Structures, Improvements	28,975	249	(1,184)	28,040
Construction in Progress	183,997	159,383	(82,129)	261,251
Infrastructure	6,351,250	531,970	(7,085)	6,876,135
Art and Historical Treasures	500	1,489	-	1,989
Total Capital Assets not Depreciated	$ 8,372,178	$ 794,090	$ (94,196)	$ 9,072,072
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,925,399	$ 98,800	$ (12,873)	$ 2,011,326
Infrastructure	65,505	3,711	-	69,216
Equipment, Furniture, Fixtures	390,001	34,727	(27,695)	397,033
Total Capital Assets Depreciated	$ 2,380,905	$ 137,238	$ (40,568)	$ 2,477,575
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (695,897)	$ (63,846)	$ 8,416	$ (751,327)
Infrastructure	(13,957)	(1,523)	-	(15,480)
Equipment, Furniture, Fixtures	(243,460)	(35,237)	27,537	(251,160)
Total Accumulated Depreciation	$ (953,314)	$ (100,606)	$ 35,953	$ (1,017,967)
Total Capital Assets Depreciated, Net	$ 1,427,591	$ 36,632	$ (4,615)	$ 1,459,608
Governmental Act. Capital Assets, Net	$ 9,799,769	$ 830,722	$ (98,811)	$ 10,531,680
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 79,488	$ 1,369	$ (5)	$ 80,852
Construction in Progress	132,191	201,958	(159,804)	174,345
Total Capital Assets not Depreciated	$ 211,679	$ 203,327	$ (159,809)	$ 255,197
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,918,343	$ 160,388	$ (7,351)	$ 2,071,380
Library Collections	48,264	7,071	(7,167)	48,168
Equipment, Furniture, Fixtures	282,764	23,532	(18,124)	288,172
Total Capital Assets Depreciated	$ 2,249,371	$ 190,991	$ (32,642)	$ 2,407,720
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (923,580)	$ (53,448)	$ 6,316	$ (970,712)
Library Collections	(27,419)	(6,880)	7,167	(27,132)
Equipment, Furniture, Fixtures	(201,547)	(20,374)	18,986	(202,935)
Total Accumulated Depreciation	$ (1,152,546)	$ (80,702)	$ 32,469	$ (1,200,779)
Total Capital Assets Depreciated, Net	$ 1,096,825	$ 110,289	$ (173)	$ 1,206,941
Business-type Act. Capital Assets, Net	$ 1,308,504	$ 313,616	$ (159,982)	$ 1,462,138

Capital Asset Activity
Fiduciary Funds
Year Ended June 30, 2008
(In Thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,547	$ 1,457	$ (1,297)	$ 29,707
Equipment, Furniture, Fixtures	5,730	150	(382)	5,498
Total Capital Assets Depreciated	$ 35,277	$ 1,607	$ (1,679)	$ 35,205
Accumulated Depreciation for:				
Buildings	$ (4,426)	$ (836)	$ 97	$ (5,165)
Equipment, Furniture, Fixtures	(3,986)	(572)	330	(4,228)
Total Accumulated Depreciation	$ (8,412)	$ (1,408)	$ 427	$ (9,393)
Total Capital Assets Depreciated, Net	$ 26,865	$ 199	$ (1,252)	$ 25,812
Fiduciary Funds, Capital Assets, Net	$ 27,294	$ 199	$ (1,252)	$ 26,241

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, 2008
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 17,548
Transportation	20,398
Agricultural, Environmental & Energy Resources	5,906
Economic and Workforce Development	940
General Education	3,400
Health and Human Services	18,269
General Government	24,479
Internal Service Funds	9,666
Total Governmental Activities	$ 100,606
Business-type Activities:	
State Colleges and Universities	$ 76,536
Lottery	519
Other	3,647
Total Business-type Activities	$ 80,702

Capital outlay expenditures in the governmental funds totaled $818,701,000 for fiscal year 2008. Donations of general capital assets received during fiscal year 2008 were valued at $15,180,000. Transfers were $83,618,000 primarily from construction in progress. Additions in internal service funds were $13,829,000.

General capital assets purchased with resources provided by outstanding capital lease agreements as of June 30, 2008, consisted of equipment with a cost of $8,633,000 and buildings with a cost of $180,005,000.

Authorizations and commitments as of June 30, 2008, for the largest construction in progress projects consisted of the following (in thousands):

Primary Government
Project Authorizations and Commitments
As of June 30, 2008
(In Thousands)

	Administration Projects	Education	Transportation	Natural Resources
Authorization	$ 18,197	$ 6,587,406	$ 175,133	$ 26,500
Expended through June 30, 2008	-	6,554,240	39,700	-
Unexpended Commitment	603	-	1,324	11,000
Available Authorization	$ 17,594	$ 33,166	$ 134,109	$ 15,500

Land in the Permanent School Fund totaling 2,520,971 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, 2007, or June 30, 2008, as applicable:

Capital Assets
As of December 31, 2007 or June 30, 2008
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 88,831	$ 70,115	$ 389	$ 159,335
Construction in Progress	-	290,421	220,578	-	510,999
Museums and Collections	-	-	43,974	-	43,974
Buildings and Improvements	-	2,692,957	2,620,401	1,927	5,315,285
Equipment	6,991	594,531	751,423	1,786	1,354,731
Infrastructure	-	-	350,548	-	350,548
Total	$ 6,991	$ 3,666,740	$ 4,057,039	$ 4,102	$ 7,734,872
Less: Accumulated Depreciation	$ 3,754	$ 1,280,909	$ 1,793,249	$ 2,131	$ 3,080,043
Net Total	$ 3,237	$ 2,385,831	$ 2,263,790 (1)	$ 1,971	$ 4,654,829

(1) In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $23,129 as of June 30, 2008.

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, 2008:

Components of Accounts Payable
As of June 30, 2008
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds(1)	Total
School Aid Programs	$ 714,071	$ 129,904	$ -	$ 843,975
Tax Refunds	566,287	-	-	566,287
I-35W Bridge Collapse	36,640	-	-	36,640
Medical Care Programs	409,800	481,989	64,394	956,183
Grants	183,442	167,153	176,064	526,659
Salaries and Benefits	71,388	11,369	54,207	136,964
Vendors/Service Providers	38,650	48,940	180,745	268,335
Other	26,489	1,062	21,357	48,908
Net Payables	$ 2,046,767	$ 840,417	$ 496,767	$ 3,383,951

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 117,677	$ -	$ 6,933	$ 124,610
Vendors/Service Providers	45,729	-	5,003	$ 50,732
Other	10,788	25,495	16,492	$ 52,775
Net Payables	$ 174,194	$ 25,495	$ 28,428	$ 228,117
Total Government-wide Net Payables				$ 3,612,068

(1)Includes $50,453 Internal Service Funds.

Note 8 – Pension and Investment Trust Funds

The state performs a fiduciary role for several pension trust funds. For some of these funds, the state contributes as an employer, and for other funds performs only a fiduciary role. These trust funds are categorized as either defined benefit or defined contribution (pension trust funds) or investment trust funds.

Three plan administrators, who prepare and publish their own stand-alone comprehensive annual financial reports, including financial statements and required supplementary information, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below.

See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses.

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

Basis of Accounting and Valuation of Investments

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

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

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing "units" in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund's pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2008, this presentation resulted in a negative asset within the funds' investments.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

  The State Employees Retirement Fund (SERF) covers those employees of the state, University of Minnesota, and certain other entities not covered by other pension funds. Thirty-three employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the highest salary paid in five successive years of service. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  The 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.

  The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Laws of Minnesota 2006, Chapter 277, Article 3, Section 9, codified as Minnesota Statutes, Section 354.70, authorized the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Fund (TRF). All assets and liabilities for the 13,783 active, inactive, and retired MTRFA members were transferred to TRF as of June 30, 2006. Five hundred sixty six (566) employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent for service rendered before July 1, 2006, and 1.4 and 1.9 percent for service rendered on or after July 1, 2006. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The Public Employees Retirement Fund (PERF) covers employees of various governmental subdivisions; including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: basic and coordinated as defined above. Normal retirement age is 65. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

- 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 (%)	6.40	N/A	8.15	9.00	9.10	4.25	5.50
Required Contribution Rate of Employer (%)	9.10	N/A	20.50	N/A	13.60	4.25	5.50

Multiple Employer Plan Required Contributions
(In Thousands)

		SERF	TRF
Required Contributions:			
Employee	2008	$ 99,280	$ 209,592
	2007	$ 89,448	$ 199,869
	2006	$ 85,379	$ 177,085
Employer[1]	2008	$ 96,746	$ 209,717
	2007	$ 86,493	$ 187,339
	2006	$ 82,645	$ 179,022

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

Contribution rates are statutorily determined.

Single Employer Plan Disclosures
As of June 30, 2008
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 45,767	$ 11,666	$ 3,411	$ 17,774
Interest on Net Pension Obligation (NPO)[1]	1,689	(723)	(821)	(2,757)
Amortization Adjustment to ARC[1]	(1,641)	826	885	1,782
Annual Pension Cost	$ 45,815	$ 11,769	$ 3,475	$ 16,799
Contributions	(31,398)	(10,795)	(2,397)	(13,873)
Increase (Decrease) in NPO	$ 14,417	$ 974	$ 1,078	$ 2,926
NPO, Beginning Balance	$ 19,868	$ (8,509)	$ (9,665)	$ (32,437)
NPO, Ending (Asset)	$ 34,285	$ (7,535)	$ (8,587)	$ (29,511)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2008	$ 45,815	$ 11,769	$ 3,475	$ 16,799
	2007	$ 39,289	$ 10,553	$ 2,973	$ 14,382
	2006	$ 25,836	$ 9,639	$ 3,186	$ 9,784
Percentage of APC Contributed	2008	69%	92%	69%	83%
	2007	61%	98%	68%	87%
	2006	82%	106%	187%	120%
NPO (End of Year)	2008	$ 34,285	$ (7,535)	$ (8,587)	$ (29,511)
	2007	$ 19,868	$ (8,509)	$ (9,665)	$ (32,436)
	2006	$ 4,538	$ (8,698)	$ (10,627)	$ (34,371)

Schedule of Funding Status
(In Thousands)

	CERF	JRF	LRF	SPRF
Actualial Valuation Date(1)	7/1/2007	7/1/2007	7/1/2007	7/1/2007
Actuarial Value of Plan Assets	$ 559,852	$ 153,562	$ 44,869	$ 617,901
Actuarial Accrued Liability	$ 708,292	$ 214,297	$ 86,449	$ 673,444
Total Unfunded Actuarial Liability (Asset)	$ 148,440	$ 60,735	$ 41,580	$ 55,543
Funded Ratio	79%	72%	52%	92%
Annual Covered Payroll	$ 167,727	$ 36,195	$ 2,380	$ 61,498
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	89%	168%	1747%	90%

(1) The July 1, 2007 Actuarial Valuation Report is the most recently issued report available

Required Supplementary Information - Schedule of Funding Progress immediately following the notes presents multiyear trend information

Actuarial Assumptions for Single Employer Plans

- The actuarial cost method used by all plans is the Entry Age Normal method. The date of actuarial valuation is July 1, 2007.
- 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, 2007, less: 80 percent UAR for fiscal year 2007; 60 percent UAR for fiscal year 2006; 40 percent UAR for fiscal year 2005; and 20 percent UAR for fiscal year 2004.
- Minnesota Statutes or valuation standards do not require an inflation rate assumption to cost the plans.
- Expected net investment returns for pre-retirement and postretirement are 8.5 percent and 6.0 percent, respectively, for all plans.
- Projected salary increases are a level 5.0 percent.
- Benefit increases after retirement: the payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent postretirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement discount rate is used to account for the one-time adjustment applicable at retirement.
- The level percentage of projected payroll is the amortization method used, except for the ESOF plan, which uses the level dollar amortization method.
- The amortization period for JRF is through July 1, 2020, for CERF is through July 1, 2023, for SPRF is through July 1, 2036, and for LRF is through July 1 2021.
- 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 Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employee and employer contribution rate is 1.0 percent of the employee's salary. As of June 30, 2007, there were 2,333 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 Unclassified Employee Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state and specified employees of various statutorily designated entities. Statutory contribution rates are 4.0 percent for employee and 6.0 percent for employer. Vesting occurs immediately, and normal retirement age is 55. Annuity is based on age and value of the participant's account.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. DCF covers approximately 1,000 units of government. As of June 30, 2007, there were 6,867 members in the plan.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between $6,000 and $15,000. Statutes allow additional employer and employee contributions under specific circumstances. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is approximately 14,400.

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

Defined Contribution Plans
Contributions for the Year Ended June 30, 2008
(In Thousands)

	HCSRF	PHCBF	UERF	DCF	CURF
Employee Contributions	$ 601	$ 73,081	$ 5,209	$ 1,356	$ 30,247
Employer Contributions	$ 601	N/A	$ 6,362	$ 1,503	$ 35,629

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 a 83,351 participants from approximately 800 employers.

Investment Trust Fund

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

Component Units

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

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

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. A liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated.

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Faculty members who meet certain eligibility and a combination of age and years of service requirements are eligible to receive an early retirement incentive cash payment based on base salary, and health insurance paid for one year after separation. Approximately 250 former facility members currently receive this benefit. The cost of the benefits was $4,610,000 during fiscal year 2008 with a remaining liability as of June 30, 2008 of $6,344,000.

Primary Government – Postemployment Benefits Other Than Pensions

As stated in Note 1 – Summary of Significant Accounting and Reporting Policies, the state implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". As a result of implementing this statement, the state recognized a change in accounting principle of $91,812,000 resulting from restating the liability recognized for other postemployment benefits at the beginning of the year to zero.

Plan Description

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes 43A.27 subdivision 3 and 471.61 subdivision 2a, and required under the terms of selected employment contracts. All pre-65 state retirees with at least 5 years of allowable pension service and are entitled at the time of retirement to receive an annuity under the state retirement program are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100% of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active state employees, resulting in an implicit rate subsidy. As of July 1, 2006, there were approximately 3,000 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers, through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age of 65. As of July 1, 2006, there were approximately 1,000 correctional and law enforcement retirees receiving an explicit rate subsidy. The state does not issue a separate financial report for its OPEB plan.

Funding Policy

The contribution requirement of plan members and the state are established, and may be amended by the state legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year 2008, the state contributed $28.6 million to the plan. Plan members receiving benefits through the implicit rate subsidy contributed $15.3 million through their average required contribution of $419 per month for retiree-only coverage and $1,231 for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.75% discount rate. For year ending June 30, 2008, the state's ARC is $ 66,282,000.

The following table shows the components of the state's annual OPEB cost for the year, the amount contributed to the plan, and the changes to the state's net OPEB obligation:

OPEB Disclosures
As of June 30, 2008
(In Thousands)

Annual Required Contributions (ARC)[1]	$ 66,282
Interest on Net OPEB Obligation (NOO)[1]	-
Amortization Adjustment to ARC[1]	-
Annual OPEB Cost (Expense)	$ 66,282
Contributions	(28,624)
Increase in NOO	$ 37,658
NOO, Beginning Balance	$ -
NOO, Ending	$ 37,658

[1]Components of annual OPEB cost.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 (the only year available) is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$66,282	43%	$37,658

Funded Status and Funding Progress

As of July 1, 2006, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $659 million. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $2.838 billion, and the ratio of the UAAL to the covered payroll was 23%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, as the state operates on a pay-as-you-go basis, the actuarial value of plan assets is zero.

Actuarial Methods and Assumptions

The projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial Assumptions for OPEB

- The actuarial cost method used is the Entry Age Normal method. The date of actuarial valuation is July 1, 2006.
- Expected investment return is 4.75% based on the estimated long-term investment yield on the general assets of the state.
- Projected salary increases are a level 4.0 percent.
- The annual health care cost trend rate is 9.13% initially, reduced by increments to an ultimate rate of 5.0 after 20 years. The annual dental cost trend rate is 5.0%.
- The amortization period for the unfunded actuarial accrued liability is 30 year level percent of pay.
- The amortization period is open.

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

Component Units – Postemployment Benefits Other Than Pensions

Metropolitan Council (MC) administers an other postemployment benefit (OPEB) plan, a single-employer defined benefit health care and life insurance plan to eligible retirees, their spouses, and dependents. MC does not fund its OPEB benefits in an irrevocable trust. However, it has separately invested $69.4 million as of December 31, 2007 for this purpose. The annual required contribution for 2007 was $26.1 million or 11.3 percent of annual covered payroll. As of December 31, 2007, the net OPEB obligation was $14,480,000. The actuarial accrued liability (AAL) for benefits was $275.0 million as of December 31, 2007, all of which was unfunded. The covered payroll was $230.6 million, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 119.2 percent.

University of Minnesota (U of M) administers an other postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible retirees, their spouses, and dependents and an academic disability plan for faculty and academic professional and administrative employees. U of M does not fund its OPEB benefits in an irrevocable trust. The annual required contribution for 2008 was $17.6 million or 1.6 percent of annual covered payroll. As of June 30, 2008, the net OPEB obligation was $11,167,000. The actuarial accrued liability (AAL) for benefits was $77.4 million as of June 30, 2008, all of which was unfunded. The covered payroll was $1.1 billion, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 7.1 percent.

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, 2008, were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2008
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 562,671
Capital Projects Funds:	
General Projects Fund	5,850
Transportation Fund	9,315
Building Fund	530,387
Enterprise Funds:	
State Colleges and Universities	126,543
Total Primary Government	$ 1,234,766

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Release Cleanup Fund (Petrofund) (special revenue fund). As of November 2008, the Petrofund has reimbursed eligible applicants approximately $390 million since program inception in 1987. Future expenditures from the Petrofund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at currently undiscovered leak sites. The estimated total payments from the program, which is scheduled to sunset on June 30, 2012, are between $425 and $465 million for investigative and cleanup costs.

Remediation Fund

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

Component Units

Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2007, unpaid commitments for Metro Transit Bus services were approximately $56.4 million. Future commitments for Metro Transit Light Rail were approximately $49.3 million. Future commitments for Regional Transit services were approximately $123.9 million. Finally, future commitments for Environmental Services were approximately $34.1 million.

University of Minnesota (U of M) has construction projects in progress with an estimated cost of $344 million to complete. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2008, Public Facilities Authority (PFA) had committed approximately $133 million for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $2.3 million for disbursement of non point-source pollution control awards and $22.2 million for grants.

Note 11 – Operating Lease Agreements

Operating Leases

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

Lease expenditures for the year ended June 30, 2008, totaled approximately $82,472,000 and $20,437,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2007, totaled approximately $715,000 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
2009	$ 80,242	2009	$ 16,742	2008	$ 388
2010	63,366	2010	12,308	2009	378
2011	47,720	2011	11,066	2010	286
2012	40,527	2012	10,319	2011	194
2013	29,439	2013	10,231	2012	157
2014-2018	55,918	2014-2018	12,547	2013-2017	421
2019-2023	10,729	2019-2023	-	2018-2022	456
2024-2028	2,945	2024-2028	-	2023-2028	-
Total	$ 330,886	Total	$ 73,213	Total	$ 2,280

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2008, and the changes during fiscal year 2008:

Long-Term Liabilities
Year Ended June 30, 2008
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 4,036,703	$ 671,760	$ 378,172	$ 4,330,291	$ 354,275
Loans	60,494	11,452	12,057	59,889	11,742
Revenue Bonds	15,145	-	645	14,500	785
Claims (1)	776,436	116,518	86,933	806,021	84,334
Compensated Absences	254,937	230,008	209,228	275,717	30,857
Workers' Compensation	107,908	3,985	16,152	95,741	14,605
Capital Leases	172,732	1,308	6,163	167,877	6,247
Net Pension Obligation	19,868	45,815	31,398	34,285	-
Net Other Postemployment Obligation	-	55,371	24,044	31,327	-
Due to Component Unit	25,970	-	3,485	22,485	3,568
Total	$ 5,470,193	$ 1,136,217	$ 768,277	$ 5,838,133	$ 506,413
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 196,148	$ 42,161	$ 14,219	$ 224,090	$ 14,525
Loans	5,419	1,406	996	5,829	702
Revenue Bonds	174,483	40,929	5,693	209,719	6,540
Compensated Absences	129,404	29,694	21,193	137,905	16,303
Workers' Compensation	5,855	2,021	2,464	5,412	1,948
Capital Leases	25,382	193	2,928	22,647	2,401
Net Other Postemployment Obligation	-	10,911	4,580	6,331	-
Total	$ 536,691	$ 127,315	$ 52,073	$ 611,933	$ 42,419

(1)As a result of implementing GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", the beginning balance has been reduced by a change in accounting principle of $91, 812.

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
As of June 30, 2008
(In Thousands)

	Governmental Activities				
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	Total
Liabilities For:					
General Obligation Bonds	$ 3,578,952	$ 751,339	$ -	$ 224,090	$ 4,554,381
Loans	-	39,625	20,264	5,829	65,718
Revenue Bonds	-	14,500	-	209,719	224,219
Claims	38,309	767,712	-	-	806,021
Compensated Absences	127,935	142,055	5,727	137,905	413,622
Workers' Compensation	72,669	23,072	-	5,412	101,153
Capital Leases	165,941	1,936	-	22,647	190,524
Net Pension Obligation	34,285	-	-	-	34,285
Net Other Postemployment Benefit Obligation	31,185	-	142	6,331	37,658
Due to Component Unit	-	22,485	-	-	22,485
Total	$ 4,049,276	$ 1,762,724	$ 26,133	$ 611,933	$ 6,450,066

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, due to component unit, and capital leases. There are no payment schedules for claims, compensated absences, workers' compensation, net pension obligation, or net other postemployment Benefit Obligation.

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
2009	$ 354,275	$ 197,421	$ 14,525	$ 9,630	$ 368,800	$ 207,051
2010	340,099	179,936	15,431	8,897	355,530	188,833
2011	324,504	163,079	14,936	8,176	339,440	171,255
2012	317,176	146,981	14,964	7,474	332,140	154,455
2013	304,154	131,447	14,156	6,790	318,310	138,237
2014-2018	1,221,567	455,938	65,518	24,268	1,287,085	480,206
2019-2023	839,208	194,239	50,787	10,477	889,995	204,716
2024-2028	369,073	35,807	24,707	1,874	393,780	37,681
Total	$ 4,070,056	$ 1,504,848	$ 215,024	$ 77,586	$ 4,285,080	$ 1,582,434
Bond Premium	260,235	-	9,066	-	269,301	-
Total	$ 4,330,291	$ 1,504,848	$ 224,090	$ 77,586	$ 4,554,381	$ 1,582,434

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 785	$ 611	$ 6,540	$ 9,590	$ 7,325	$ 10,201
2010	815	579	9,880	9,499	10,695	10,078
2011	845	546	10,240	9,039	11,085	9,585
2012	880	511	10,255	8,601	11,135	9,112
2013	915	475	10,715	8,145	11,630	8,620
2014-2018	5,205	1,740	58,925	32,570	64,130	34,310
2019-2023	5,055	468	48,255	19,175	53,310	19,643
2024-2028	-	-	38,440	7,720	38,440	7,720
2029-2033	-	-	13,335	1,424	13,335	1,424
Total	$ 14,500	$ 4,930	$ 206,585	$ 105,763	$ 221,085	$ 110,693
Bond Premium	-	-	3,134	-	3,134	-
Total	$ 14,500	$ 4,930	$ 209,719	$ 105,763	$ 224,219	$ 110,693

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

Fiscal Year(s)	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2009	$ 15,310	$ 2,325	$ 702	$ 274	$ 16,012	$ 2,599
2010	21,459	976	704	238	22,163	1,214
2011	15,553	4,978	729	200	16,282	5,178
2012	9,365	410	719	161	10,084	571
2013	4,343	313	604	125	4,947	438
2014-2018	15,540	693	1,527	352	17,067	1,045
2019-2023	804	44	844	84	1,648	128
Total	$ 82,374	$ 9,739	$ 5,829	$ 1,434	$ 88,203	$ 11,173

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

Fiscal Year(s)	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2009	$ 6,247	$ 8,181	$ 2,401	$ 1,142	$ 8,648	$ 9,323
2010	6,369	7,955	2,221	1,018	8,590	8,973
2011	6,461	7,707	1,660	926	8,121	8,633
2012	6,299	7,453	1,604	893	7,903	8,346
2013	6,469	7,176	1,145	780	7,614	7,956
2014-2018	37,024	30,836	6,306	3,000	43,330	33,836
2019-2023	47,041	20,315	5,512	1,368	52,553	21,683
2024-2028	51,967	7,228	971	353	52,938	7,581
2029-2033	-	-	827	78	827	78
Total	$ 167,877	$ 96,851	$ 22,647	$ 9,558	$ 190,524	$ 106,409

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 2008, 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, 2008
(In Thousands)

General Fund	$ 409,302
Special Revenue Funds:	
Game and Fish Fund	$ 3
Trunk Highway Fund	52,170
Natural Resources Funds	10
Maximum Effort School Loan Fund	1,961
Miscellaneous Special Revenue Fund	355
Total Special Revenue Funds	$ 54,499
Capital Projects Funds:	
Building Fund	$ 501
Transportation	100
Total Capital Project Funds	$ 601
Total Operating Transfers to Debt Service Fund	$ 464,402

General Obligation Bond Issues

On July 26, 2007, $656,000,000 in general obligation state various purpose bonds and $14,000,000 in general obligation state trunk highway bonds were issued at a true interest rate of 4.30 percent and $8,000,000 in general obligation Rural Finance Authority bonds were issued at a true interest rate of 5.14 percent.

The balance outstanding for all extinguished debt as of June 30, 2008, was $90,400,000, which is shown below. The state remains contingently liable to pay the advance refunded general obligation bonds.

General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2008 Outstanding Amount	Refunded Bond Call Date
April 25, 2007	$ 87,190	$ 90,400	$ 90,400	November 1, 2008

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2008. 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, 2008
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 708	$ 388,849	5.00 - 5.62
State Operated Community Services	-	2,901	5.00
State Transportation	60,060	153,989	5.00 - 5.62
Waste Management	-	1,950	5.00 - 5.50
Water Pollution Control	-	30,665	5.00 - 5.62
Maximum Effort School Loan	-	61,075	5.00 - 5.25
Reinvest in Minnesota	-	15	5.00
Rural Finance Authority	17,500	60,600	5.00 - 5.60
Refunding Bonds	-	782,500	4.00 - 5.00
Municipal Energy Building	-	305	5.00
Trunk Highway	1,827,380	516,995	3.25 - 5.25
Landfill	-	4,520	5.50 - 5.62
Various Purpose	1,545,472	2,280,716	5.00 - 5.62
Total	$ 3,451,120	$ 4,285,080	

Capital Leases

In 2006, the state entered into capital lease agreements with St Paul Port Authority (SPPA - not part of the state's reporting entity) to purchase two newly constructed buildings on state owned land for $180,005,000. Lease payments are scheduled over 20 years and approximate the debt service payments of SPPA. The state has other capital lease agreements to purchase equipment. The leases meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase the buildings under a bargain purchase option and the equipment at any time during the lease period.

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of $39,625,000 were from local government entities to finance certain trunk highway projects. In addition, $22,485,000 in loans from the Public Facilities Authority component unit (Due to Component Unit) were outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

Business-type activities loans are loans to purchase equipment and loans from energy companies to improve energy efficiencies in the colleges and universities.

Revenue Bonds Payable

On July 26, 2006, $15,145,000 of revenue bonds were issued to provide grants to school districts located in the state's taconite assistance area (as defined in statute) and for bond administrative costs. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the Commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. To repay the bonds, the Iron Range Resources and Rehabilitation Agency has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue funds). These distributions, totaling $37,975,000 for fiscal year 2008, have averaged about one third of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. The interest rates on the bonds are 4.00% (7 years) and 4.50% (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014 are subject to optional redemption. For fiscal year 2008, principal and interest paid by the Iron Range Resources and Rehabilitation Agency on the bonds was $1,284,000. The total principal and interest remaining to be paid as of June 30, 2008 is $19,430,000, payable through November 2021.

The state is authorized by Minnesota Statutes, Section 403.275 and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, $35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. The state has pledged future 911 fee revenues to repay the debt. The debt service on these bonds is payable solely from the revenues derived from the 911 fee assessed on wireless and wire-line telephone service. Annual principal and interest payments on the bonds are expected to require less than 10 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2008 is $41,688,000, payable through June 2018. Principal and interest paid during fiscal year 2008 and total 911 fee revenues were $4,262,000 and $52,271,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $200,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 3.25 to 6.5 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 16 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $243,922,000. Principal and interest paid for the current year and total customer net revenues were $7,319,000 and $83,619,000, respectively.

Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,967,000. For the current year, principal and interest paid and total customer net revenues were $205,000 and $377,000, respectively. These revenue bonds have a variable interest rate of 2.50 to 5.75 percent.

Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $421,000. For the current year, principal and interest paid and total customer net revenues were $85,000 and $218,000, respectively. These revenue bonds have a fixed interest rate of 6 percent.

On November 1, 2000, $16,000,000 in revenue bonds were issued for financing expansion of the Giants Ridge Recreational Area at a true interest rate of 7.48 percent. In addition, $3,710,000 in bonds were refunded. The original refunded bonds have been eliminated, and the new advance refunding bonds have been added to the Giants Ridge Fund (enterprise fund). The Iron Range Resources and Rehabilitation Agency has pledged the gross revenues from the operation of the Giants Ridge Recreational Facilities, including greens fees and ski lift ticket receipts, to repay the debt. The debt service on these bonds is payable solely from these sources. The total principal and interest remaining to be paid on the bonds as of June 30, 2008 is $22,350,000, payable through November 2025. Principal and interest paid during fiscal year 2008 and net Giants Ridge Fund available revenues were $1,668,000 and $4,338,000, respectively.

Giants Ridge
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2008 Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 2,720	November 1, 2025

Claims

Municipal solid waste landfill liability of $236,821,000 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 $45,700,000 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).

The remaining claim amount of $523,500,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00%) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2050 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $275,717,000 and $137,905,000, respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental activities and business-type activities liability for workers' compensation of $95,741,000 and $5,412,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2008, 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 2008, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling $29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. The revenue bonds have a variable interest rate of 5.38 to 6.00 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds. The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2008, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was $2,084,000. The total principal and interest remaining to be paid as of June 30, 2008 is $46,179,000, payable through 2030.

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
2009	$ 600	$ 1,479
2010	625	1,446
2011	675	1,413
2012	700	1,376
2013	750	1,338
2014-2018	4,375	6,021
2019-2023	5,900	4,602
2024-2028	7,950	2,647
2029-2033	3,925	357
Total	$ 25,500	$ 20,679

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2008, net of unamortized premium, was $2,411,376,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had $1,118,764,000 in general obligation bonds outstanding, net of unamortized premium, and $7,319,000 of revenue bonds outstanding on December 31, 2007.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2008, the principal amount of revenue bonds outstanding was $150,055,000 and the principal amount of general obligation bonds outstanding was $352,288,000.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2008, the principal amount of revenue bonds outstanding was $16,910,000.

Office of Higher Education (OHE) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2008, the outstanding principal of revenue bonds was $527,000,000.

Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2008, net of unamortized premium, was $1,050,260,000.

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

	MC[1]		U of M	
Fiscal Year(s)	Principal	Interest	Principal	Interest
2009	$ 118,697	$ 40,138	$ 280,294	$ 24,493
2010	79,576	36,598	5,379	3,196
2011	71,940	33,402	5,715	2,948
2012	76,570	30,287	1,600	2,674
2013	60,953	27,413	1,950	2,603
2014-2018	310,555	102,636	10,500	11,721
2019-2023	279,724	46,845	13,300	9,188
2024-2028	103,121	8,122	16,800	5,962
2029-2033	-	-	16,750	1,881
	$ 1,101,136	$ 325,441	$ 352,288	$ 64,666
Unamortized Discounts/Premiums				
and Issuance Costs	17,628	-	-	-
Total	$ 1,118,764	$ 325,441	$ 352,288	$ 64,666

[1]MC fiscal year ends December 31.

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

Fiscal Year(s)	HFA Principal	HFA Interest	MC[2] Principal	MC[2] Interest	U of M Principal[1]	U of M Interest
2009	$ 391,055	$ 98,305	$ 1,030	$ 298	$ 5,294	$ 6,835
2010	49,075	89,327	1,135	252	5,524	6,601
2011	47,010	87,389	1,185	199	5,669	6,341
2012	48,745	85,370	1,245	138	5,564	6,086
2013	59,180	82,995	1,305	81	5,769	5,840
2014-2018	269,010	379,539	1,365	27	28,889	25,378
2019-2023	289,600	315,692	-	-	35,574	18,039
2024-2028	368,945	245,858	-	-	44,999	8,607
2029-2033	429,785	157,114	-	-	12,773	426
2034-2038	409,350	66,813	-	-	-	-
2039-2043	27,885	5,218	-	-	-	-
2044-2048	13,460	1,818	-	-	-	-
2049-2053	2,605	73	-	-	-	-
	$ 2,405,705	$ 1,615,511	$ 7,265	$ 995	$ 150,055	$ 84,153
Unamortized Discounts/Premiums and Issuance Costs	5,671	-	54	-	-	-
Total	$ 2,411,376	$ 1,615,511	$ 7,319	$ 995	$ 150,055	$ 84,153

[1]Does not include foundation issued bonds.
[2]MC fiscal year ends December 31.

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

Fiscal Year(s)	AEDB Principal	AEDB Interest	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2009	$ 1,825	$ 998	$ -	$ 16,482	$ 50,870	$ 49,749
2010	1,910	891	-	16,482	49,200	47,311
2011	1,780	779	-	16,482	55,260	45,145
2012	1,180	689	-	16,482	58,105	42,492
2013	1,255	619	-	16,482	58,280	39,727
2014-2018	6,065	1,933	-	82,410	337,470	36,840
2019-2023	2,895	307	72,673	79,560	307,325	20,141
2024-2028	-	-	142,200	62,987	106,205	5,127
2029-2033	-	-	152,833	39,071	-	-
2034-2038	-	-	130,160	15,711	-	-
2039-2043	-	-	29,134	1,352	-	-
	$ 16,910	$ 6,216	$ 527,000	$ 363,501	$ 1,022,715	$ 286,532
Unamortized Discounts/Premiums and Issuance Costs	-	-	-	-	27,545	-
Total	$ 16,910	$ 6,216	$ 527,000	$ 363,501	$ 1,050,260	$ 286,532

Variable Rate Debt

University of Minnesota

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

Office of Higher Education

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, tax-exempt Series 2002B bonds, taxable Series 2003A bonds, tax-exempt Series 2003B bonds, taxable Series 2004A bonds, tax-exempt Series 2004B bonds, taxable Series 2005A bonds, tax-exempt Series 2005B bonds, and tax-exempt Series 2006 bonds are reset every 7, 7, 7, 28, 35, 28, 35, 28, 35, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rate as of June 30, 2008, for the Series 1999A bonds was 3.48 percent. The interest rates as of June 30, 2008, for the Series 2002A and 2002B bonds were 3.48 percent and 2.62 percent, respectively. The interest rates as of June 30, 2008, for the Series 2003A and 2003B bonds were 3.45 percent, and 2.62 percent, respectively. The interest rates as of June 30, 2008, for the Series 2004A and 2004B bonds were 3.48 percent and 2.85 percent, respectively. The interest rate as of June 30, 2008, for 2005B bonds was 2.89 percent. The interest rate as of June 30, 2008, for the Series 2006 bonds was 2.70 percent.

Bond Defeasances

In prior years, U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $176,600,000 outstanding as of June 30, 2008. Neither the outstanding indebtedness, nor the related trust account assets for these bonds are included in the U of M financial statements as of June 30, 2008.

Public Facilities Authority had $292,380,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2008.

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 was established under Minnesota Statute, Section 116.155. The Remediation Fund includes revenues from insurance recovery proceeds and financial assurance from previous owners and operators, as well as transfers in from the Environmental Fund (special revenue fund). Additional proceeds 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, 2008, cumulative expenditures of about $285 million have been disbursed by the Remediation Fund and the Building Fund (capital project fund). Estimates show that the total of all payments for the program may reach $608 million. These estimates include costs for planned response actions, costs representing future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and administrative costs. Actual costs could become higher because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

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

Note 15 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2008
(In Thousands)

	Minnesota State Colleges and Universities (MnSCU)					
		Vermilion		Itasca		
	Revenue Fund	Residence Hall	Modular Housing	Residence Halls	Giants Ridge	911 Services
Condensed Statement of Net Assets						
Assets:						
Current Assets	$ 60,031	$ 147	$ 24	$ 65	$ 6,783	$ 30,389
Restricted Assets	134,557	-	143	259	1,618	-
Capital Assets	141,521	1,277	901	3,783	20,432	-
Total Assets	$ 336,109	$ 1,424	$ 1,068	$ 4,107	$ 28,833	$ 30,389
Liabilities:						
Current Liabilities	$ 18,751	$ 21	$ 90	$ 127	$ 1,398	$ 3,386
Noncurrent Liabilities	165,607	-	290	2,174	12,341	31,768
Total Liabilities	$ 184,358	$ 21	$ 380	$ 2,301	$ 13,739	$ 35,154
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 87,066	$ 1,277	$ 612	$ 1,529	$ 8,945	$ -
Restricted	64,685	-	67	259	-	-
Unrestricted	-	126	9	18	6,149	(4,765)
Total Net Assets	$ 151,751	$ 1,403	$ 688	$ 1,806	$ 15,094	$ (4,765)
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets						
Operating Revenues - Customer Charges	$ 83,619	$ 424	$ 218	$ 377	$ 4,216	$ 52,271
Depreciation Expense	(8,857)	(72)	(34)	(119)	(1,108)	-
Other Operating Expenses	(65,166)	(320)	(126)	(229)	(5,447)	(25,812)
Operating Income (Loss)	$ 9,596	$ 32	$ 58	$ 29	$ (2,339)	$ 26,459
Nonoperating Revenues (Expenses):						
Interest Income	$ 5,265	$ -	$ 5	$ 14	$ 126	$ 916
Interest Expense	(5,374)	-	(23)	(130)	(955)	(1,400)
Other	(74)	(6)	-	-	(1)	(14,178)
Transfers-In (Out)	-	(259)	137	-	4,561	(2,683)
Change in Net Assets	$ 9,413	$ (233)	$ 177	$ (87)	$ 1,392	$ 9,114
Beginning Net Assets	142,338	1,636	511	1,893	13,702	(13,879)
Ending Net Assets	$ 151,751	$ 1,403	$ 688	$ 1,806	$ 15,094	$ (4,765)
Condensed Statement of Cash Flows						
Net Cash Provided (Used) By:						
Operating Activities	$ 21,833	$ 108	$ 75	$ 182	$ (1,087)	$ 26,595
Noncapital Financing Activities	-	15	-	-	4,561	(22,043)
Capital and Related Financing Activities	(16,735)	(325)	(101)	(238)	(2,153)	-
Investing Activities	4,444	-	4	13	117	916
Net Increase (Decrease)	$ 9,542	$ (202)	$ (22)	$ (43)	$ 1,438	$ 5,468
Beginning Cash and Cash Equivalents	$ 140,095	$ 335	$ 165	$ 348	$ 5,053	$ 20,059
Ending Cash and Cash Equivalents	$ 149,637	$ 133	$ 143	$ 305	$ 6,491	$ 25,527

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

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.
- MnSCU Vermilion segment accounts for the construction and operation of student housing at Vermilion Community College.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- Giants Ridge is a four-season recreation facility with golfing, as well as downhill and nordic skiing.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.

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

Note 16 – Contingent Liabilities

Primary Government

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

Other Public Employee Pension Funds
Unfunded Liability
(In Thousands)

Fund	Liability As Of		Unfunded Liability
Minneapolis Employee Retirement Fund	June 30, 2008	$	374,685
St. Paul Teachers Retirement Fund	June 30, 2007	$	375,576
Duluth Teachers Retirement Fund	June 30, 2008	$	64,977
Local Police and Fire Fund [1]	December 31, 2007	$	73,739

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

Component Units

Since January 18, 2000, Metropolitan Council (MC) has been contingently liable for Carver County Housing and Redevelopment Authority Revenue Bonds. The bond issue was for $2,696,000, payable primarily from the revenues of the Housing Authority, but is also secured by the pledge of the full faith and credit of the City of Chaska, and MC. The city must reimburse MC for any money paid by MC for debt service on the bonds. These bonds have a final maturity on January 1, 2030.

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

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

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2007, was approximately $3.5 million.

Note 17 – Equity

Restricted Net Assets – Government-wide Statement of Net Assts

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

Primary Government
Restricted Net Asset Balances
As of June 30, 2008
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Capital Projects	$ 34,274	$ -	$ -	$ 34,274
Debt Service	410,772	-	-	410,772
Transportation	322,321	418,352	-	740,673
Environmental Resources	-	616,267	7,492	623,759
Economic and Workforce Development	-	98,742	6,149	104,891
School Aid - Nonexpendable	698,506	-	-	698,506
School Aid - Expendable	9,479	77,551	-	87,030
Health & Human Services	-	-	25,485	25,485
State Colleges and Universities	-	-	347,619	347,619
Unemployment Benefits	-	-	730,883	730,883
Other Purposes	-	-	29,934	29,934
Total Restricted Net Assets	$ 1,475,352	$ 1,210,912	$ 1,147,562	$ 3,833,826

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, 2008
(In Thousands)

	General	Federal	Nonmajor Governmental
Fund Balances:			
Reserved for Encumbrances	$ 108,224	$ -	$ 201,242
Reserved for Inventory	-	-	23,855
Reserved for Long-Term Receivables	44,926	15	243,871
Reserved for Long-Term Commitments	-	-	312,468
Reserved for Trust Principal	-	-	1,142,825
Reserved for Other	-	7,477	-
Total Reserved Fund Balances	$ 153,150	$ 7,492	$ 1,924,261
Unreserved Fund Balances:			
Designated for Appropriation Carryover	$ 231,091	$ -	$ 283,745
Budgetary Reserve	458,385	-	-
Designated for Fund Purposes	-	-	1,699,443
Total Designated Fund Balance	$ 689,476	$ -	$ 1,983,188
Undesignated	-	-	327,116
Total Unreserved Fund Balance	$ 689,476	$ -	$ 2,310,304
Total Fund Balance	$ 842,626	$ 7,492	$ 4,234,565

Reserved Fund Balance

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

Reserved for Other of $7,477,000 in the Federal Fund consists of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

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

Designated for Fund Purposes consists of fund balances for non-appropriated funds to be used for the following purposes:

Primary Government
Fund Balance Designated for Fund Purposes
As of June 30, 2008
(In Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total
Designated For:				
Public Safety and Corrections	$ 38,093	$ -	$ -	$ 38,093
Transportation	440,573	-	-	440,573
Environmental Resources	133,757	-	-	133,757
Economic and Workforce Development	142,180	-	-	142,180
General Education	8,698	-	9,479	18,177
Higher Education	1,991	-	-	1,991
Health & Human Services	117,638	-	-	117,638
General Government	96,583	707,086	-	803,669
Intergovernmental Aids	3,365	-	-	3,365
Total	$ 982,878	$ 707,086	$ 9,479	$ 1,699,443

Deficit Equity Balances

A $20,241,000 deficit total fund balance in the Transportation Fund (capital projects fund) is a result of a delayed bond sale. The bond sale occurred after the end of the fiscal year.

A $4,765,000 deficit total net asset balance in the 911 Services Fund (enterprise fund) is a result of revenue bonds issued for grants and improvements to the state's emergency communication system. The deficit will be resolved through future 911 fee revenues.

Note 18 – 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 (internal service fund), which offers auto, liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All state agencies with vehicles are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a range of deductibles from $1,000 through $250,000 per loss. The fund covers the balance of the claim up to $1,000,000. The reinsurance program provides coverage up to $1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach $4,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature.

The liability coverage is up to the statutory limit (tort claims cap) of $400,000 bodily injury and property damage per person, and $1,200,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides $10,000,000 excess of the tort cap to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction.

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

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

All losses of state property are covered by programs of the Risk Management Fund, by insurance policies purchased in the commercial market, or are uninsured and become the liability of the State.

Tort Claims

Tort claims against the state are limited to $400,000 bodily injury and property damage per person, and $1,200,000 bodily injury and property damage per occurrence. State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,640,000. 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. The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits, related to the reported claim.

State Employee Group Insurance Program

The Minnesota State Legislature created the Employee Insurance Fund (internal service 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 had settlements of $3,784,535 in excess of coverage during fiscal year 2008.

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

Public Employees Insurance Program

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

PEIP's membership as of June 30, 2008, was 1,400 members and their dependents. The members of the pool include 12 school districts, 44 cities/townships, 3 counties, and 14 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 $100,000.

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, 2008, and 2007:

Self-Insured Claim Liabilities
As of June 30, 2008 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/07	$ 9,667	$ 3,399	$ 4,006	$ 9,060
Fiscal Year Ended 6/30/08	$ 9,060	$ 4,304	$ 4,363	$ 9,001
Tort Claims				
Fiscal Year Ended 6/30/07	$ -	$ 4,132	$ 4,132	$ -
Fiscal Year Ended 6/30/08	$ -	$ 1,420	$ 1,420	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/07	$ 114,816	$ 16,695	$ 17,748	$ 113,763
Fiscal Year Ended 6/30/08	$ 113,763	$ 6,004	$ 18,616	$ 101,151
State Employee Insurance Plans				
Fiscal Year Ended 6/30/07	$ 37,932	$ 474,718	$ 472,814	$ 39,836
Fiscal Year Ended 6/30/08	$ 39,836	$ 498,581	$ 497,137	$ 41,280

Public Employee Insurance
Medical
(In Thousands)

	Year Ended June 30 2008	Year Ended June 30 2007
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 1,210	$ 1,125
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	10,368	11,206
Increases (Decreases) in Provision for Insured Events of Prior Years	(55)	111
Total Incurred Claims and Claim Adjustment Expenses	$ 10,313	$ 11,317
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 9,403	$ 10,008
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,145	1,224
Total Payments	$ 10,548	$ 11,232
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 975	$ 1,210

Component Units

Housing Finance Agency

Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. HFA manages these risks through the primary government's insurance plans including the primary government's Risk Management Fund and through purchased insurance coverage. HFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years. HFA participates in the State Employee Group Insurance Plan (SEGIP), which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations. HFA also participates in the primary government's Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims.

Metropolitan Council

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

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.

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 4.25 percent. The self-insurance retention limit for workers' compensation is $1,600,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims using a discount rate of 6 percent.

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

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2006, and 2007 or June 30, 2007, and 2008, 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 12/31/06	$ 17,141	$ 7,950	$ 7,759	$ 17,332
Fiscal Year Ended 12/31/07	$ 17,332	$ 4,247	$ 5,648	$ 15,931
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/07	$ 6,729	$ 1,533	$ 1,772	$ 6,490
Fiscal Year Ended 6/30/08	$ 6,490	$ 5,253	$ 1,986	$ 9,757
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/07	$ 7,000	$ 4,595	$ 3,642	$ 7,953
Fiscal Year Ended 6/30/08	$ 7,953	$ 3,180	$ 3,759	$ 7,374
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/07	$ 15,848	$ 176,792	$ 178,887	$ 13,753
Fiscal Year Ended 6/30/08	$ 13,753	$ 197,161	$ 194,752	$ 16,162

Note 19 – 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, 2008 (In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ 842,626
Less: Reserved Fund Balance	153,150
Less: Designated Fund Balance	689,476
Undesignated Fund Balance	$ -
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (465,282)
Tax Refunds Payable	536,649
Human Services Receivable	(36,180)
Unearned Revenue	24,136
Escheat Asset	(16,299)
Other Receivables	(32,222)
Permanent School Fund Reimbursement	(4,154)
Investments at Market	(4,759)
Expenditure Accruals/Adjustments:	
Medical Care Programs	397,720
Human Services Grants Payable	43,083
Education Aids	679,561
Police and Fire Aid	79,781
Other Payables	37,553
Fund Structure Differences:	
Terminally Funded Pension Plans	7,922
Perspective Differences:	
Reserve for Long-Term Advances	1,750
Designated for Appropriation Carryover and Budgetary Reserve	(546,537)
Budgetary Basis:	
Undesignated Fund Balance	$ 702,722

Note 20 – 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 each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 are $761,000. The current maximum limits of liability for tort claims arising in Minnesota are $400,000 for any one claim and $1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are $500,000 for any one claim and $1,500,000 for any number of claims arising out of a single occurrence.

2) *I-35W Bridge Collapse*. On August 1, 2007 the I-35W interstate bridge over the Mississippi River collapsed. Thirteen people were killed, and approximately 145 injured. The bridge, which opened in 1967, was designed by a private contractor under contract with the state of Minnesota; it was inspected and maintained by the Minnesota Department of Transportation (MnDOT). The cause of the collapse is under investigation by the National Transportation Safety Board. In addition, a law firm was retained by the Minnesota Legislature to investigate MnDOT practices in regard to the inspection and maintenance of bridges. The Minnesota Office of the Legislative Auditor has also reviewed how MnDOT responded to the condition of the state's roads and bridges. The Minnesota Legislature enacted a Compensation Fund codified in Minn. Stat. § 3.7391 et seq. and appropriated $36,640,000 for payments to representatives of decedents and claimants who were on the I-35W bridge at the time of the collapse. A panel of three attorneys will determine the amount of payments. Persons accepting payment from the Compensation Fund will be required to forego the right to sue the state for damages. Persons who decline payment from the Compensation Fund will retain the right to sue the state. The state has received 186 Notices of Claim arising from the collapse of the I-35W bridge. Claims needed to be filed with the Compensation Fund Panel by October 15, 2008 and offers of settlements must be made by February 28, 2009.

3) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over $15 million in excess of current levels.

   a) At any one time, there are hundreds of MnDOT eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department, and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds $15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund. MnDOT has agreed to acquire properties for the Metropolitan Council's Central Corridor light rail transit project. This project is likely to involve eminent domain actions. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds $15 million. Liability arising out of decisions unfavorable to the state may impact funding to be provided to the MnDOT by the Metropolitan Council.

   b) *ACS State and Local Solutions, Inc. vs. State of Minnesota, through its Commissioner of the Department of Human Services (Ramsey County District Court)*. In May 2003, the Minnesota Department of Human Services (DHS) entered into a software development contract with an entity known as SSi North America. Under the contract, SSi was to develop and deliver a web-based software program known as "HealthMatch," intended to combine and automate certain evaluation and decision-making tasks regarding eligibility for several health care assistance programs administered by DHS. The HealthMatch contract was subsequently assigned to Albion, Inc., which was owned by SSi, and later, the assets of Albion, Inc., including the HealthMatch contract, were purchased by ACS State and Local Solutions, Inc. Initially, the contract was to continue until May 2005, but as difficulties arose with regard to completion of the software, it was eventually extended to May 2008. In March 2008, DHS determined that satisfactory progress toward completion was not being made and terminated the contract. ACS filed suit on September 9, 2008, claiming damages in excess of $50,000 based on breach of contract, quantum meruit (just compensation for work performed), and unjust enrichment. DHS has filed a counterclaim. While denying liability, DHS estimates that a decision favorable to plaintiff ACS could result in an impact on the General Fund in excess of $15 million. The court has not yet issued a scheduling order, but it is not likely that the matter will be tried before January 2010.

c) *BNSF Railway Co. vs. Minn. Dept of Revenue and State of Minnesota* (U. S. District Court, District of Minnesota). This lawsuit seeks an injunction and a declaratory judgment determining that the state sales/use tax on BNSF's purchase of railroad fuel is a violation of the federal 4-R Act. The factual and legal issues in this case are nearly identical to the issues in *Union Pacific Railroad Co. & Soo Line Railroad Co. vs. Comm'r. et al.,* where the 8th Circuit ultimately overturned the Federal District Court's determination and held that that the state sales/use tax did violate the 4-R Act. BNSF Railway in this case will likely move for summary judgment and then use this opinion to bolster its position in tax court or state district court where it will seek a refund of all the sales/use tax it has paid to the state which is estimated at about $20 million. In a 2000 opinion, the Minnesota Supreme Court held that BNSF's payment of the state sales/use tax for its fuel did not violate the 4-R Act. This decision is in direct conflict with the 8th Circuit's very recent decision in *Union Pacific.* BNSF recently noticed a Rule 12C motion for judgment on the pleadings with a hearing held on October 23, 2008. The court denied BNSF's motion for dismissal and a pre-trial is scheduled for November 26 with trial likely scheduled in mid 2009.

d) *Great Lakes Gas Transmission LP vs. Commissioner of Revenue, Northern Border Pipeline Co. vs. Commissioner of Revenue, Viking Gas Transmission Co. vs. Commissioner of Revenue* (Ramsey County District Court). Plaintiff pipeline companies transport natural gas under applicable Federal Energy Regulatory Commission (FERC) tariffs and use a portion of the shipped gas to run their compressor engines. Pursuant to provisions contained in Minn. Stat. § 297A.63, subd. 1, Minnesota imposes a use tax upon "the privilege of using, storing, distributing, or consuming in Minnesota tangible personal property purchased for use, storage, distribution, or consumption in this state." Plaintiffs allege that under FERC tariffs, they do not "purchase" the gas they use, and are challenging the state's imposition of a use tax upon compressor gas on the grounds that such taxation violates Minn. Stat. § 297A.63, subd. 1 along with the Supremacy, Commerce and Equal Protection Clauses of the United States Constitution. The Department of Revenue estimates the value of these issues at approximately $20 million annually. In the fall of 2007, all of the parties brought cross-motions for summary judgment, and the Court ruled for the Commissioner of Revenue on all claims. Great Lakes Gas Transmission LP and Northern Border Pipeline Co. appealed the Court's decision to the Minnesota Court of Appeals. Briefing has been completed and oral argument was held October 30, 2008. A decision is expected by January 2009.

e) *McLane Minnesota, Inc. vs. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff challenges the Minnesota tobacco tax (tax on tobacco products other than cigarettes) imposed by Minn. Stat. § 297F.05, subd. 3. Plaintiff requests nullification of an assessment for $178,327 and seeks a $5.6 million refund of tax previously paid. Plaintiff asserts that the tax violates the Commerce Clause of the United States Constitution and federal and state equal protections principles. Plaintiff also contends that the tax should be computed on the price tobacco manufacturers charge their own sales companies (rather than the price the sales companies charge to distributors like McLane), and should be computed on the price after applicable discounts. The Department of Revenue estimates that a decision favorable to Plaintiff would have an impact in excess of $15 million. The parties submitted cross-motions for summary judgment, and the Court ruled in favor of the Commissioner of Revenue. McLane Minnesota, Inc., has appealed the Court's decision to the Minnesota Supreme Court. Oral argument is likely to be held in early 2009.

f) *Merrill Lynch Pierce Fenner & Smith, Inc. vs. Commissioner of Revenue* (Minnesota Tax Court). Plaintiff engages in securities transactions sometimes on a commission basis and sometimes as a principal. Plaintiff's principal contention is that the Department of Revenue erred in using net rather than gross receipts in the apportionment formula sales factor for principal transactions. Plaintiff also alleges that the Department erred in the method used to "source" receipts from principal and commission transactions involving Minnesota customers and in excluding certain intangibles from the apportionment formula property factor denominator. Finally, Plaintiff alleges, on various grounds, that the Department's approach violates the Equal Protection, Uniformity and Due Process clauses of the Minnesota or Federal Constitutions and the Commerce Clause of the Federal Constitution. The Department of Revenue estimates that a decision favorable to Plaintiff would have an industry-wide impact in excess of $15 million. Trial is scheduled for February 2009.

g) *Minnesota Energy Resources Corp. vs. Commissioner of Revenue* (Minnesota Tax Court). In early September 2008). The plaintiff, a natural gas pipeline corporation appeals the 2007 and 2008 assessment of the real, personal, and operating property of its pipeline that is subject to assessment in 53 counties in Minnesota. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in Minn. Stat. §272.03, subd. 8) of the pipeline's property in Minnesota and in its determination has employed methods which overstate the market value and arrived at a value in excess of market value; and (2) that the pipeline's property in Minnesota was unfairly and unequally assessed compared to property in the same class and the property of similarly situated taxpayers in violation of Minn. Stat. §273.11, the Equal Protection Clause; the Uniformity of Taxation Clause (art. X, sec. 1) and the Due Process clause of the Minnesota Constitution and the Equal Protection and Due Process Clause of U.S. Constitution. The apportionable 2008 market value for this property is $126 Million.

h) *Stewart Title Guaranty Company vs. Commissioner of Revenue* (Minnesota Tax Court). The Commissioner assessed Plaintiff for additional insurance premium tax and interest. The issue is whether title insurance premium receipts retained by Plaintiff's agents (rather than transmitted to Plaintiff) are subject to the premium tax. The Department of Revenue estimates that a decision favorable to Plaintiff would have an industry-wide impact in excess of $15 million. The Minnesota Tax Court granted the Commissioner of Revenue's motion for summary judgment on all claims, and Stewart Title Guaranty Company appealed the court's ruling to the Minnesota Supreme Court. Briefing of this matter to the Minnesota Supreme Court has been completed, the oral argument was held on September 15, 2008 and the parties are awaiting a decision, which is expected by end of December 2008.

i) *Union Pacific Railroad Co. & Soo Line Railroad Co. vs. Salomone, et al.* (Federal District Court, No. CV 04-924 JRT/JSM). Plaintiffs, two railroad common carriers, challenge the imposition of Minnesota's sales and use tax on their purchase and use in Minnesota of diesel fuel for locomotives and off-road vehicles. Plaintiffs allege that the tax is discriminatory under the Railroad Revitalization and Regulatory Reform Act of 1976 ("4 R Act") because their principal competitors, motor carriers, airlines, and barges, are not taxed under the same regime or pay little or no tax. Plaintiffs are seeking declaratory and injunctive relief prohibiting enforcement and collection of the tax. The Department estimates a determination in plaintiffs' favor could result in revenue collection losses of $30 million when applied to plaintiffs and other railroad common carriers operating in Minnesota that paid the fuel tax and have timely filed claims for refunds. On August 22, 2006, the United States District Court filed a decision rejecting plaintiffs' challenges and upholding enforcement and collection of the tax. On November 6, 2007, the Eighth Circuit Court of Appeals reversed the decision and remanded the case to the District Court to enjoin the Commissioner from continuing to enforce the tax. The Commissioner of the Minnesota Department of Revenue filed a motion for a rehearing en banc to the United States Eighth Circuit Court of Appeals, which was denied. The Commissioner of Revenue then chose not to appeal this denial to the United States Supreme Court, and has been denying the outstanding refund claims. It is expected that additional litigation will be initiated by all of the railroads that have outstanding refund claims, with these claims expected to be $20,000,000 to $30,000,000.

Note 21 – Subsequent Events

Primary Government

On July 22, 2008, the state sold $275,000,000 of general obligation various purpose bonds Series 20008A at a true interest rate of 4.10 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On July 22, 2008, the state sold $33,500,000 general obligation state trunk highway bonds Series 20008B at a true interest rate of 4.12 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On July 22, 2008, the state sold 155,415,000 general obligation state refunding bonds Series 20008C bonds at a true interest rate of 3.52 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On November 13, 2008, the state sold $42,085,000 of 911 revenue bonds at a true interest rate of 4.60 percent. These bonds will provide funding for implementation of a statewide 911 emergency response communication system. The revenue bonds are secured by a monthly statewide 911 surcharge applied to subscribers of any basic telephone service capable of originating a 911 emergency telephone call.

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 3,000 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
2007	3.34	3.16
2006	3.37	3.21
2005	3.37	3.22

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,918 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	2007	2006	2005
Fair to Good	97.6	96.8%	96.3%

All Other Systems	2007	2006	2005
Fair to Good	93.2	95.3%	95.2%

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 (in thousands):

		Costs to be Capitalized			Maintenance of System			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2008	$183,449	$308,443	$491,892	$10,836	$223,926	$234,762	$ 726,654
	2007	148,320	480,900	629,220	63,835	223,476	287,311	916,531
	2006(1)			773,735			301,852	1,075,587
	2005(1)			393,467			200,765	594,232
	2004(1)			260,900			426,000	686,900
Actual	2008	$252,306	$279,664	$531,970	$35,341	$364,939	$400,280	$ 932,250
	2007	150,497	253,040	403,537	15,125	312,567	327,692	731,229
	2006(1)			451,935			360,835	812,770
	2005(1)			465,960			223,809	689,769
	2004(1)			504,288			227,996	732,284

(1) Due to system limitations, bridge and pavement costs are combined for the years ended June 30, 2006, 2005, and 2004.

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

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

Actuarial Measures of Pension Funding Progress

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

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

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

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

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		CERF	JRF	LRF	SPRF
Actuarial Valuation Date	2007[1]	7/1/2007	7/1/2007	7/1/2007	7/1/2007
	2006	7/1/2006	7/1/2006	7/1/2006	7/1/2006
	2005	7/1/2005	7/1/2005	7/1/2005	7/1/2005
Actuarial Value of Plan Assets	2007	$ 559,852	$ 153,562	$ 44,869	$ 617,901
	2006	$ 535,357	$ 151,850	$ 48,504	$ 618,990
	2005	$ 503,573	$ 144,465	$ 45,523	$ 601,220
Actuarial Accrued Liability	2007	$ 708,292	$ 214,297	$ 86,449	$ 673,444
	2006	$ 647,480	$ 202,301	$ 81,361	$ 641,479
	2005	$ 546,118	$ 191,414	$ 81,836	$ 566,764
Total Unfunded Actuarial Liability (Asset)	2007	$ 148,440	$ 60,735	$ 41,580	$ 55,543
	2006	$ 112,123	$ 50,451	$ 32,858	$ 22,489
	2005	$ 42,544	$ 46,949	$ 36,314	$ (34,456)
Funded Ratio[2]	2007	79%	72%	52%	92%
	2006	83%	75%	60%	96%
	2005	92%	75%	56%	106%
Annual Covered Payroll	2007	$ 167,727	$ 36,195	$ 2,380	$ 61,498
	2006	$ 145,879	$ 36,529	$ 2,894	$ 57,765
	2005	$ 132,335	$ 35,941	$ 3,014	$ 55,142
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2007	89%	168%	1747%	90%
	2006	77%	138%	1135%	39%
	2005	32%	131%	1204%	(62%)

[1]The July 1, 2007, Annual Valuation Report is the most recently issued report available.

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

Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit heath care plan.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	2008[1]	7/1/2006
Actuarial Value of Plan Assets	2008	$ -
Actuarial Accrued Liability	2008	$ 659,044
Total Unfunded Actuarial Liability	2008	$ 659,044
Funded Ratio[2]	2008	0%
Annual Covered Payroll	2008	$ 2,838,228
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2008	23%

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

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

Public Employees Insurance Program Development Information

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

	Fiscal Year Ended (In Thousands)									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Required Contribution and Investment Revenue:										
Earned	$ 7,713	$ 10,995	$ 18,005	$ 22,149	$ 23,458	$ 22,764	$ 19,177	$ 14,942	$ 13,219	$ 13,439
Ceded	624	1,031	1,972	2,243	2,321	2,231	1,736	1,491	1,347	1,298
Net Earned	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137	$ 20,533	$ 17,441	$ 13,451	$ 11,872	$ 12,141
2. Unallocated Expenses	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528	$ 2,296	$ 1,904	$ 1,638	$ 1,547	$ 1,505
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	$ 5,800	$ 9,972	$ 16,550	$ 21,055	$ 19,715	$ 19,466	$ 16,499	$ 12,551	$ 11,206	$ 10,748
Ceded	171	772	760	2,513	1,570	1,980	1,913	1,382	1,782	380
Net Incurred	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 4,678	$ 7,944	$ 13,228	$ 15,824	$ 15,848	$ 15,699	$ 12,909	$ 10,055	$ 8,226	$ 9,403
One Year Later	5,817	9,240	15,908	18,091	17,572	17,367	14,141	11,282	9,352	
Two Years Later	5,818	9,243	15,963	18,034	17,579	17,764	14,139	11,301		
Three Years Later	5,818	9,243	15,963	18,034	17,579	17,764	14,139			
Four Years Later	5,818	9,243	15,963	18,034	17,579	17,764				
Five Years Later	5,818	9,243	15,963	18,034	17,579					
Six Years Later	5,818	9,243	15,963	18,034						
Seven Years Later	5,818	9,243	15,963							
Eight Years Later	5,818	9,243								
Nine Years Later	5,818									
5. Re-estimated Ceded Claims and Expenses	$ 171	$ 772	$ 760	$ 2,513	$ 1,570	$ 1,980	$ 1,913	$ 1,382	$ 1,782	$ 380
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368
One Year Later	5,828	9,253	15,935	18,114	17,595	17,385	14,152	11,294	9,362	
Two Years Later	5,818	9,243	15,963	18,034	17,579	17,764	14,139	11,301		
Three Years Later	5,818	9,243	15,963	18,034	17,579	17,764	14,139			
Four Years Later	5,818	9,243	15,963	18,034	17,579	17,764				
Five Years Later	5,818	9,243	15,963	18,034	17,579					
Six Years Later	5,818	9,243	15,963	18,034						
Seven Years Later	5,818	9,243	15,963							
Eight Years Later	5,818	9,243								
Nine Years Later	5,818									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ 189	$ 43	$ 173	$ (508)	$ (566)	$ 278	$ (447)	$ 132	$ (62)	$ -

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 F

Proposed Form of Bond Counsel Opinion

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September 1, 2009

$74,980,000
State of Minnesota
Technology Systems
Lease Purchase Agreement
Certificates of Participation
Series 2009

We have acted as bond counsel in connection with the issuance of the Certificates of Participation, Series 2009 (the "Series 2009 Certificates") in that certain Technology Systems Lease Purchase Agreement, dated as of September 1, 2009 (the "Lease"), by and between the State of Minnesota, acting by and through the Commissioner of Management and Budget, as lessee (the "Lessee") and U.S. Bank National Association, as trustee (the "Trustee" or "Lessor") under that certain Declaration of Trust, dated as of September 1, 2009 (the "Declaration of Trust"), by and between the Trustee and the Lessee.

The Lessee has conveyed its interest in certain technology systems to be acquired and installed (the "Projects") to the Lessor. Under the Lease, the Lessor will lease the Projects to the Lessee during the term of the Lease. Upon expiration of the term of the Lease or the earlier termination of the Lease, the Lessor's ownership interest in the Projects will be conveyed to the Lessee free and clear of all encumbrances. Rental payments payable by the Lessee pursuant to the Lease ("Rental Payments") have been designated as constituting either principal payments or interest payments on the outstanding principal amount.

The Rental Payments are payable solely from moneys appropriated for such purposes by the legislature of the State of Minnesota pursuant to Minnesota Laws of 2009, Chapter 101, Article 2, Sections 50, 51, 71 and 104 (collectively, the "Act"). The Act provides, inter alia, that certain amounts are appropriated to the Commissioner of Management and Budget (the "Commissioner") from the general fund of the State of Minnesota (the "State") for the State's fiscal years 2010 through 2019 to make payments under a lease purchase agreement authorized by the Act. However, the Act further provides "that the state is not obligated to continue the appropriation of funds or to make lease payments in any future fiscal year. Any unexpended portions of this appropriation cancel to the general fund at the close of each biennium." If the Lease is terminated for any reason, including Non-Appropriation as defined therein, the State has no obligation to make any further Rental Payments and the rights, if any, of the Lessor and owners of the Series 2009 Certificates in the Projects are terminated.

Pursuant to the Declaration of Trust, the Trustee is authorized to authenticate and deliver the Series 2009 Certificates which evidence the right of the registered owner thereof to receive a portion of the Rental Payments paid by the Lessee, all as specified in the Series 2009 Certificate. We have examined the Lease, the Declaration of Trust, a form of Series 2009 Certificate and such laws, certified proceedings, and other documents, materials and papers as deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Lessee contained in the Lease, the Declaration of Trust, an Order of the Commissioner, certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. We have assumed the authenticity of all documents submitted to us as originals, the authenticity of all signatures appearing on certified proceedings, certifications and documents, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents.

We have not been engaged, nor have we undertaken, to review the accuracy, completeness, or sufficiency of any offering material related to the Series 2009 Certificates, and we express no opinion relating thereto, as to the adequacy or efficiency of the revenues or, except as expressly set forth herein, the security for the payment of the Series 2009 Certificates or as to any other matter not expressly set forth herein.

Based on the foregoing, we are of the opinion that, as of the date hereof, under existing law as presently enacted and construed:

1. The Lease and Series 2009 Certificates have been authorized, executed and delivered by the Commissioner, on behalf of the State, and are valid and binding special obligations of the Lessee, payable solely from the sources provided therefore in the Act, the Lease and the Declaration of Trust.

2. The Lease is not a general obligation of the State and the full faith and credit and taxing powers of the State are not pledged to, or available with respect to, the payment of Rental Payments. The Lease is subject to annual non-appropriation by the State in which event the Lease is terminated and there is no obligation of the State for future Rental Payments.

3. Under existing statutes, regulations, rulings and court decisions, the amount of each Rental Payment designated as, and comprising, interest to be received by the registered owners of the Series 2009 Certificates is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions).

4. The amount of each Rental Payment designated as, and comprising, interest to be received by the registered owners of the Series 2009 Certificates is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations or for purposes of the Minnesota alternative minimum tax applicable to individuals, estate or trust, and for the purpose of computing the federal alternative minimum tax will not be taken into account in determining adjusted current earnings of corporations because the Certificates are being issued in 2009.

Though excluded from gross income, the amount of each Rental Payment designated as, and comprising, interest is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation taxation to the extent it is included as part of (a) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (b) excess net passive income of an S

Corporation which has Subchapter C earnings and profits, or (c) minimum effectively connected net investment income of a foreign insurance company. Such interest on the Series 2009 Certificates is also taken into account in other ways for federal income tax purposes, including without implied limitation (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Series 2009 Certificates may result in other collateral federal income tax consequences to certain taxpayers. We express no opinion as to any of such consequences.

In rendering this opinion, we have assumed continuing compliance by the Lessee with the covenants and representations that are intended to comply with the provisions of the Internal Revenue Code of 1986, as amended, relating to actions to be taken by the Lessee in respect of the Series 2009 Certificates after the issuance thereof to the extent necessary to effect or maintain exclusion of the amount of each Rental Payment designated as, and comprising interest on the Series 2009 Certificates from federal gross income. These covenants, representations and requirements relate to, inter alia, the use and investment of proceeds of the Series 2009 Certificates and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with certain of such covenants, representations, or requirements may cause the inclusion of such interest on the Series 2009 Certificates in gross income for federal or state income tax purposes from the date of issue.

It is to be understood that the rights of the holders of the Series 2009 Certificates and the enforceability thereof may be subject to the exercise of judicial discretion, to general principles of equity, to the valid exercise of the constitutional powers of the United States of America and of the sovereign powers of state of other governmental units having jurisdiction, and to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights heretofore or hereafter enacted.

We call your attention to the fact that the Lease and the Series 2009 Certificates are limited obligations, payable solely from the funds appropriated for the payment thereof, do not constitute a debt or loan of credit of the State or any agency or political subdivision thereof and neither the State nor any agency or political subdivision thereof shall be liable on the Lease or the Series 2009 Certificates, and neither the faith and credit nor the taxing power of the State or any agency or political subdivision thereof is pledged to the payment of the Lease or the Series 2009 Certificates.

Very truly yours,

Professional Association

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APPENDIX G

Proposed Form of Continuing Disclosure Undertaking

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CONTINUING DISCLOSURE UNDERTAKING

The Commissioner's Order authorizing the issuance of the Certificates will contain provisions enabling participating underwriters in the primary offering of the Certificates 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 Certificates dated August 18, 2009 (the "Official Statement"), is deemed final as of August 18, 2009 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 Certificates designated in Section 12 hereof (the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Certificates 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 Certificates to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to the Municipal Securities Rulemaking Board ("MSRB"), 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 Certificates, as set forth in this Section. The State is the only "obligated person" in respect of the Certificates within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Certificate, 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 Certificate, 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 Certificate (including persons or entities holding Certificates through nominees, depositories or other intermediaries), or is treated as the owner of the Certificate 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 2009 (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 MMB 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 filed with the SEC or have been made available to the public on the MSRB's internet web site. 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) Certificate 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 Certificate 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 Certificate 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.*

(1) The Commissioner agrees to make available to the MSRB, in an electronic format as prescribed by the MSRB from time to time, the information described in paragraph (b).

(2) The Commissioner further agrees to make available, by electronic transmission, overnight delivery, mail or other means, as appropriate, the information described in paragraph (b) to any rating agency then maintaining a rating of the Certificates and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraph (1) of this paragraph (c) or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(3) All documents provided to the MSRB pursuant to this paragraph (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) *Term; Amendments; Interpretation.*

(1) The covenants of the State in this Section 3.02 shall remain in effect so long as any Certificates 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 Certificates 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 Certificates, 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 Certificates, 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.

(3) 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.

(4) 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 Certificate, 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 Certificates 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 is not in default of any continuing disclosure obligation with respect to any outstanding general obligation bond of the State.