OFFICIAL STATEMENT DATED OCTOBER 24, 2013

NEW ISSUES – BOOK ENTRY ONLY

RATINGS: Fitch: AA+
Moody's: Aa1
Standard & Poor's: AA+
See "Ratings" herein

In the opinion of Kutak Rock LLP, Bond Counsel, under existing federal and Minnesota laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2013D Bonds, the Series 2013E Bonds and the Series 2013F Bonds(collectively, the "Bonds") is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating federal alternative minimum taxable income. For a discussion of tax matters see "TAX MATTERS'' herein.

$769,760,000
STATE OF MINNESOTA
General Obligation State Bonds
consisting of

$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D

$112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E

$373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F

(collectively referred to as the "Bonds")

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

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

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

The Bonds will be available to the purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. The Bank of New York Mellon Trust Company, N.A. is the Bond Registrar and Paying Agent for the Bonds.

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

The Bonds are offered by the State subject to the legal opinions of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, and of the State Attorney General as to the validity of the Bonds, and Kutak Rock LLP as to the tax exemption of the interest on the Bonds. Delivery will be made on or about Wednesday, November 6, 2013.

Supplement to

OFFICIAL STATEMENT
relating to

STATE OF MINNESOTA

$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D

The Official Statement, relating to the above-referenced bonds, is hereby supplemented with the following information in bold and underlined below. This information relates particularly to the inside cover on page i of the Official Statement.

$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129	Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129
2014	$13,970,000	5.000%	0.170%	R24	2024	$13,965,000	4.000%	2.700%*	S49
2015	13,970,000	5.000	0.350	R32	2025	13,965,000	4.000	2.900*	S56
2016	13,970,000	5.000	0.550	R40	2026	13,965,000	3.000	**<u>98.000</u>**	S64
2017	13,970,000	5.000	0.850	R57	2027	13,965,000	4.000	3.350*	S72
2018	18,465,000	5.000	1.190	R65	2028	13,965,000	3.500	**<u>98.000</u>**	S80
2019	13,965,000	5.000	1.550	R73	2029	13,965,000	4.000	3.650*	S98
2020	13,965,000	5.000	1.890	R81	2030	13,965,000	4.000	3.760*	T22
2021	13,965,000	5.000	2.200	R99	2031	13,965,000	4.000	3.900*	T30
2022	13,965,000	5.000	**<u>2.380</u>**	S23	2032	13,965,000	4.000	4.000	T48
2023	13,965,000	5.000	2.550	S31	2033	13,965,000	4.000	4.050	T55

This Supplement is hereby incorporated into the Official Statement, relating to the above-referenced bonds, and the Official Statement is to be read only in conjunction with this Supplement.

The date of this Supplement is October 30, 2013.

$769,760,000
State of Minnesota
General Obligation State Bonds

Maturities, Amounts, Interest Rates, Prices or Yields and Initial CUSIPs**

$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129	Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129
2014	$13,970,000	5.000%	0.170%	R24	2024	$13,965,000	4.000%	2.700%*	S49
2015	13,970,000	5.000	0.350	R32	2025	13,965,000	4.000	2.900*	S56
2016	13,970,000	5.000	0.550	R40	2026	13,965,000	3.000	98	S64
2017	13,970,000	5.000	0.850	R57	2027	13,965,000	4.000	3.350*	S72
2018	18,465,000	5.000	1.190	R65	2028	13,965,000	3.500	98	S80
2019	13,965,000	5.000	1.550	R73	2029	13,965,000	4.000	3.650*	S98
2020	13,965,000	5.000	1.890	R81	2030	13,965,000	4.000	3.760*	T22
2021	13,965,000	5.000	2.200	R99	2031	13,965,000	4.000	3.900*	T30
2022	13,965,000	5.000	2.238	S23	2032	13,965,000	4.000	4.000	T48
2023	13,965,000	5.000	2.550	S31	2033	13,965,000	4.000	4.050	T55

$112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129	Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129
2014	$5,600,000	2.000%	0.170%	M37	2024	$5,600,000	5.000%	2.700%*	N51
2015	5,600,000	4.000	0.340	M45	2025	5,600,000	5.000	2.850*	N69
2016	5,600,000	5.000	0.570	M52	2026	5,600,000	5.000	3.020*	N77
2017	5,600,000	5.000	0.880	M60	2027	5,600,000	4.000	3.420*	N85
2018	5,600,000	5.000	1.190	M78	2028	5,600,000	4.000	3.520*	N93
2019	5,600,000	5.000	1.560	M86	2029	5,600,000	4.000	3.660*	P26
2020	5,600,000	5.000	1.890	M94	2030	5,600,000	4.000	3.780*	P34
2021	5,600,000	5.000	2.190	N28	2031	5,600,000	4.000	3.890*	P42
2022	5,600,000	5.000	2.360	N36	2032	5,600,000	4.000	3.980*	P59
2023	5,600,000	5.000	2.530	N44	2033	5,600,000	4.000	4.040	P67

$373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129	Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 604129
2016	$24,060,000	5.000%	0.550%	P75	2022	$37,695,000	5.000%	2.350%	Q58
2017	38,070,000	5.000	0.850	P83	2023	37,605,000	5.000	2.500	Q66
2018	38,005,000	5.000	1.180	P91	2024	37,325,000	4.000	2.740*	Q74
2019	37,935,000	5.000	1.550	Q25	2025	36,835,000	4.000	2.910*	Q82
2020	37,855,000	5.000	1.880	Q33	2026	10,775,000	3.125	3.250	Q90
2021	37,780,000	5.000	2.180	Q41					

*Priced at the stated yield to the October 1, 2023 redemption date at a price of 100%. See "THE BONDS, Optional Redemption" herein.

**The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

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STATE OF MINNESOTA OFFICIALS

GOVERNOR	Mark Dayton
LIEUTENANT GOVERNOR	Yvonne Prettner Solon
SECRETARY OF STATE	Mark Ritchie
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF MANAGEMENT AND BUDGET

James D. Schowalter

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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 or Underwriters to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State or Underwriters. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information. Certain information contained herein has been obtained from sources other than records of the State and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

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

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

SUMMARY STATEMENT

(The Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement)

Issuer:	State of Minnesota
Offering:	\$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D (the "Series 2013D Bonds") \$112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E (the "Series 2013E Bonds") \$373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F (the "Series 2013F Bonds") *(collectively referred to as the "Bonds")*
Principal Amounts:	The principal amounts of the Bonds are set forth on the inside cover pages.
Interest:	Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date of the Bonds, payable semiannually on each April 1 and October 1, commencing April 1, 2014.
Dated Date:	Date of Delivery, expected to be November 6, 2013.
Security:	General obligations of the State of Minnesota to which its full faith, credit and taxing powers are pledged.
Book-Entry Bonds:	The Bonds will be issued in fully registered form without interest coupons in denominations of \$5,000 and integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds.
Redemption:	The Bonds maturing on or before October 1, 2023 will not be subject to redemption prior to their stated maturity dates. The Bonds maturing on or after October 1, 2024 will be subject to redemption and prepayment by the State at its option on October 1, 2023 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each maturity at a price of par plus accrued interest to the date specified for redemption.
Continuing Disclosure:	Other than as described in this Official Statement (see "CONTINUING DISCLOSURE"), in the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect, with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

Bond Ratings: The Bonds described herein have been rated “AA+” by Fitch Ratings, “Aa1” by Moody’s Investors Service Inc. and “AA+” by Standard & Poor’s Ratings Group.

Registrar/Paying Agent/ Escrow Agent: The Bank of New York Mellon Trust Company, N.A.

Legal Opinions: The Bonds are approved as to validity by the State Attorney General and Kutak Rock LLP, Omaha, Nebraska as Bond Counsel. Only Kutak Rock LLP will provide the Opinion regarding the tax exemption of interest on the Bonds.

Bonds Outstanding: The total amount of State general obligation bonds outstanding on the date of issuance of the Bonds, including these issues will be approximately $6.26 billion. The total amount of general obligation bonds authorized but unissued as of the date of issuance of the Bonds, will be approximately $1.57 billion. See Appendix C, pages C-1 and C-2.

Additional Information: Questions regarding this Official Statement should be directed to Kristin Hanson, Assistant Commissioner, Minnesota Management and Budget, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8030, email kristin.hanson@state.mn.us, Susan Gurrola, Financial Analyst, Minnesota Management and Budget, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 201-8046, email sue.gurrola@state.mn.us or Thomas Huestis, Public Resources Advisory Group, telephone (610) 565-5990, email thuestis@pragny.com. Questions regarding legal matters should be directed to Curtis L. Christensen, Kutak Rock LLP, 1650 Farnam Street, Omaha, Nebraska 68102, telephone (402) 346-6000, email curtis.christensen@kutakrock.com.

STATE OF MINNESOTA
$769,760,000
General Obligation State Bonds
consisting of

$283,820,000 General Obligation State Various Purpose Bonds, Series 2013D

$112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E

$373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F

(collectively referred to as the "Bonds")

THE BONDS

General

This Official Statement, including the cover page and the Appendices (this "Official Statement"), has been prepared by the State of Minnesota Department of Management and Budget (the "Department" or "MMB") to furnish information relating to the $283,820,000 General Obligation State Various Purpose Bonds, Series 2013D (the "Series 2013D Bonds"), the $112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E (the "Series 2013E Bonds"), and the $373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F (the "Series 2013F Bonds"), (collectively referred to as the "Bonds") of the State of Minnesota (the "State") to be dated the date of issuance, to prospective purchasers and actual purchasers of the Bonds. Prospective and actual purchasers should read this entire Official Statement.

Authorization and Purpose

The Bonds are being issued by the State of Minnesota, acting by and through its Commissioner of Management and Budget (the "Commissioner"), pursuant to the constitutional and statutory authority as hereinafter described.

The Series 2013D Bonds in the aggregate principal amount of $283,820,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises.

The Series 2013E Bonds in the principal amount of $112,000,000 are being issued for the purpose of financing the cost of construction, improvement and maintenance of programs and projects of the State trunk highway system.

The Series 2013F Bonds in the principal amount of $373,940,000 are being issued for the purpose of refunding $394,000,000 in principal amount of outstanding general obligation various purpose bonds of the State, (the "Various Purpose Refunded Bonds"). The proceeds to refund the Various Purpose Refunded Bonds will be placed in an irrevocable escrow fund and used, together with other available funds, to pay the principal of and interest on the Various Purpose Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Various Purpose Refunded Bonds and the dates on which they will be called for redemption are described in Appendix D.

Constitutional Provisions.

Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred for (a) the acquisition and betterment of public land, buildings and other improvements of a capital nature, or for appropriations or loans to State agencies or political subdivisions for this purpose, as the Legislature by a three-fifths vote of both the House of Representatives and the Senate may direct; (b) repelling invasion or suppressing insurrection; (c) borrowing temporarily; (d) refunding outstanding bonds of the State or its agencies; (e) the construction of improvements to and maintenance of the State's trunk highway system; (f) promoting forestation and preventing and abating forest fires; (g) the construction, improvement and operation of airports and other air navigation facilities; (h) the development of the agricultural resources of the State by extending credit on real estate security; and (i) improving and rehabilitating railroad rights-of-way and other rail facilities; all as the Legislature may direct. Article XI requires all such debt to be evidenced by the issuance of State bonds maturing within 20 years of their date of issue, for which the full faith and credit and taxing powers of the State are irrevocably pledged. Public debt is defined by Article XI, Section 4 to include any obligation payable directly, in whole or in part, from a tax of statewide application on any class of property, income, transaction or privilege, but does not include any obligation which is payable from revenues other than taxes. The Minnesota Constitution places no limitation on the interest rate of bonds that may be authorized for these purposes.

Statutory Provisions.

The Series 2013D Bonds and the Series 2013F Bonds are authorized by Minnesota Statutes, Sections 16A.631 through 16A.675. The Series 2013E Bonds are authorized by Minnesota Statutes, Sections 167.50 through 167.52.

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council. The issuance of the Series 2013F Bonds was approved by resolutions of the State Executive Council on September 29, 2009.

Session Law Provisions.

Session laws authorizing the issuance of the Series 2013D Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	**Bonds This Issue**[2]
Session 2006, Chapter 258…………………………………………………………	$ 500 000
Session 2008, Chapter 179…………………………………………………………	10,000,000
Session 2008, Chapter 365…………………………………………………………	150,000
Session 2009, Chapter 93……………………………………………………..........	9,000,000
Session 2010, Chapter 189…………………………………………………………	50,000,000
Session X2010, Chapter 1………………………………………………………….	2,500,000
Session X2011, Chapter 12…………………………………………………………	72,000,000
Session 2012, Chapter 293…………………………………………………………	101,850,000
Session X2012, Chapter 1………………………………………………………….	11,000,000
Session 2013, Chapter 136………………………………………………………....	53,000,000
Total:	$ 310,000,000

Session laws authorizing the issuance of the Series 2013E Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	**Bonds This Issue**
Session 2008, Chapter 152………………………………………………………....	$ 97,200,000
Session 2009, Chapter 36………………………………………………………….	1,000,000
Session 2010, Chapter 189………………………………………………………....	300,000
Session 2010, Chapter 388………………………………………………………....	12,000,000
Session X2012, Chapter 1…………………………………………………………	1,500,000
Total	$112,000,000

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

[2] Including net premium deposited into the Capital Projects Fund.

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable semiannually on each April 1 and October 1 to maturity or prior redemption, if any, commencing April 1, 2014. If principal or interest is due on a date on which commercial banks are not open for business in the states of Minnesota and New York, then payment will be made on the first day thereafter when such banks are open for business.

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

Optional Redemption

The Bonds maturing on or before October 1, 2023 will not be subject to redemption prior to their stated maturity dates. The Bonds maturing on or after October 1, 2024 will be subject to redemption and prepayment by the State at its option on October 1, 2023 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each maturity at a price of par plus accrued interest to the date specified for redemption.

Notices of Redemption

So long as the Bonds are registered in the name of the nominee of DTC or another securities depository designated for this purpose as indicated in the section hereof entitled “Book Entry System,” notice of any redemption of Bonds will be mailed only to such securities depository, which in turn is obligated to notify its participants who are obligated to notify the Beneficial Owners (as herein defined) of the Bonds. However, the State assumes no responsibility with respect to the giving of such notice of redemption by the securities depository or its participants.

If, in the future, the Bonds are not in book entry form, notice of any redemption of Bonds will be published in financial newspapers circulated in the Minneapolis-St. Paul metropolitan area and in the Borough of Manhattan, City and State of New York, not less than thirty days before the redemption date, stating: (i) the series, original date of issue, maturity dates, CUSIP numbers, and interest rates of the Bonds to be redeemed, (ii) if less than all Bonds of any maturity are to be redeemed, the registration numbers of those to be redeemed, (iii) the principal amount to be redeemed if less than the entire principal amount of any Bond, (iv) the redemption date and price and the name and address of the paying agent where such Bonds must be presented for payment, (v) that on the redemption date the redemption price of the Bonds or portions thereof to be redeemed will be payable, and (vi) that after the redemption date interest will cease to accrue or be payable thereon. Notice will also be mailed to the registered owner of any such Bond at the address shown on the bond register, not less than twenty days before the redemption date.

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

SECURITY[1]

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

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (the "General Fund" as defined on page B-2) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfers of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

Minnesota Statutes, Section 16A.641, makes an annual appropriation to the Debt Service Fund from the General Fund of the amount that, added to the amount already on hand in the Debt Service Fund, is an amount needed to pay the principal of and interest on all State bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the General Fund to the Debt Service Fund for the Bonds included in this issue will be made by December 1 of each year. (Also see information on page C-5 with respect to the Debt Service Fund transfer.)

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund" or "State Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula allocating the 5% may be made within six years of the last previous change, which occurred in 1998.

Minnesota Statutes, Section 167.51, makes an annual appropriation to the trunk highway bond account in the Debt Service Fund from the State Trunk Highway Fund of the amount that, when added to the amount already on hand in the trunk highway bond account in the Debt Service Fund, is the amount needed to pay

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

the principal of and interest on all State trunk highway bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the State Trunk Highway Fund to the trunk highway bond account in the Debt Service Fund for the State trunk highway bonds included in this issue will be made by December 1 of each year.

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

SOURCES AND USES OF FUNDS

Sources:	**Series 2013D Bonds**	**Series 2013E Bonds**	**Series 2013F Bonds**	**Total**
Par Amount of Bonds	$283,820,000.00	$112,000,000.00	$373,940,000.00	$769,760,000.00
Premium on Bonds	27,189,509.30	12,682,936.00	62,213,531.40	102,085,976.70
Total Sources	$311,009,509.30	$124,682,936.00	$436,153,531.40	$871,845,976.70
Uses:				
Capital Projects Fund	$309,825,000.00	$111,900,000.00	$ -	$421,725,000.00
Escrow Deposit	-	-	428,334,878.56	428,334,878.56
Underwriters' Discount	1,007,561.00	211,064.00	407,594.60	1,626,219.60
Cost of Issuance	175,000.00	100,000.00	255,000.00	530,000.00
Deposit to State Bond Fund	1,948.30	12,471,872.00	7,156,058.24	19,629,878.54
Total Uses	$311,009,509.30	$124,682,936.00	$436,153,531.40	$871,845,976.70

FUTURE FINANCINGS

The State anticipates the issuance of the following transactions by the State and State entities within the next six months that are backed by State general fund appropriations:

Certain State entities that issue bonds that have been granted financial assistance by the Legislature in the form of standing appropriations for their annual debt payments are considering future financings.

In 2008, the University of Minnesota was authorized to issue $219 million in bonds for its Biomedical Science Research Facilities which are repayable from State General Fund appropriations. The University of Minnesota anticipates issuing a portion of their remaining authorization in October, 2013 to complete the phased project. See "Appendix C - STATE DEBT, CONTINGENT LIABILITIES, State Continuing Appropriations."

Furthermore, pursuant to Minnesota Statutes Section 16A.965 the State anticipates the issuance of up to $600 million of general fund appropriation bonds for the purpose of financing up to $498 million for the State and City of Minneapolis' share of the costs of a professional football stadium project of the Minnesota Sports Facilities Authority that was created for that purpose by Minnesota Statutes Chapter 473J. The State has commenced the financing process.

Pursuant to Minnesota Statutes 16A.85, Minnesota Management and Budget finances personal property needs of the state using a master lease financing program. MMB has begun the procurement process to secure a new master lease program for the next two calendar years. The amount of the financing will be dependent on a required demand survey of equipment needs. The new master lease is expected to be in place by December 2013.

In addition, pursuant to Minnesota Laws of 2013, Chapter 143, Section 21 the Department of Administration ("DOA") may enter into a long-term lease-purchase agreement for a term of up to 25 years, to pre-design, design, construct, and equip offices, hearing rooms, and parking facilities for legislative and other functions. In collaboration with the DOA, MMB may issue lease revenue bonds or certificates of participation to finance the legislative office facility. The State anticipates entering into a lease purchase which will finance approximately $86.5 million in project costs in the spring of 2014.

BOOK ENTRY SYSTEM

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

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

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct Participants and Indirect Participants (collectively, the "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

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

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

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

TAX MATTERS

The Bonds

General. In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing federal and Minnesota laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants described below, the interest to be paid on the Bonds is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. The interest to be paid on the Bonds is included in adjusted current earnings of corporations in determining the alternative minimum taxable income of such corporations for purposes of the federal alternative minimum tax.

Arbitrage/Use of Proceeds. Failure to comply with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), may cause interest on the Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Bonds. These provisions include investment restrictions, required periodic payments of arbitrage profits to the United States, and requirements concerning the timely and proper use of Bond proceeds and the facilities and activities financed or refinanced therewith and certain other matters. The documents authorizing the issuance of the Bonds include provisions which, if complied with by the State, are designed to meet the requirements of the Code. Such documents also include a covenant of the Commissioner to take all legally permissible actions necessary to preserve the tax exemption of interest on the Bonds. However, no provision is made for redemption of the Bonds or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes subject to federal or Minnesota income taxation.

Discount Bonds. The Series 2013D Bonds having a stated maturity in the years 2026, 2028 and 2033, the Series 2013E Bonds having a stated maturity in the year 2033 and the Series 2013F Bonds having a stated maturity in the year 2026 (the "Discount Bonds") are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

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

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

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount.

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

Premium Bonds. The Series 2013D Bonds having a stated maturity in the years 2014 through 2025, 2027 and 2029 through 2032, the Series 2013E Bonds having a stated maturity in the years 2014 through 2032 and the Series 2013F Bonds having a stated maturity in years 2016 through 2025 (the "Premium Bonds"), are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Premium Bonds must, from time to time, reduce their federal and Minnesota tax bases for the Premium Bonds for purposes of determining gain or loss on the sale, redemption or payment at maturity of such Premium Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Premium Bonds might recognize taxable gain upon sale of such Premium Bonds, even if such Premium Bonds are sold for an amount equal to or less than their original cost. The amount of premium amortized in any period offsets a corresponding amount of interest for such period. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Premium Bonds 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 such Premium Bonds.

Collateral Tax Matters. The following tax provisions also may be applicable to the Tax-Exempt Bonds and interest thereon:

(1) Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and Railroad Retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Bonds, may be subject to taxation under Section 1375 of the Code and corresponding provisions of Minnesota law for an S corporation that has accumulated earnings and profits at the close of the taxable year if more than 25 percent of its gross receipts is passive investment income;

(3) interest on the Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code;

(4) in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Bonds that is received or accrued during the taxable year;

(5) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest expense in the case of individuals, estates and trusts; indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds;

(7) in the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Bonds may affect taxpayers otherwise entitled to claim the earned income credit under Section 32 of the Code.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership, disposition, or receipt of interest on the Bonds. Prospective purchasers or bondholders should consult their tax advisors with respect to collateral tax consequences and applicable state and local tax rules in states other than Minnesota.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Tax-Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time-to-time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time-to-time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Kutak Rock LLP, Bond Counsel, and the State Attorney General. Only Kutak Rock LLP will offer an opinion as to tax status of interest on the Tax-Exempt Bonds. The forms of legal opinions to be issued by Kutak Rock LLP with respect to the Bonds are set forth in Appendix H.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement, Appendices A through F, and is a part of this Official Statement. The State's most recent audited financial statements are included as Appendix F.

LITIGATION

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

While at any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for the Fiscal Year Ended June 30, 2012, 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 19 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.

Kiminski v. Hunt et al (formerly Beach/Ness v. Hunt et al.) and similar matters: In January of 2013, the Department of Natural Resources notified approximately 5,000 residents that their drivers' license data may have been improperly viewed by former DNR employee John Hunt. Since the notification, five putative class actions have been filed in federal court against the DNR, the Department of Public Safety, and the cases were consolidated with the amended complaint naming various state employees in their individual and official capacities alleging violations of federal and state law resulting from Hunt's conduct. The consolidated complaint dropped the DNR and Department of Public Safety as Defendants. The suits include claims for relief under the federal Drivers Privacy Protection Act and 42 U.S.C. § 1983. The plaintiffs seek statutory damages, actual damages, punitive damages, injunctive relief, and attorneys' fees. On September 20, 2103, the court dismissed all claims against state employees other than former DNR employee Hunt. The decision may be appealed. Other similar cases have been filed against other state employees in their individual and official capacities alleging plaintiffs' drivers' license data may have been improperly viewed by state employees. Motions to dismiss have been or will be filed in each case, one of which was granted on October 8, 2013.

*SAP Retail, Inc. vs. Commissioner of Revenue (Minnesota Tax Court).*The taxpayer filed an appeal in Minnesota Tax Court challenging the Commissioner's assessment of about $500,000 in sales and use tax on the taxpayer's sale of software and various components of software implementation. After a trial, the Court dismissed the Commissioner's assessment finding that the sale of this software and software implementation was not taxable. This decision may impact about $17 million of the Commissioner's sales and use tax assessments against other similarly situated software companies. The time for the Commissioner to appeal has not yet expired.

Skaja v. Minnesota Department of Health, Bearder, et al v. Minnesota,et al.,and Anderson v. State of Minnesota. On February 7, 2013, the district court denied the motions for class certification. Plaintiff's petition for discretionary review of that order denying class certification was denied by the court of appeals on March 26, 2013. On June 12, 2013 the district court granted the *Anderson* plaintiffs' motion to dismiss their complaint without prejudice. Cross motions for summary judgment were denied with respect to plaintiffs' claims for injunctive relief. The state defendants' motion for summary judgment with respect to plaintiffs' claims for damages was granted except as to claims for emotional distress. Trial is set for January 2014.

Steele County v. MnDOT; Waseca County v. MnDOT. (Steele County District Court; OAH; Court of Appeals). MnDOT completed construction of a new alignment for Trunk Highway 14 ("TH 14") in Steele and Waseca Counties and was unable to reach an agreement with the counties regarding highway turnback funding pursuant to Minn. Stat. §§ 161.081-.082. Both counties challenged MnDOT's release of the road at the Office of Administrative Hearings ("OAH"), alleging that the MnDOT deadline date for releasing old TH 14 constituted an unadopted rule. Concurrent with the OAH filing, the counties also filed Petitions for Writs of Certiorari at the Court of Appeals, which the Court dismissed for lack of certiorari jurisdiction. The OAH proceeding was decided in MnDOT's favor with the administrative law judge ("ALJ") dismissing the counties' claims. The counties appealed the ALJ's decision to the Court of Appeals, and briefing in that case was complete on September 23, 2013. In addition to those proceedings, both counties have filed declaratory judgment actions in district court seeking to have the court declare that MnDOT lacks authority to release a road without a turnback agreement in place. Proceedings in that case are stayed pending a decision by the Court of Appeals in the OAH appeal. The district court has allowed discovery to proceed despite the stay.

CONTINUING DISCLOSURE

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

The State did not timely file its Comprehensive Annual Financial Report ("CAFR") with EMMA for the fiscal year ending June 30, 2012 (the "2012 CAFR"). Under the terms of the continuing disclosure undertaking for each series of bonds for which the State is an obligated person, such filing was supposed to be made by December 31, 2012. Although the State did not timely file its 2012 CAFR, the State did notify holders of all general obligation bonds and all bonds supported by State appropriations, by a voluntary filing to EMMA on December 7, 2012, that the 2012 CAFR would be delayed. On December 28, 2012, the State filed a notice of failure to file annual financial information with respect to all general obligation bonds and all bonds supported by State appropriations. On February 13, 2013, the State updated its voluntary December 7, 2012 EMMA filing to notify investors that the estimated date of delivery the 2012 CAFR would be mid-March 2013. The 2012 CAFR was filed with EMMA on March 27, 2013. The filing of the 2012 CAFR was primarily delayed due to the implementation of a new State accounting and procurement software system. The State expects, in the future, to complete its CAFR and EMMA filings on or before December 31st.

The State did not timely file notices of ratings changes or the State's CAFR for the fiscal years ended June 30, 2007 through 2012 with respect to the following bonds, for which the State was an "obligated person" within the meaning of Rule 15c2-12: (i) $31,165,000 (original principal amount) Port Authority of the City of Saint Paul, Lease Revenue Bonds, Series 2002-10, (ii) $79,665,000 (original principal amount) Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-12, (iii) $23,695,000 (original principal amount) Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2002-9, (iv) $58,580,000 (original principal amount) Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-11 Bonds (v) $6,395,000 (original principal amount) City of Bemidji Lease Revenue Refunding Bonds, Series 2008 and (vi) $8,275,000 (original principal amount) City of Bemidji Lease Revenue bonds dated April 1, 2000, (together the "St. Paul/Bemidji Bonds"). On January 9, 2013, the State filed its CAFRs for the fiscal years ended June 30, 2007 through 2011 with EMMA, and on March 27, 2013 filed its 2012 CAFR for the St. Paul/Bemidji Bonds. On February 6, 2013, the State also made a detailed filing of the rating history by each rating agency that publishes a rating for the St. Paul/Bemidji Bonds, with respect to all previous rating changes for each series of the St. Paul/Bemidji Bonds.

In the previous five years the Commissioner of Management and Budget has not failed to comply in any material respect other than noted above, with any written continuing disclosure undertaking with respect to any bonds for which the State is an obligated person.

FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, is serving as Financial Advisor to the State in connection with the issuance of the Bonds. 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. The Financial Advisor is not obligated to undertake to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the arithmetical computations of the adequacy of maturing amounts of principal and interest on the obligations placed in escrow to pay, when due, the principal of, premium, if any, and the interest on the Bonds to be Refunded will be verified by Grant Thornton LLP.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Series 2013D Bonds at public sale to Wells Fargo Bank, National Association, ("Wells Fargo"), as Series 2013D Underwriter, for a price of $310,001,948.30, with the Series 2013D Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2013E Bonds at public sale to J.P. Morgan Securities LLC, ("JP Morgan"), as Series 2013E Underwriter, for a price of $124,471,872.00, with the Series 2013E Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2013F Bonds at public sale to Merrill Lynch, Pierce, Fenner & Smith, Inc., ("Merrill Lynch"), as Series 2013F Underwriter, for a price of $435,745,936.80, with the Series 2013F Bonds to bear interest at the rate set forth on the inside front cover page of this Official Statement.

Wells Fargo, JP Morgan and Merrill Lynch collectively are referred to as the Underwriters, herein.

RATINGS

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

AUTHORIZATION OF OFFICIAL STATEMENT

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

/s/ James D. Schowalter
Commissioner of Management and Budget
State of Minnesota

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APPENDIX A

STATE GOVERNMENT AND FISCAL ADMINISTRATION

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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. On June 1, 2008, the Department of Finance completed a merger with the Department of Employee Relations and assumed 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 ("Management and Budget" or "MMB").

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

Fiscal Administration

The Commissioner of Management and Budget 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 of Management and Budget 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 bonds, certain revenue bonds and certain state appropriation 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 to ensure they are properly disbursed or invested.
- Negotiation and administration of bargaining agreements and compensation plans.
- Development and management of employee, retiree and dependent insurance benefits.

Accounting System

State law requires the Commissioner of Management and Budget 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 of Management and Budget 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.

On July 1, 2009 the Commissioner of Management and Budget was authorized to acquire a new statewide accounting and procurement system. The system's accounting functionality went live July 1, 2011. Basic procurement functionality went live July 1, 2011 and advanced procurement functionality was implemented in FY 2013. Data warehouse reporting functionality is being rolled out in phases with five data modules remaining.

Financial Reporting

State law requires the Commissioner of Management and Budget 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 Fiscal Year 2012 basic financial statements are presented in Appendix F, and general long-term debt unaudited schedules are presented in Appendix C. The State intends to implement the two new GASB pension-related statements (Statement 67 - Financial Reporting for Pension Plans and Statement 68 - Accounting and Financial Reporting for Pensions) for fiscal year 2014. See "CONTINUING DISCLOSURE" in this Official Statement.

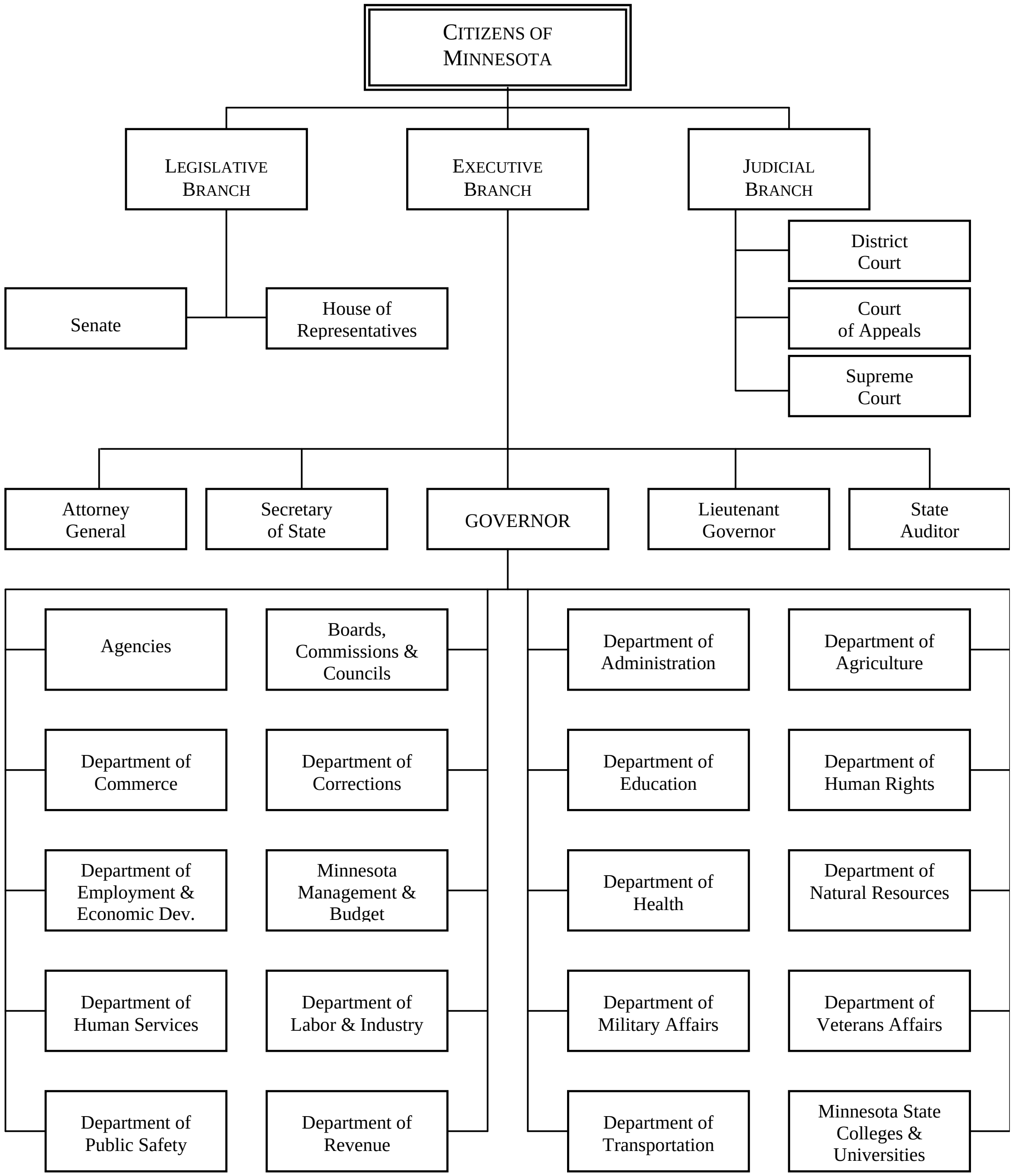
Investments

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 Treasury Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the State 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.

See "APPENDIX B – STATE FINANCES - MINNESOTA DEFINED BENEFIT PENSION PLANS", for more information on the investment of State sponsored pension plans and retirement funds.

A general organization chart of the 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.



Revenues

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 due 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 whose labor contracts are negotiated and maintained by the Minnesota State Colleges and Universities System. Each odd-numbered year, the Department of Management and Budget 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 union. All contracts and compensation plans are subject to review and approval by the Legislature. The 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** **July 2013**
American Federation of State, County and Municipal Employees (AFSCME)	
(7 bargaining units)	17,590
MN Association of Professional Employees (MAPE)	12,930
Middle Management Association (MMA)	2,890
MN Government Engineers Council (MGEC)	970
MN Nurses Association (MNA)	750
MN Law Enforcement Association (MLEA)	720
State Residential Schools Education Association (SRSEA)	180
State College Faculty Association (MSCF)	4,350
State University Interfaculty Organization (IFO)	2,800
State University Admin and Service Faculty (MSUAF)	780
Total Represented Employees	43,960
Total State Employment	49,970
Percent of All Executive Branch Employees Unionized	88%

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2013. By statute these contracts remain in effect until subsequent agreements are reached or contracts are cancelled when the right to strike matures. As of the date of this Official Statement, the State reached tentative agreements with all AFSCME bargaining units, MAPE and MMA for the Current Biennium. The Legislative Subcommittee on Employee Relations approved these contracts on September 20, 2013. The State recently reached a tentative agreement with MLEA for the Previous Biennium MLEA contract. This contract was approved by the Legislative Subcommittee on Employee Relations on September 20, 2013. It is expected that negotiations with MLEA for the Current Biennium contract period will begin in the near future. The State is currently in the process of negotiating the Current Biennium contracts with MGEC, MNA, SRSEA, MSCF, IFO, and MSUAF.

APPENDIX B

STATE FINANCES

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APPENDIX B

STATE FINANCES

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

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STATE FINANCES

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2012 are included herein as Appendix F. 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 F 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 F. 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 F in reliance upon the report of the Legislative Auditor. The revenues and expenditures presented consistent with Generally Accepted Accounting Principles for Fiscal Years 2010 through 2012 are summarized on page B-6. For additional information related to the Fiscal Year 2012 CAFR filings see "CONTINUING DISCLOSURE" discussion on page 14 in the forepart of this Official Statement.

Past Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2012 and prior years are available at www.mmb.state.mn.us.

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 then current biennium and for next succeeding biennium. Based upon the results of these forecasts, the Governor may recommend revenue and expenditure changes that are then recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve 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 revise 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 revise 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 Generally Accepted Accounting Principles ("GAAP") based Comprehensive Annual Financial Report ("CAFR") (see Appendix F) for three primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. In the modified accrual basis used in the CAFR, expenditures are recognized when goods or services are received regardless of the year encumbered. Second, on a budgetary basis, encumbrances are recognized as expenditures in the year encumbered. Third, as a result of implementing the new GAAP pronouncement, GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", several funds are included in the GAAP fund balance, which are not included in the budgetary fund balance, as these funds are not appropriated funds with legislatively enacted budgets. 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.

Stadium General Reserve Account

A stadium general reserve account (the "Stadium Reserve Account") was established in the General Fund by the 2012 Legislature pursuant to Minnesota Laws 2012, chapter 299 ("Stadium Legislation"). Available revenues as defined in the Stadium Legislation (including certain excise taxes and gambling revenues) are deposited in the Stadium Reserve Account pursuant to Minnesota Statutes Section 297E.021, Subdivision 2. Amounts in the Stadium Reserve Account are appropriated as necessary for application against any shortfall in the amounts deposited to the General Fund under Minnesota Statutes Section 297A.994. After consultation with the Legislative Commission on Planning and Fiscal Policy amounts in the Stadium Reserve Account are also available for other uses related to the professional football stadium authorized under Minnesota Statutes Chapter 473J. In the 2013 Legislative Session, as part of the cigarette and tobacco products tax increase, the Legislature provided a one-time deposit of the cigarette floor stocks tax (up to $26.5 million) into the Stadium Reserve Account. See "BIENNIUM BUDGETS, 2013 Legislative Session – Current Biennium, *Reserves in Enacted Budget" below.*

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 standard 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 of Management and Budget (the "Commissioner") shall use funds 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."

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 2013 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 2013 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown on the following page. IHS GII estimated potential GDP growth at 1.7 percent over the 2011 to 2015 period. Real GDP is projected to exceed potential over the 2011-2015 period as the economy recovers. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS GII FEBRUARY 2013
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2011 Actual %	Calendar Year 2012 Forecast %	Calendar Year 2013 Forecast %	Calendar Year 2014 Forecast %	Calendar Year 2015 Forecast %
REAL GDP Growth Rate	1.8	2.2	1.9	2.8	3.3
GDP DEFLATOR (Inflation)	2.1	1.8	1.3	1.8	1.5
NOMINAL GDP Growth Rate	4.0	4.0	3.2	4.7	4.9

A report is published with each forecast and is available at www.mmb.state.mn.us. The February 2013 revenue and expenditure forecast was released February 28, 2013. See "FINANCIAL INFORMATION" in the Appendix. The November 2013 IHS GII Baseline will be used as the baseline for the next revenue and expenditure forecast.

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ended June 30, 2010 through 2012. For the Fiscal Years ended June 30, 2010 through 2012 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. 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. In past official statements, the State presented comparative cash based, unaudited numbers for the most recent fiscal year and the prior fiscal year. The State's new financial system is accrual based and cannot provide cash based numbers for comparison.

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STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(THOUSANDS OF DOLLARS)

	Fiscal Year Ended June 30 [1]		
	2010	2011	2012
NET REVENUES:			
Individual Income Taxes	$ 6,729,244	$ 7,828,818	$ 8,267,608
Corporation Income Taxes	540,504	1,135,193	996,524
Sales Taxes	4,181,319	4,425,136	4,574,768
Property Taxes	766,830	766,926	813,723
Motor Vehicle Excise Taxes	235,756	230,016	220,065
Other Taxes	1,438,940	1,439,017	1,464,448
Tobacco Settlement	164,786	172,886	166,861
Federal Revenues	401	254	546
Licenses and Fees	256,278	258,739	225,681
Departmental Services	111,798	114,545	171,451
Investment/Interest Income	63,127	108,862	38,282
Securities Lending Income	183	58	-
All Other Revenues	334,724	356,067	306,889
NET REVENUES	$ 14,823,890	$ 16,836,517	$ 17,246,846
EXPENDITURES:			
Current:			
Agricultural, Environmental and Energy Resources	$ 205,116	$ 205,342	$ 204,553
Economic and Workforce Development	156,781	130,497	118,676
General Education [2]	6,444,487	6,578,615	7,171,507
General Government	633,298	683,314	628,869
Health and Human Services [3] [4]	4,384,540	4,815,804	5,644,629
Higher Education [5]	841,752	747,617	712,363
Intergovernment Aid [6]	1,549,199	1,316,886	1,358,142
Public Safety and Corrections	540,876	579,977	546,974
Transportation	283,228	286,796	277,690
Securities Lending Rebates and Fees	56	37	-
Total Current Expenditures	$ 15,039,333	$ 15,344,885	$ 16,663,403
Capital Outlay	30,972	25,571	14,476
Debt Service	45,841	40,867	56,876
TOTAL EXPENDITURES	$ 15,116,146	$ 15,411,323	$ 16,734,755
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ (292,256)	$ 1,425,194	$ 512,091
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	$ 5,729	$ 227	$ -
Transfers-In	378,042	470,101	485,353
Transfers-Out	(1,187,744)	(1,159,118)	(1,099,056)
NET OTHER FINANCING SOURCES (USES)	$ (803,973)	$ (688,790)	$ (613,703)
NET CHANGE IN FUND BALANCES	$ (1,096,229)	$ 736,404	$ (101,612)

(1) Based on audited financial statements for Fiscal Years 2010, 2011 and 2012, the schedule of revenues and expenditures, and includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30.

(2) During Fiscal Year 2012, General Education function spending increased due to a $50 per pupil increase and an increase in total pupils.

(3) During Fiscal Year 2012, Health and Human Services function spending increased due to shifts of Federal Fund spending back to the General Fund as the American Recovery and Reinvestment Act grants ended.

(4) During Fiscal Year 2011, Health and Human Services function spending increased due to growth in enrollment and average costs per recipient.

(5) During Fiscal Years 2011 and 2012, Higher Education function spending decreased due to a reduction in grants to the University of Minnesota and during Fiscal Year 2011, grants to the Office of Higher Education also decreased.

(6) Decrease in Intergovernmental Aid during Fiscal Year 2011 resulted from decreases in grants to cities and counties.

BIENNIUM BUDGETS

The biennium that began on July 1, 2011 and ended on June 30, 2013 is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2013 and will end on June 30, 2015 is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2015 and will end on June 30, 2017 is referred to herein as the "Next Biennium." An individual fiscal year is referred to herein as "FY" or "Fiscal Year."

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.

February 2013 Forecast – Previous Biennium

The February 2013 forecast updated General Fund revenues and expenditures projected for the Previous Biennium. Forecast revenues were expected to be $35.161 billion, up $217 million (0.6 percent) from November's estimates. Forecast spending is expected to be $35.159 billion, $63 million below previous projections. These changes, coupled with a $15 million reduction in the projected Stadium Reserve, yielded a forecast balance of $295 million. As was the case in November, the forecast balance was automatically allocated to reversing outstanding school aid payment shifts. After this allocation the General Fund ending balance is expected to be zero on June 30, 2013.

Revenues: General Fund revenues for the Previous Biennium were forecast to be $35.161 billion, up $217 million from November's estimates after adjusting for 2013 legislative action to conform to federal law changes. In the absence of the conformity changes, an additional $19 million in revenue would have been reported for fiscal 2013.

The forecast for the four major taxes (individual income, sales, corporate and statewide property tax levy) increased by 0.7 percent. Projected individual income tax receipts were $128 million (0.8 percent) above previous. The majority of the increase came from larger than anticipated fourth quarter estimated payments for tax year 2012 and higher withholding tax receipts. Sales tax receipts were reduced $19 million (0.2 percent), mostly due to an increase in expected sales tax refunds. Corporate tax receipts showed the largest percentage increase of the four major taxes $85 million (4.0 percent). The forecast for the statewide property tax levy was unchanged.

Expenditures: General Fund spending for the Previous Biennium was forecast to be $35.159 billion, down $63 million (0.2 percent). But, a statutorily required repayment of outstanding K-12 education payment shifts, based on an available forecast balance, added $282 million to K-12 education aids in the Previous Biennium. This increased total spending to $35.442 billion, $220 million more than November's estimates. After the repayment, $808 million remained in outstanding school aid payment shifts.

Projected human services spending fell by $46 million for the Previous Biennium due primarily to savings in MA payments. Reductions in negotiated managed care rates for elderly and disabled basic care, adults without children and families with children, and lower enrollments in the adults without children program account for most of the lower estimates. Beyond health and human services programs, forecast changes in other areas of the budget were modest. K-12 education aid estimates were reduced by $9 million primarily due to a small downward revision in enrollment projections. Property tax aids and credits estimates were reduced $13 million mostly due to lower than expected spending on homeowner property tax refunds, offset slightly by increases in the renter property tax refund program.

Reserves: After the November 2012 forecast, total General Fund reserves were $944 million: $350 million in the Cash Flow Account and $644 million in the Budget Reserve. Current law required any forecast balance be first allocated to restoring reserves to a statutory maximum of $653 million - $9 million was allocated for this purpose. Additionally, a residual $4 million forecast balance was added to the Budget Reserve after the required school shift repayment, increasing the Budget Reserve to $656 million.

The projected reserve balance in the Stadium Reserve Account was reduced from $16 million to $1 million. The forecast for lawful gambling revenues was reduced $15 million for FY 2013. The updated forecast reduction continues to reflect a slower than expected implementation of electronic gaming options and reduced estimates for daily revenue per gaming device.

2013 Legislative Session – Previous Biennium

The Legislature adjourned on May 20, 2013 after enacting budgets bills for the Next Biennium. None of the appropriations and provisions enacted by the Legislature and signed into law by the Governor impact the revenue and expenditure estimates for the Previous Biennium. Unchanged from the February 2013 Forecast, projected revenue for the Previous Biennium is forecast to be $35.161 billion, spending is estimated to $35.442 billion. The biennium will end with $1.006 billion in General Fund reserves and an estimated $1 million in the Stadium Reserve Account.

Preliminary Fiscal Year 2013 Close – Previous Biennium

Actions taken in the 2013 Legislative session required that MMB estimate the Fiscal Year 2013 closing balance by September 30, 2013. The entire closing balance, which includes both final revenue and expenditure variances, is then to be used to reduce the $874 million in school shifts currently outstanding. Before the action by the 2013 Legislature any school shift repayment would not have occurred until after November's official budget forecast and would have been based on the projected ending balance for the Current Biennium.

As required, on September 30, 2013 MMB released that the preliminary general fund balance was estimated to be $636 million. This was compared to the zero ending balance projected after the February 2013 forecast. Higher than anticipated year-end revenues, combined with gains in transfers and other resources along with lower spending produced the $636 million balance. This ending balance carries forward into FY 2014. As stated above, the entire FY 2013 ending balance will be automatically used in FY 2014 to repay a portion of the estimated $874 million remaining obligation from the K-12 payment and property recognition shifts enacted in the 2009-11 legislative sessions. These actions are not reflected in the tables presented on B-9 and B-10. See "APPENDIX B – BIENNIUM BUDGETS –PRELIMINARY FY 2013 ESTIMATE – CURRENT BIENNIUM", for more information on the school shift repayment in the Current 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 2013 Special Legislative Session. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

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PREVIOUS BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2013 LEGISLATIVE SESSION AND
PRELIMINARY FISCAL YEAR 2013 CLOSE
(In thousands of dollars)

	Fiscal Year 2012	Fiscal Year 2013	Previous Biennium
Forecast Resources			
Prior Year Ending Balance (1)	1,288,673	1,794,930	1,288,673
Net Non-dedicated Revenues	16,425,815	17,945,487	34,371,302
Dedicated Revenues	321	692	1,013
Transfers From Other Funds	485,720	601,647	1,087,367
Prior Year Adjustments	174,254	108,636	282,890
Subtotal Current Resources	17,086,111	18,656,462	35,742,573
Total Revenues Plus Prior Year Ending Balance	18,374,784	20,451,391	37,031,246
Authorized Expenditures & Transfers			
K-12 Education	6,624,867	8,873,712	15,498,579
Higher Education	1,275,446	1,295,095	2,570,541
Health & Human Services	5,385,094	5,207,568	10,592,662
Environment & Agriculture	147,424	158,887	306,311
Jobs, Economic Development, Housing & Commerce	124,401	154,903	279,304
State Government & Veterans	403,076	460,167	863,243
Transportation	62,197	63,764	125,961
Public Safety & Judiciary	882,601	957,734	1,840,335
Property Tax Aids & Credits	1,456,693	1,320,179	2,776,872
Debt Service	192,056	223,000	415,056
Capital Projects	20,414	24,138	44,552
Other	5,265	0	5,265
Cancellation Adjustment	0	0	0
Subtotal Expenditures & Transfers	16,579,534	18,739,147	35,318,681
Dedicated Revenue Expenditures	321	329	650
Total Expenditures and Transfers	16,579,855	18,739,476	35,319,331
Balance Before Reserves	1,794,929	1,711,915	1,711,915
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	657,618	656,471	656,471
Stadium Reserve	0	0	0
Appropriations Carried Forward	146,662	69,355	69,355
Budgetary Balance	640,650	636,089	636,089

(1) On a budgetary basis, Fiscal Year 2011 ended with an Unrestricted General Fund balance of $1.289 billion and an Unreserved General Fund balance of $976 million.

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

PREVIOUS BIENNIUM
GENERAL FUND - ESTIMATES OF NONDEDICATED REVENUES
END OF 2013 LEGISLATIVE SESSION AND
PRELIMINARY FISCAL YEAR 2013 CLOSE
(In thousands of dollars)

	Fiscal Year 2012	Fiscal Year 2013	Previous Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	7,972,460	9,012,500	16,984,960
Income Tax - Corporate	1,044,159	1,280,743	2,324,902
Sales Tax	4,677,856	4,774,250	9,452,106
Statewide Property Tax	799,333	811,388	1,610,721
Estate Tax	174,190	167,460	341,650
Liquor, Wine & Beer	80,117	83,248	163,365
Cigarette & Tobacco	187,915	205,391	393,306
Mining	22,118	22,314	44,432
Mortgage Registry Tax	103,037	139,928	242,965
Deed Transfer Tax	57,400	75,587	132,987
Gross Earnings Taxes	299,557	332,893	632,450
Lawful Gambling Taxes	40,837	36,989	77,826
Medical Assistance Surcharges	222,683	248,634	471,317
Tobacco Settlements	166,861	170,060	336,921
Investment Income	2,701	3,669	6,370
DHS SOS Collections	58,183	51,306	109,489
Lottery Revenue	53,209	66,196	119,405
Departmental Earnings	260,435	274,936	535,371
Fines & Surcharges	89,172	86,292	175,464
All Other Nondedicated Revenue	132,595	135,563	268,158
Tax and Non-Tax Refunds	(19,003)	(33,860)	(52,863)
Total Net Nondedicated Revenues	16,425,815	17,945,487	34,371,302

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February 2013 Forecast – Current Biennium

The November 2012 forecast provided the first official forecast for the Current Biennium, as well as revenue and expenditure planning estimates for the Next Biennium. In November 2012, a shortfall of just under $1.1 billion was projected for the Current Biennium. Revisions in the February 2013 forecast reduced the projected budget shortfall to $627 million. General Fund revenues for the Current Biennium were forecasted to be $36.116 billion, $955 million (2.7 percent) higher than estimates for the Previous Biennium. Projected current law spending was expected to be $36.744 billion, $1.302 billion (3.7 percent) higher than the Previous Biennium.

Revenues: Tax revenues were estimated to be $1.711 billion (5.3 percent) higher than the Previous Biennium. The forecast for individual income tax receipts was $1.112 billion higher, the sales tax $581 million, and the statewide property tax $69 million.

Biennial growth in tax revenues was offset by reductions in non-tax revenues and other resources. A large number of one-time revenues in the Previous Biennium do not continue in the Current Biennium. These include a transfer of $52 million from the workers' compensation assigned risk plan, $29 million for a 1 percent cap on Health Maintenance Organization (HMO) profits, $12 million from a HMO donation and a one-time prior year adjustment of $139 million. Also, one-time transfers primarily from the health care access fund that were used to balance the budget in the Previous Biennium do not carry into the Current Biennium under current law.

Expenditures: General Fund spending in the Current Biennium was estimated to be $1.302 billion higher than the Previous Biennium. Forecast spending in health and human services is estimated to be $708 million (6.6 percent) more than in the Previous Biennium while K-12 spending was estimated to be $797 million higher (5.5 percent). The use of $643 million tobacco bond proceeds to make a one-time reduction in general fund debt service artificially reduced spending in the Previous Biennium. This one-time reduction in debt service payments in the Previous Biennium accounts for the significant increase shown for debt service in subsequent biennia.

Reserves: The reserve amounts for the Current Biennium are unchanged from levels in the Previous Biennium. Total General Fund reserves were $1.006 billion: $350 million in the Cash Flow Account and $656 million in the Budget Reserve.

The projected reserve balance in the Stadium Reserve Account was zero. Similar to the Previous Biennium, the forecast reduction in lawful gambling revenues for the Next Biennium reflects a slower than expected implementation of electronic gaming options and reduced estimates for daily revenue per gaming device. This has reduced amounts previously projected for the reserve.

2013 Legislative Session – Current Biennium

During the 2013 legislative session, the Legislature enacted a number of revenue and expenditure measures in the General Fund for the Current Biennium. The 2013 legislative session ended on the constitutional deadline of May 20, 2013 with a balanced budget for the Current Biennium. The enacted budget resolved the $627 million projected budget deficit, increased net General Fund revenues by $2.306 billion and appropriated $1.606 billion for state and local programs. After accounting for all the revenue, expenditure and reserve changes enacted in the Current Biennium, the General Fund balance at the end of the biennium is estimated to be $46 million.

Revenues in Enacted Budget

The approved budget reflects significant changes in General Fund revenues from the February 2013 forecast for the Current Biennium. Net General Fund revenue estimates now total $38.422 billion, $2.306 billion (6.4 percent) higher than February's estimates.

Tax Revenues: The Legislature enacted significant tax changes in the 2013 session. In total, net tax revenues are projected to be $2.609 billion; however, after adjusting for the elimination of the health impact fee, net tax revenues are projected to be $2.233 billion (6.6 percent) higher than previously forecast. Cigarette fee revenue (also known as the health impact fee) that had previously been deposited in the Health Impact Fund and transferred to the General Fund will be deposited into the General Fund as tax revenue.

Enacted changes in the individual income tax are projected to generate $1.143 billion in General Fund revenues for the Current Biennium. The most significant income tax change is the addition of a new personal income tax bracket of 9.85 percent for the top two percent of taxpayers that is projected to generate $1.119 billion in additional tax revenue. The Legislature enacted several changes to the corporate income tax that result in a projected increase of $421 million in the Current Biennium. Legislation included repealing the current law subtraction for foreign royalties and new provisions for foreign operating corporations ($249 million) as well as making the research and development tax credit non-refundable ($91 million). Overall, sales tax receipts are projected to be $74 million higher than previous estimates. Changes to sales tax provisions include the application to electronic and commercial equipment repair ($152 million), warehousing and storage services ($95 million), and telecommunications equipment ($67 million). Legislation also included a sales tax exemption for cities and counties that reduces sales tax estimates by $172 million in the Current Biennium. An increase of $1.60 per pack and expansion to other tobacco products, as well as the conversion of the health impact fee to a tax generates $812 million in cigarette and tobacco products tax revenue. Other tax increases include gift and estate taxes ($78 million) and Medical Assistance (MA) surcharges ($83 million).

Non-Tax and Other Revenues: Legislation enacted in the 2013 session impacted fees, fine, surcharges and other non-dedicated General Fund revenue. In total, non-tax revenue is projected to be $1.449 billion, $35 million (2.5 percent) higher than February's forecast. Other revenue is projected to be $346 million, $338 million (49.4 percent) lower than previously estimated. Enacted changes reduce transfers-in to the General Fund by $338 million. Small one-time transfers to the General Fund are offset by a $376 million reduction to transfers-in as a result of the conversion of the health impact fee to a tax.

Expenditures in Enacted Budget

General Fund expenditures for the Current Biennium are now projected to total $38.350 billion, $1.606 billion (4.4 percent) higher than forecast estimates. Appropriations in state and local programs were made across all areas of the state budget. Significant appropriations were provided to K-12 education, health and human services, higher education, jobs and economic development and property tax aids and credits.

K-12 education expenditures are estimated to be $15.784 billion, $607 million (4.0 percent) higher than previously forecast. K-12 education spending represents 41 percent of total General Fund spending. The Legislature enacted major appropriations in education finance including a 1.5 percent increase in the general education per pupil formula ($234 million), optional statewide all-day kindergarten ($134 million) and early learning scholarships to provide access to high-quality early learning opportunities ($40 million).

Significant appropriations were made in property tax aids and credits programs. Spending in this area of the state budget is projected to be $3.016 billion, $305 million (11.3 percent) higher than forecast estimates. Spending in this area of the state budgets represents 8 percent of total General Fund spending. Starting in FY 2015 the Legislature appropriated $120 million per year in the property tax refund program, $81 million per year in local government aid, $40 million per year in country program aid and $10 million per year in township aid. Starting in FY 2015 the state will also provide an additional $15 million per year for direct aid to police and firefighter pension funds. The result of the legislative changes in the 2013 legislative session is an estimated $301 million in lower property tax burden for calendar year 2014.

After legislative changes, health and human services spending is estimated to be $11.440 billion, $78 million (0.7 percent) higher than February forecast estimates. Health and human services spending accounts for 30 percent of total General Fund spending. Significant appropriations were made to increase eligibility for health care programs by expanding Medical Assistance (MA) coverage ($270 million), reforming MinnesotaCare to align with new federal guidelines ($85 million) and adding an MA autism benefit ($13 million). These appropriations were financed by utilizing $403 million in Health Care Access Fund resources. Additional appropriations of $56 million were made in payments to providers of elderly and disabled individuals.

Higher education spending is now projected to be $2.813 billion, $249 million (9.7 percent) higher than previously forecast. $69 million was provided to the Office of Higher Education, $77 million to the University of Minnesota and $102 million to Minnesota State Colleges and Universities (MnSCU).

Jobs and economic development spending is now estimated to total $371 million, $132 million (55.5 percent) higher than February's forecast. $54 million was provided to programs to promote economic development and job growth. An additional $26 million was invested in additional business, community and workforce development.

The Legislature also enacted a provision to accelerate the repayment of the school aid payment shift and the property tax recognition shift with FY 2013 year-end balances. In total, $873 million is needed to repay the remaining shifts, $287 million in the aid payment shift and $587 million in the property tax recognition shift. $1.919 billion has been repaid over three successive forecasts.

Reserves in Enacted Budget

General Fund reserves (Cash Flow Account and Budget Reserve) levels were unchanged in the enacted budget. Total General Fund reserves are $1.006 billion: $350 million in the Cash Flow Account and $656 million in the Budget Reserve. The projected reserve balance in the Stadium Reserve Account is now estimated to be $27.807 million. As part of the cigarette and tobacco products tax increase, the Legislature provided a one-time deposit of the cigarette floor stocks tax (up to $26.5 million) into the Stadium Reserve Account.

2013 Special Legislative Session – Current Biennium

During June 2013, torrential rain fall resulted in 18 Minnesota counties having major infrastructure damage to roads and bridges including highways on the state, county, and municipal systems. The State estimated damage to public infrastructure at $17.8 million, with roads and bridges making up half of the total. A federal disaster declaration issued by President Obama for the 18 counties allows federal assistance for eligible projects, with the state and local governments contributing one-fourth of the total cost. A special legislative session was held on September 9, 2013 to appropriate additional funds to address the costs of repairing the damages caused by the flooding and a severe winter storm that occurred in April, 2013. Laws of 2013, First Special Session, Chapter 1 appropriated $4.5 million to the Department of Public Safety for state and local match and $219,000 was provided to the Department of Employment and Economic Development for disaster related costs. The $4.719 million in new appropriations did not impact the bottom line because the legislation reduced unspent appropriations from previous disasters by $4.719 million.

Preliminary Fiscal Year 2013 Close – Current Biennium

A provision in 2013 session law requires that the entire FY 2013 ending balance be automatically used in FY 2014 to repay a portion of the estimated $874 million remaining obligation from the K-12 payment and property recognition shifts enacted in the 2009-11 legislative sessions. It was reported that the Fiscal Year 2013 ended with a preliminary general fund balance of $636 million. This ending balance carries forward into FY 2014 – however, it will not materially change the outlook for the Current Biennium. An estimated $287 million of the $636 million will complete repayment of the school aid payment shift – returning to a 90/10 payment schedule from the current 86.4/13.6 percentages. The remaining $349 million will reduce the school district property tax recognition shift. An approximate $238 million obligation to schools will remain based on end-of-session estimates.

The Department of Education will certify new payment and recognition percentages by October 15, 2013 based on updated data from September school district levy certifications. Increased payments to schools will begin with the October 15th payment. Current statutes that allocate any forecast balance for shift repayment remain unchanged for the November and February forecasts. These actions are not reflected in the tables presented on B-14 and B-15. See "APPENDIX B – BIENNIUM BUDGETS – PRELIMINARY FY 2013 ESTIMATE – PREVIOUS BIENNIUM", for more information on the school shift repayment in the Previous Biennium.

October Economic Update

Minnesota Management and Budget released the October Economic Update on October 10, 2013. Net non-dedicated general fund revenues totaled $4.086 billion during the first quarter of fiscal 2014, $2 million less than projected in February. Both the sales tax and the income tax showed positive variances for the quarter, with sales tax receipts $46 million (4.2 percent) ahead of forecast and the income tax exceeding projections by $27 million (1.3 percent). Other revenues were $64 million (12.3 percent) percent lower than anticipated in February, and corporate tax receipts were $11 million (3.1 percent) short of prior estimates. All FY 2014 results are preliminary and subject to change. A complete accounting of actual FY 2013 revenues and FY 2014 estimates will be part of November 2013 Economic Forecast to be released on December 5, 2013. See "FINANCIAL INFORMATION" in the forepart of this Official Statement.

The October Economic Update includes a discussion of possible economic impacts of the federal shutdown on the State:

> The harmful effect of a federal government shutdown will not be the same for all states. The largest impact will occur where exposure to federal civilian employment and federal spending are the greatest, such as around the Washington, D.C. area. In Minnesota, where federal employment and spending are not major components of the economy, the impact will be less apparent.
>
> As in the rest of the country, full back pay for furloughed federal workers will lessen the impact of the shutdown in Minnesota. On the other hand, a prolonged shutdown will bring greater unpredictability and economic impact, as more federal payments to Minnesota residents are delayed or possibly foregone. More importantly, if failure by Congress to lift the debt ceiling sets off a global financial crisis, the potential impact on Minnesota's economy and tax revenues will grow.

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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 End of 2013 Legislative Session. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes. Actions taken for preliminary FY 13 close are not represented in the following tables. See "APPENDIX B – BIENNIUM BUDGETS – PRELIMINARY FY 2013 ESTIMATE – CURRENT BIENNIUM"

GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
END OF 2013 LEGISLATIVE SESSION
(In thousands of dollars)

	Fiscal Year 2014	Fiscal Year 2015	Current Biennium
Forecast Resources			
Prior Year Ending Balance [1]	1,007,778	1,159,860	1,007,778
Net Non-dedicated Revenues	18,773,989	19,302,476	38,076,465
Dedicated Revenues	189	1	190
Transfers From Other Funds	155,976	139,405	295,381
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	18,955,154	19,466,882	38,422,036
Total Revenues Plus Prior Year Ending Balance	19,962,932	20,626,742	39,429,814
Authorized Expenditures & Transfers			
K-12 Education	7,678,977	8,104,786	15,783,763
Higher Education	1,392,346	1,421,415	2,813,761
Health & Human Services	5,711,844	5,728,422	11,440,266
Environment, Energy & Natural Resources	148,488	164,116	312,604
Economic Development	199,327	171,549	370,876
State Government	479,199	468,228	947,427
Transportation	135,195	103,890	239,085
Public Safety	957,443	974,870	1,932,313
Property Tax Aids & Credits	1,371,075	1,644,902	3,015,977
Debt Service	633,413	646,752	1,280,165
Capital Projects	100,686	132,387	233,073
Cancellation Adjustment	(5,110)	(15,000)	(20,110)
Subtotal Expenditures & Transfers	18,802,883	19,546,317	38,349,200
Dedicated Revenue Expenditures	189	1	190
Total Expenditures and Transfers	18,803,072	19,546,318	38,349,390
Balance Before Reserves	1,159,860	1,080,424	1,080,424
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	656,471	656,471	656,471
Stadium Reserve	27,807	27,807	27,807
Budgetary Balance	125,582	46,146	46,146

[1] On a budgetary basis, Fiscal Year 2013 ended with an Unrestricted General Fund balance of $1.712 billion and an Unreserved Accounting General Fund balance of $636 million.

The following table sets forth by source the End of 2013 Legislative Session amounts of non-dedicated revenues allocable to the General Fund for the Current Biennium.

CURRENT BIENNIUM
GENERAL FUND- ESTIMATES OF NONDEDICATED REVENUES
END OF 2013 LEGISLATIVE SESSION
(In thousands of dollars)

	Fiscal Year 2014	Fiscal Year 2015	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	9,193,180	9,682,820	18,876,000
Income Tax - Corporate	1,275,270	1,146,380	2,421,650
Sales Tax	5,035,907	5,113,320	10,149,227
Statewide Property Tax	834,521	850,781	1,685,302
Estate Tax	190,900	216,900	407,800
Liquor, Wine & Beer	84,680	86,360	171,040
Cigarette & Tobacco	595,210	600,140	1,195,350
Mining	17,930	18,820	36,750
Mortgage Registry Tax	95,800	94,000	189,800
Deed Transfer Tax	82,500	97,600	180,100
Gross Earnings Taxes	309,550	323,350	632,900
Lawful Gambling Taxes	60,200	74,700	134,900
Medical Assistance Surcharges	296,360	308,824	605,184
Tobacco Settlements	163,042	162,197	325,239
Investment Income	4,000	4,000	8,000
DHS SOS Collections	52,092	52,092	104,184
Lottery Revenue	59,351	60,613	119,964
Departmental Earnings	257,452	257,767	515,219
Fines & Surcharges	88,860	88,538	177,398
All Other Nondedicated Revenue	126,967	113,557	240,524
Tax & Non-Tax Refunds	(49,783)	(50,283)	(100,066)
Total Net Nondedicated Revenues	18,773,989	19,302,476	38,076,465

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 Biennium and the Current Biennium. Information is provided by major revenue and expenditure categories based on the enacted budget from the 2013 Legislative Session. Actions taken for preliminary FY 13 close are not represented in the following tables.

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HISTORICAL AND PROJECTED REVENUE GROWTH
END OF 2013 LEGISLATIVE SESSION AND
PRELIMINARY FISCAL YEAR 2013 CLOSE
($ in Millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Closing FY 2013	Enacted FY 2014	Enacted FY 2015	Average Annual
Individual Income Tax	$6,531	$7,529	$7,972	$9,013	$9,193	$9,683	
$ change		998	443	1,041	180	490	
% change		**15.3%**	**5.9%**	**13.1%**	**2.0%**	**5.3%**	**8.2%**
Sales Tax	4,177	4,403	4,678	4,774	5,036	5,113	
$ change		226	275	96	262	77	
% change		**5.4%**	**6.2%**	**2.1%**	**5.5%**	**1.5%**	**4.1%**
Corporate Tax	664	925	1,044	1,281	1,275	1,146	
$ change		261	119	237	(6)	(129)	
% change		**39.3%**	**12.9%**	**22.7%**	**-0.5%**	**-10.1%**	**11.5%**
Statewide Property Tax	767	767	799	811	835	851	
$ change		0	32	12	24	16	
% change		**0.0%**	**4.2%**	**1.5%**	**3.0%**	**1.9%**	**2.1%**
Other Tax Revenue	1,227	1,231	1,158	1,268	1,704	1,791	
$ change		4	(73)	110	436	87	
% change		**0.3%**	**-5.9%**	**9.5%**	**34.4%**	**5.1%**	**7.9%**
Total Tax Revenue	$13,366	$14,855	$15,651	$17,147	$18,043	$18,584	
$ change		1,489	796	1,496	896	541	
% change		**11.1%**	**5.4%**	**9.6%**	**5.2%**	**3.0%**	**6.8%**
Non-Tax Revenues	805	808	774	798	731	718	
$ change		3	(34)	24	(67)	(13)	
% change		**0.4%**	**-4.2%**	**3.1%**	**-8.4%**	**-1.8%**	**-2.3%**
Dedicated, Transfers, Other	448	521	661	711	181	165	
$ change		73	140	50	(530)	(16)	
% change		**16.3%**	**26.9%**	**7.6%**	**-74.5%**	**-8.8%**	**-18.1%**
Total Current Resources	$14,619	$16,184	$17,086	$18,656	$18,955	$19,467	
$ change		1,565	902	1,570	299	512	
% change		**10.7%**	**5.6%**	**9.2%**	**1.6%**	**2.7%**	**5.9%**

HISTORICAL AND PROJECTED SPENDING GROWTH
END OF 2013 LEGISLATIVE SESSION AND
PRELIMINARY FISCAL YEAR 2013 CLOSE
($ in Millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Closing FY 2013	Enacted FY 2014	Enacted FY 2015	Average Annual
K-12 Education	$5,338	$6,078	$6,625	$8,874	$7,679	$8,105	
$ change		740	547	2,249	(1,195)	426	
% change		**13.9%**	**9.0%**	**33.9%**	**-13.5%**	**5.5%**	**8.7%**
Higher Education	1,456	1,357	1,275	1,295	1,392	1,421	
$ change		(99)	(82)	20	97	29	
% change		**-6.8%**	**-6.0%**	**1.6%**	**7.5%**	**2.1%**	**-0.5%**
Prop. Tax Aids & Credits	1,614	1,401	1,457	1,320	1,371	1,645	
$ change		(213)	56	(137)	51	274	
% change		**-13.2%**	**4.0%**	**-9.4%**	**3.9%**	**20.0%**	**0.4%**
Health & Human Services	4,104	4,323	5,385	5,208	5,712	5,728	
$ change		219	1,062	(177)	504	16	
% change		**5.3%**	**24.6%**	**-3.3%**	**9.7%**	**0.3%**	**6.9%**
Public Safety	856	946	883	958	957	975	
$ change		90	(63)	75	(1)	18	
% change		**10.5%**	**-6.7%**	**8.5%**	**-0.1%**	**1.9%**	**2.6%**
Debt Service	429	401	192	223	633	647	
$ change		(28)	(209)	31	410	14	
% change		**-6.5%**	**-52.1%**	**16.1%**	**183.9%**	**2.2%**	**8.6%**
All Other	830	829	763	861	1,059	1,025	
$ change		(1)	(66)	98	198	(34)	
% change		**-0.1%**	**-8.0%**	**12.8%**	**23.0%**	**-3.2%**	**4.3%**
Total Spending	$14,627	$15,335	$16,580	$18,739	$18,803	$19,546	
$ change		708	1,245	2,159	64	743	
% change		**4.8%**	**8.1%**	**13.0%**	**0.3%**	**4.0%**	**6.0%**

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BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the February 2013 forecast adjusted for legislative action. The planning projections contain revised revenue and expenditure estimates for the Next Biennium based on the most recent information about the national and State economic outlook, caseloads, enrollments, and cost projections, as amended to reflect legislative enactment of the budget for the Current Biennium. The projection methods are different for the Next Biennium and the longer-term estimates carry a higher degree of uncertainty and a larger range of potential error.

The actions taken during the 2013 Legislative Session to adopt the budget for the Current Biennium significantly affect the projections and estimates for the Next Biennium. General Fund revenues are now estimated to be $41.460 billion, $3.038 billion (7.9 percent) higher than estimates for the Current Biennium. Expected growth by the two of the three largest General Fund tax revenues account for $3.018 billion of the increase. The individual income tax and sales tax receipts are expected to grow by 12.7 percent and 6.2 percent respectively. Future performance of the national and state economy in the Current Biennium will significantly impact Next Biennium's revenue projections. Revenues for the Next Biennium assume nominal gross domestic product (GDP) growth averaging 4.6 percent.

Projected spending is now estimated to be $40.725 billion, $2.375 billion (6.2 percent) higher than estimates for the Current Biennium. Expected growth in the three largest areas of the budget accounts for the majority of the growth. K-12 education, health and human services and property tax aids and credits spending account for $2.223 billion of the growth. K-12 education spending is expected to grow by $942 million (5.9 percent), health and human services' spending by $915 million (8.0 percent) and property tax aids and credits by $389 million (12.2 percent). Spending projections only include increases incorporated in current law to education aids, health care and local aid/property tax relief programs based on enrollment, caseload and current law formula provisions.

Despite the significant changes in revenue and expenditure estimates, the structural balance for the Next Biennium is similar to February's estimate. Projected General Fund revenues are now forecast to exceed estimated General Fund expenditures by $735 million, down $47 million from February projections. The impact of inflation is not reflected in expenditure projections. Based on the February forecast the consumer price index (CPI) is projected to increase by 1.6 percent in FY 2016 and 1.8 percent in FY 2017. Annual expenditure inflation pressures, if recognized, would add approximately $330 million to FY 2016 spending estimates and more than $715 million to FY 2017 spending estimates.

Revenue and spending estimates for the Next Biennium will be updated for the November 2013 forecast.

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 2013 consist of four income brackets having tax rates of 5.35 percent, 7.05 percent, 7.85 percent and 9.85 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 $1,370.02. 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. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income or AMTI (which is similar to federal alternative minimum taxable income) at a flat rate of 6.75% on AMTI in excess of an exemption amount, to the extent the minimum tax exceeds the regular tax.

SINGLE FILER

Taxable Income	Tax
on the first $24,270	5.35 percent
on all over $24,270 but not over $79,730	7.05 percent
on all over $79,730 but not over $150,000	7.85 percent
on all over $150,000	9.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $35,480	5.35 percent
on all over $35,580 but not over $140,960	7.05 percent
on all over $140,960 but not over $250,000	7.85 percent
on all over $250,000	9.85 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 $29,880	5.35 percent
on all over $29,880 but not over $120,070	7.05 percent
on all over $120,070 but not over $200,000	7.85 percent
on all over $200,000	9.85 percent

Sales and Use Tax: The sales tax rate of 6.875% 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. In the 2013 legislative session provisions were passed that will expand the sales tax base to include certain digital products and business equipment repair. Business related warehousing and storage is subject to tax effective April 2014. In addition it changed a provision in the law which gives a refund for sales tax paid on certain capital equipment purchases to an upfront exemption of sales tax. This provision is effective in August 2014. County and city purchases, effective January 1, 2014, are exempt from sales tax.

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 2013 gives a 96% weight to sales, a 2% weight to payroll and a 2% 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. In the 2013 legislative session numerous changes were made to the corporate income tax. Among the significant provisions were: 1) the repeal of special rules for foreign operating corporations, 2) the repeal of the exclusion for foreign royalties, 3) An increase in the minimum fee, 4) a broadened definition of sales to include the sales of no-nexus subsidiaries of corporations subject to Minnesota tax, 5) a change in the Research & Development credit from refundable to non-refundable, and 6) a provision that causes the income of foreign entities who elect not to be treated as corporations, whose income is included in federal taxable income to be subject to Minnesota 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 2013 legislature adjusted the fee schedule and indexed the dollar amounts for inflation, based on the consumer price index. The fee schedule for tax year 2013is shown below:

Fee Basis	Amount of Fee
Less than $930,000	$0
$930,000 to $1,869,999	$190
$1,870,000 to $9,339,999	$560
$9,340,000 to $18,679,999	$1,870
$18,680,000 to $37,359,999	$3,740
$37,360,000 million or more	$9,340

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%	Surcharge on homeowners insurance, commercial fire and commercial nonliability insurance 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. Beginning in Fiscal Year 2012, 100% of the collections are dedicated to transportation related funds.

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

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

Cigarette and Tobacco Products Tax: Laws passed in the 2013 legislative session made significant changes to the Cigarette and Tobacco taxes. Effective July 1 2013, the Cigarette tax is 2.83 per pack and adjusted annually to match changes in the average price of cigarettes sold in Minnesota. In addition a pack is subject to a tax in lieu of sales tax of 49.3 cents, which is adjusted annually to match changes in the average price of cigarettes sold in Minnesota. Effective July 1 2013 the tax on tobacco products is 95% of the wholesale price. A one- time floor stocks tax is imposed on cigarettes in the inventory of wholesalers and retailers on July 1, 2013 equal to the increase in the tax enacted in 2013.

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. Laws passed in 2013 impose a gift tax to complement the Estate Tax and tighten provisions that relate to the exclusion of small business property from the estate tax and subject tangible Minnesota property, owned in pass-through entities by nonresidents, to Estate Tax.

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.

Gambling 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.

The Stadium Legislation substantially changed the State's gambling tax structure. The Stadium Legislation also imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). The new provisions are expected to generate substantially more revenue. The Stadium Legislation authorizes two new types of electronic charitable gambling: electronic linked bingo and electronic pull tabs.

The new tax structure is as follows**:**

Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels	8.5%
New Net Receipts Tax on All Pull-tabs, All Tipboards Except Sports Tipboards, and Electronic Linked Bingo (taxed on an organization basis)	
Not over $87,500	9.0%
Over $87,500, but not over $122,500	18.0%
Over $122,500, but not over $157,500	27.0%
Over $157,500	36.0%
Sports-themed Tipboards	exempt

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 agreement as amended as of June 1, 2001 (the "Minnesota Agreement"), between the Attorney General of the State and the then-existing four largest United States cigarette manufacturers, Philip Morris, Reynolds Tobacco, Lorillard and B&W (collectively, the "Settling Defendants")[1], requires the Settling Defendants to make annual payments to the State. 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. Payments made pursuant to the Minnesota Agreement are made to an account designated in writing by the State, which is an account within the General Fund of the State Treasury.

Pursuant to the Minnesota Agreement, the State agreed to settle all its past, present and future smoking-related claims against the Settling Defendants in exchange for agreements and undertakings by the Settling Defendants concerning a number of issues. These issues include, among others, making payments to the State, abiding by more stringent advertising restrictions, funding educational programs, ensuring public access to court documents and files and requiring disclosure of certain payments to lobbyists, all in accordance with the terms and conditions set forth in the Minnesota Agreement.

The Minnesota Agreement requires that the Settling Defendants make two types of payments, "Initial Payments" due in the years 1998 through 2003 and "Annual Payments due in 1998 and continuing in perpetuity, which historical payments are set forth in the table that follows, as well as certain court-administered payments. The base amount of these payments (with the exception of the up-front Initial Payments) are subject to certain adjustments (including those for inflation and volume), which could be material.

Payments required to be made by the Settling Defendants are calculated by reference to the Settling Defendants' respective share of sales of cigarettes (which in practice have been measured by shipments) by unit for consumption in the United States (excluding Puerto Rico). Payments to be made by the Settling Defendants are recalculated each year, based on the market share of each individual Settling Defendant for the prior year. A significant loss of market share by the Settling Defendants could have a material adverse effect on the payments by the Settling Defendants under the Minnesota Agreement. The Minnesota Agreement does not contain any terms providing for a process to dispute the calculation of Annual Payments or any adjustments to such payments. To date, neither the Settling Defendants nor the State have disputed any of the calculations of payments under the Minnesota Agreement.

As required, the Settling Defendants have made all of the Initial Payments and have made Annual Payments from 1998 through 2013 and certain other amounts pursuant to the Minnesota Agreement totaling approximately $3.6 billion to date.

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[1] On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B&W with those of Reynolds Tobacco, which occurred on June 30, 2004. References herein to the "Settling Defendants" mean, for the period prior to June 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B&W and Lorillard and for the period on and after June 30, 2004, collectively Philip Morris, Reynolds American and Lorillard.

	Unadjusted Minnesota Agreement Applicable Base Payment	State's Actual Receipts*
Up-Front Initial Payment†	$240,000,000	$240,000,000
1999 Initial Payment†	220,800,000	220,800,000
2000 Initial Payment	242,550,000	221,784,750
2001 Initial Payment	242,550,000	220,885,523
2002 Initial Payment	242,550,000	215,007,990
2003 Initial Payment	121,550,000	107,669,822
FY1999 Annual Payment†	102,000,000	102,000,000
FY2000 Annual Payment	114,750,000	104,925,995
FY2001 Annual Payment	127,500,000	145,136,835**
FY2002 Annual Payment	165,750,000	161,022,719
FY2003 Annual Payment	165,750,000	157,711,642
FY2004 Annual Payment	204,000,000	168,566,764
FY2005 Annual Payment	204,000,000	175,488,332
FY2006 Annual Payment	204,000,000	180,789,740
FY2007 Annual Payment	204,000,000	183,911,438
FY2008 Annual Payment	204,000,000	184,410,711
FY2009 Annual Payment	204,000,000	179,854,486
FY2010 Annual Payment	204,000,000	168,297,369
FY2011 Annual Payment	204,000,000	169,375,081
FY2012 Annual Payment	204,000,000	166,861,093
FY2013 Annual Payment	204,000,000	170,060,090

† Not subject to the Inflation Adjustment or the Volume Adjustment. Deposited in a cessation account administered by the Court, as permitted in the Minnesota Agreement and required by the Consent Judgment, to provide cessation opportunities to Minnesota smokers.

* As reported by the State and to the best of the State's knowledge, amounts reflect the State's actual receipts including applicable adjustments.

** Includes $29,025,087 paid by the Settling Defendants on June 11, 2001 pursuant to the 2001 Amendment.

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TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of approximately 12,000 miles of highways, 4,500 bridges of ten-foot spans or longer, and 1,072 maintenance, enforcement, service, and administrative buildings at 334 sites. Minnesota has 914 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is over 141,000 miles.

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

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the distribution formula may be made within six years of the last previous change. The current distribution formula was established in the 1998 legislative session.

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, investment income, and miscellaneous fees and reimbursements. A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the State and includes gasoline, diesel fuel, and other special fuels. In 2008 the legislature approved $1.8 billion in Trunk Highway bonds to be appropriated initially over a 10 year period, subsequently reduced to eight years in Laws 2010, Chapter 190. The debt service on these bonds is to be paid from motor fuel tax increases which were phased in over several years. The final tax rate increase of a half cent was implemented on July 1, 2012 (for a total rate of 28.5 cents per gallon of which 3.5 cents is to be used for debt service) and is expected to be in place through Fiscal Year 2039, the anticipated duration of debt service on the Trunk Highway bonds. The following table shows the motor fuel tax rate changes passed by the 2008 Legislature:

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

Fiscal Year	Effective Date	Increase (Cents/Gallon)	New Effective Rate (Cents/Gallon)
2008	Apr-08	2.0	22.0
2009	Aug-08	0.5	22.5
2009	Oct-08	3.0	25.5
2010	Jul-09	1.6	27.1
2011	Jul-10	0.4	27.5
2012	Jul-11	0.5	28.0
2013	Jul-12	0.5	28.5

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

In previous years, revenues from motor fuel taxes and vehicle registration taxes were each displayed net of refunds, collection costs, and other transfers. They will now reflect revenues net of refunds, which will tie directly to MnDOT's official financial fund statements.

Revenue from motor fuels taxes was $847 million to the Highway User Tax Distribution Fund in Fiscal Year 2012, after refunds. Of this amount, $484 million was transferred to the Trunk Highway Fund. MnDOT's preliminary estimate indicates collections of $859 million, after refunds, in Fiscal Year 2013 to the Highway User Tax Distribution Fund, with a resulting transfer of $492 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25% times a declining percentage of the original value of the vehicle based upon registration year. For vehicles newly registered in 2009 or later, the new statutory schedule is automatically applied, which contains no tax caps. For vehicles previously registered before 2009, the new tax schedule is only applied if the amount calculated is less than the vehicle registration amount paid in the previous year; otherwise the registration amount is equal to the previous year's registration tax. The minimum tax is $35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being $1,760 for trucks registered at 80,000 pounds that are less than nine years old. Trucks registered at a weight greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes generated $580 million in Fiscal Year 2012, after refunds, of which $338 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be $599 million in Fiscal Year 2013 to the Highway User Tax Distribution Fund, with a resulting transfer of $348 million to the Trunk Highway Fund.

The State of Minnesota levies a sales tax of 6.5% on motor vehicles ("MVST"). In November 2006, voters approved a constitutional amendment phasing in dedication of all MVST for transportation purposes over five years, starting July 1, 2007 (FY 2008). The 2009 Legislature modified the percent of motor vehicle sales tax distribution for the Previous Biennium. The following table shows percent and forecast amount, if available, to each of the recipient funds for this revenue source.

MOTOR VEHICLE SALES TAX DEDICATION
2013 LEGISLATIVE SESSION
($'s in Millions)

	Highway User Tax Distribution Fund		General Fund		Transit Assistance Fund	
Year	Percent	Forecasted Amount	Percent	Forecasted Amount	Percent	Forecasted Amount
2008	38.25%	$196.1*	36.25%	$176.5*	25.50%	$130.7*
2009	44.25%	195.5*	26.25%	116.8*	29.50%	130.3*
2010	47.50%	216.7*	16.25%	74.1*	36.25%	162.8*
2011	54.50%	276.1*	6.25%	31.6*	39.25%	197.4*
2012	60.00%	335.4*	0.00%	0	40.00%	223.6*
2013	60.00%	358.9	0.00%	0	40.00%	239.3
2014	60.00%	373.7	0.00%	0	40.00%	249.1
2015	60.00%	395.0	0.00%	0	40.00%	263.3

*Actual

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

CURRENT BIENNIUM
END OF 2013 LEGISLATIVE SESSION
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
($ in Thousands)

	Fiscal Year Ended June 30, 2014	**Fiscal Year Ended June 30, 2015**	**Biennium**
Estimated Resources			
Balance Forward from Prior Year	$226,112	$134,276	$226,112
Revenues			
Federal Grants	518,880	512,080	1,030,960
Departmental Earnings	11,451	11,451	22,902
Investment Income	3,664	3,664	7,329
Other Income	36,222	36,222	72,444
Total Receipts	570,217	563,417	1,133,635
Transfers from Other Funds			
General Fund Reimbursement	5,215	5,398	10,613
HUTD Reimbursement	610	610	1,220
Hwy Users Tax Distribution Fund	1,071,114	1,091,283	2,162,397
Plant Management Fund	1,304	1,304	2,608
County State Aid Highway Fund	5,700	0	5,700
Special Revenue Fund	0	0	0
Total Transfers	1,083,943	1,098,595	2,182,538
Total Resources Available	1,880,271	1,796,289	3,676,560
Estimated Uses			
Expenditures			
Transportation			
Mn/DOT	1,507,109	1,407,212	2,914,321
Public Safety	89,309	89,830	179,139
Contingent Account	0	0	0
Subtotal-Transportation	1,596,418	1,497,042	3,093,460
State Government			
Tort Claims	600	600	1,200
Subtotal-State Government	600	600	1,200
Total Expenditures	1,597,018	1,497,642	3,094,660
Transfers to Other Funds			
General and Spec Rev Fund	60	60	120
Debt Service Fund	148,917	180,321	329,238
Total Transfers	148,977	180,381	329,358
Total Uses	1,745,995	1,678,023	3,424,018
Undesignated Fund Balance	$134,276	$118,266	$118,266

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

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

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

Capital Needs of the Trunk Highway System

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

See Appendix D for a list of bond authorizations to be included in the Series 2013E Bonds.

The following table shows the most recent legislative bond authorizations for trunk highway improvements. See Appendix C, the table of "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED"

Legislature	Authorizations ($ in millions)	Purpose
2007	$ 20.0	Highway Flood Damage
2008	1,783.3	Trunk Highway Improvements
2009	40.0	Trunk Highway Interchanges
2009	2.7	Reconstruction and Repair of Trunk Highways and Bridges in Flood Areas
2010	100.1	Trunk Highway Construction and Interchanges
2010	26.4	Trunk Highway Capital Improvements
2012	16.1	Trunk Highway Capital Improvements
2013	300.00	Corridors of Commerce
Total:	$ 2,288.60	

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

CURRENT BIENNIUM
2013 LEGISLATIVE SESSION
TRUNK HIGHWAY IMPROVEMENT PROGRAM
ANTICIPATED ENCUMBRANCES
($ in Millions)

Improvement Category	Trunk Highway and Federal Funds	Bond Funds	Total
Major Construction [1]	$ 1,314.6	$ 588.6	$ 1,903.1
Safety	141.0	-	141.0
Traffic Management	19.6	-	19.6
Municipal Agreements	53.0	-	53.0
Right of Way	105.0	-	105.0
Miscellaneous Agreement	131.8	-	131.8
Capital Construction and Improvements	-	-	-
Program Delivery	-	58.9	58.9
Total [2]	$ 1,765.0	$ 647.4	$ 2,412.4

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

[2] The total expenditures, excluding the amount provided by bond funds, consist of $793.6 million of State highway revenues and $971.4 million of federal funds. Totals may not foot due to rounding.

CURRENT BIENNIUM
TRUNK HIGHWAY AND TRUNK HIGHWAY BOND FUND
CASH EXPENDITURES FORECAST
($ in Millions)

Category	Trunk Highway Fund	Trunk Highway Bond Fund	Total
Major Construction	$ 1,271.3	$ 548.6	$ 1,819.8
Safety	32.9	-	32.9
Traffic Management	3.8	-	3.8
Agreements and Miscellaneous	47.8	-	47.8
Right of Way	69.4	-	69.4
Capital Construction and Improvements	-	-	-
Program Delivery	0.1	55.4	55.4
Total[1]	$ 1,425.3	$ 603.9	$ 2,029.3

[1] Totals may not foot due to rounding.

TRUNK HIGHWAY HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2010 through 2012, and for the additional time periods shown. For the Fiscal Years ended June 30, 2010 through 2012 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, 2011 and June 30, 2012, such revenues and expenditures include only cash receipts and disbursements allocable to such periods, respectively. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures set forth in the table on the following page are presented by expenditure account.

TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF REVENUES, AND EXPENDITURES
(THOUSANDS OF DOLLARS)
UNAUDITED

	Fiscal Year Ended June 30 (1)			July 1, 2010 through June 30, 2011 (2)	July 1, 2011 through June 30, 2012 (2)
	2010	2011	2012		
Revenues:					
Taxes:(3)					
Motor Fuel	$488,445	$501,426	$502,134	$498,817	$496,555
Motor Vehicle	325,774	337,990	354,093	335,002	348,680
Motor Vehicle Sales Tax	127,616	162,619	197,521	148,094	176,394
Less: Revenue Refunds	(31,407)	(31,379)	(34,284)	(31,161)	(33,323)
Net Taxes	$910,429	$970,656	$1,019,463	$950,752	$988,305
Federal Grant Agreements	472,788	525,549	393,993	475,351	364,666
Drivers License(4)	0	0	0	0	0
Penalties & Fines	4,764	4,410	3,421	3,976	5,933
Investment Income	2,421	2,213	3,078	2,034	2,791
Local Government Contracts	15,250	27,213	20,134	26,826	20,372
Other Revenue	17,790	20,351	15,536	21,466	14,799
TH Revenue Refunds	0	0	0	(9)	7
Total Revenues	$1,423,442	$1,550,392	$1,455,624	$1,480,396	$1,396,873
Expenditures:					
Personnel Services	$422,719	$433,267	$398,387	$399,939	$384,256
Purchased Services	120,462	126,685	97,168	82,166	67,871
Materials and Supplies	76,611	96,132	70,944	76,990	61,585
Capital Outlay:					
Equipment	28,506	60,701	13,467	25,052	6,497
Capital Outlay & Real Property(5)	662,345	746,360	595,524	227,660	158,550
Grants and Subsidies:					
Individuals	-	21	134	-	136
Counties	4,536	126	667	66	560
Cities	2,940	164	213	164	213
School Districts	215	3	5	251	5
Private Organizations	-	-	-	-	-
Other Grants	923	1,284	172	814	31
All Other	13,971	13,871	32,412	31,392	23,170
Total Expenditures	$1,333,226	$1,478,616	$1,209,094	$844,496	$702,873
Transfers:					
Debt Service	70,542	45,225	72,601	45,225	72,601
Other Transfers (6)	(5,903)	(6,008)	(8,783)	(5,912)	(7,865)
Net Transfers	$64,639	$39,217	$63,818	$39,313	$64,736
Total Expenditures and Net Transfers Out	$1,397,865	$1,517,833	$1,272,912	$883,809	$767,609

(1) For Fiscal Years 2010-2012, the schedule of revenues and expenditures includes all revenues and expenditures or the fiscal year, and encumbrances for the fiscal year, including accruals at June 30.

(2) For the periods ended June 30, 2011, and June 30, 2012 only current year receipts have been included.

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

(4) The 2005 Legislature transferred responsibility for revenues and corresponding collection expenses relating to driver's license from the Trunk Highway Fund to the Department of Public Safety Driver's Services Account in the Special Revenue Fund. This legislation required the amounts shown in Fiscal Years 2008-2010 to be transferred to the Trunk Highway Fund in lieu of lost license revenue.

(5) Because construction contracts typically span into future fiscal years, and are encumbered in their entirety in the appropriate fiscal year, materially large amounts of encumbrances exist at the end of a fiscal year. For Fiscal Years 2010-2012, encumbrances have been included in Capital Outlay and Real Property totals.

(6) Net of all transfers in from State General Fund, County State Aid Highway Fund, Plant Management Fund, and Special Revenue Fund.

MINNESOTACARE® PROGRAM

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

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

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

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

Resources	
Unreserved Balance at June 30, 2011	$ 23
Revenues	1,198
Total Resources	$1,221
Expenditures	662
Projected Unreserved Balance Before Transfers	$ 558
Transfers to Other Funds	544
Projected Unrestricted Balance at June 30, 2013	$ 14

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

Resources	
Unreserved Balance at June 30, 2013	$ 14
Revenues	1,326
Total Resources	$1,340
Expenditures	1,143
Projected Unreserved Balance Before Transfers	$ 197
Transfers to Other Funds	183
Projected Unrestricted Balance at June 30, 2015	$ 14

In July 2011, the Legislature enacted a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for the fund that year. The Commissioner is required to evaluate the projected ratio of revenues to expenditures as well as its cash flows in the fund for the current biennium. If revenues exceed expenditures by 125 percent for the biennium, and if the cash balance in the fund is adequate, the 2 percent tax on gross revenues of hospitals, health care providers and wholesale drug distributors will be reduced to the extent that the ratio is not more than 125 percent. Any changes to the rate expire each calendar year and are to be re-determined by the Commissioner until January 1, 2020 when the tax is repealed. To date, the criteria for reducing the tax have not been met.

Federal changes under the Affordable Care Act prompted Minnesota to modify its MinnesotaCare® program, as MinnesotaCare® provides health insurance for some individuals who will be eligible to purchase coverage through an ACA-authorized Health Insurance Exchange, starting in 2014. To do so, during the 2013 legislative session, lawmakers directed the Department of Human Services to use MinnesotaCare® as the State's Basic Health Plan, defined by the ACA. As a result, the State cost of MinnesotaCare® will decline since the federal government will fund approximately 85% of the total cost of the program beginning January 1, 2015. To meet the ACA requirements to be a Basic Health Plan, beginning January 1, 2014, MinnesotaCare® will serve Minnesotans with incomes between 138% and 200% of Federal Poverty Guidelines (FPG). Some individuals with incomes over 200% of FPG who are currently served by MinnesotaCare® will instead purchase insurance on the State's health insurance exchange ("MNsure") or alternatively, be served in the State's expanded Medical Assistance (MA) program, paid for out of the General Fund. Savings in the health care access fund generated from increased federal participation in MinnesotaCare® will be used to pay for a portion of the Medical Assistance program. "Next Generation MinnesotaCare®" will enroll an additional 127,000 individuals in FY 2015.

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 estimated vs. actual revenues and expenditures are monitored to ensure adequate cash flow. There are more than 80 funds within the Statutory General Fund. MMB manages short-term intra-fund borrowing within the Statutory General Fund, balancing the cash needs of various programs with actual daily receipts and disbursements.

The State may, subject to certain limitations, issue certificates in anticipation of the collection of taxes levied for and other revenue appropriated to the Statutory General Fund for expenditure during the biennium. Minnesota Statutes, Section 16A.671, authorizes the Commissioner to sell certificates of indebtedness in the following manners:

- advertising for competitive bids;
- negotiating contracts with banks in or out of state to establish lines of credit;
- negotiating contracts with firms of underwriters that will purchase or act as agents in the placement of certificates of indebtedness;
- entering into contracts with banks in or out of state to authenticate, issue, pay principal and interest on, cancel, and otherwise deal as fiscal agents of the State with certificates of indebtedness issued as outlined above; and
- selling certificates of indebtedness to the State Board of Investment without advertising for bids.

The tables on the following pages show the actual monthly Statutory General Fund cash flows for FY 2013 and projected monthly cash flows for FY 2014 and FY 2015. These projections are based on the February 2013

Forecast and 2013 Legislative Session Enacted Budget. The table for FY 2013 represents actual Statutory General Fund cash flow balances through June 30, 2013. Projected monthly cash flows for FY 2014 and FY 2015 have be formatted to include Transfers In and Transfers Out to more accurately reflect State operations. The payment of debt service is included in Transfers Out as footnoted in the cash flows for FY 2014 and FY 2015. Please note that monthly cash flow projections are subject to a high level of variability. Projected Statutory General Fund cash flow for FY 2014 and FY 2015 indicates that the State will be able to maintain positive cash balances for the Current Biennium without special administrative actions or access to external borrowing.

The FY 2014 and FY 2015 cash flow tables that follow have not been updated for preliminary FY 2013 close. See "APPENDIX B – BIENNIUM BUDGETS – Preliminary FY 2013 Close – Current Biennium".

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STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
Actual for Fiscal Year Ending June 30, 2013
($ in Thousands)

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL
Beginning Cash Balance	$ 3,799,364	$ 2,486,762	$ 1,515,207	$ 1,071,775	$ 1,043,986	$ 1,580,025	$ 909,969	$ 1,771,522	$ 1,175,035	$ 1,000,793	$ 1,934,752	$ 2,487,992	
Individual Income Tax	543,964	675,990	809,416	593,224	610,025	724,561	1,188,135	185,518	524,212	1,533,108	711,984	884,720	8,984,857
Corporate & Bank Excise	59,823	(23,279)	209,730	66,576	8,284	260,851	23,617	10,749	305,890	78,447	40,382	260,394	1,301,464
Sales and Use Tax	250,817	429,339	413,242	445,901	395,090	346,981	503,708	369,634	337,077	382,153	386,987	623,097	4,884,024
Property Tax	16,652	(74)	-	171,657	173,886	15,035	5,342	11	13	4	223,804	205,207	811,535
Tobacco Tax and Settlement	(4,593)	47,023	8,153	14,410	17,324	21,631	9,715	17,732	13,173	20,037	15,671	33,002	213,279
Insurance Tax	1,351	7,215	80,108	101	1,712	91,821	719	14,433	115,099	75,484	(73,366)	88,976	403,652
Other Excise Taxes	120,387	92,407	60,666	132,242	78,988	71,600	153,430	100,060	54,730	193,741	138,278	93,640	1,290,170
Investment Earnings	1,251	(2,535)	2,744	577	705	689	844	4	1,647	768	793	(162)	7,323
Inter-Governmental Grants	11,700	16,929	13,061	10,746	23,425	17,153	9,775	9,635	30,707	11,956	12,417	18,634	186,138
Other Sources	703,102	719,043	596,988	367,560	549,623	356,019	664,299	409,527	384,502	292,640	357,782	766,084	6,167,169
Total Receipts	$ 1,704,453	$ 1,962,057	$ 2,194,108	$ 1,802,995	$ 1,859,063	$ 1,906,340	$ 2,559,584	$ 1,117,301	$ 1,767,049	$ 2,588,337	$ 1,814,731	$ 2,973,592	$ 24,249,609
State Compensation	235,569	230,867	237,863	240,270	238,888	339,607	239,256	239,789	247,464	260,175	251,762	380,429	3,141,940
Agency Operations	213,609	176,653	151,436	146,755	96,033	130,515	152,332	139,262	155,297	164,900	142,308	177,533	1,846,633
Aid to School Districts	593,220	1,421,616	1,292,967	857,755	77,142	934,749	730,584	686,136	997,091	762,298	284,089	80,507	8,718,154
Aid to Cities	238,042	15,695	84,151	10,783	8,723	209,516	3,709	8,100	8,390	2,011	4,823	2,837	596,780
Aid to Counties	139,438	28,427	25,560	22,739	21,080	118,067	6,917	17,622	8,130	11,870	30,320	6,957	437,126
Aid to Higher Education Institutions	52,860	97,859	81,244	59,660	52,305	89,018	100,786	59,139	57,401	52,528	70,927	52,220	825,949
Aid to Non-Gov't Organizations	20,309	12,938	15,127	25,559	13,254	13,200	18,694	14,386	20,855	17,855	43,637	12,696	228,509
Aid to Other Governments	7,857	13,736	7,459	8,808	8,540	5,746	11,427	4,714	5,833	6,708	3,993	3,965	88,787
Payments to Individuals	1,026,726	520,493	633,650	366,605	434,349	633,098	398,505	408,406	342,214	317,516	274,081	777,119	6,132,763
Other Expenditures	489,426	415,328	108,082	91,850	150,161	102,878	35,823	136,235	98,617	58,513	155,552	564,043	2,406,508
Debt Service	-	-	-	-	222,548	-	-	-	-	-	-	-	222,548
Total Uses	$ 3,017,054	$ 2,933,612	$ 2,637,539	$ 1,830,784	$ 1,323,024	$ 2,576,396	$ 1,698,034	$ 1,713,788	$ 1,941,291	$ 1,654,375	$ 1,261,491	$ 2,058,308	$ 24,645,697
Ending Cash Balance	$ 2,486,762	$ 1,515,207	$ 1,071,775	$ 1,043,986	$ 1,580,025	$ 909,969	$ 1,771,519	$ 1,175,035	$ 1,000,793	$ 1,934,755	$ 2,487,992	$ 3,403,276	$ 3,403,276
Minimum Cash Balance for the Month	$ 2,478,562	$ 1,464,240	$ 510,915	$ 388,347	$ 535,514	$ 888,166	$ 1,106,964	$ 779,987	$ 705,415	$ 609,446	$ 893,837	$ 1,402,497	

PRELIMINARY STATUTORY GENERAL FUND
END OF 2013 LEGISLATIVE SESSION
Projected for Fiscal Year Ending June 30, 2014
($ in Thousands)

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Total
Beginning Cash Balance	$3,403,276	$2,406,783	$1,886,406	$1,913,542	$2,256,907	$1,905,407	$1,782,377	$2,632,259	$1,995,121	$1,727,204	$2,485,417	$2,512,365	
Individual Income Tax	600,506	638,318	885,227	680,412	551,587	774,269	1,187,569	266,454	428,649	1,644,947	657,592	877,652	9,193,180
Corporate Tax	60,560	42,493	249,742	62,928	14,692	224,171	31,917	21,892	274,986	70,857	49,014	172,018	1,275,270
Sales Tax	188,048	457,611	445,442	455,481	420,452	395,341	506,242	364,956	333,758	404,182	395,676	697,683	5,064,873
Property Tax	16,524	0	0	173,503	181,765	20,655	4,210	(0)	0	0	218,932	218,933	834,521
Tobacco Tax	6,313	65,626	64,073	56,595	47,176	44,956	76,128	46,773	51,443	47,226	49,199	65,890	621,397
Insurance Tax	25,792	25,792	37,757	28,529	25,792	51,897	25,792	26,244	41,952	26,410	25,793	41,869	383,618
Excise Tax	151,297	104,272	91,914	170,507	84,658	84,917	166,294	99,008	82,830	198,286	89,938	136,094	1,460,016
Investment Earnings	3	(0)	580	330	1,543	1,000	957	1,630	185	1,095	1,232	1,249	9,803
Interagency Grants	1,058	4,752	8,327	6,013	11,477	16,895	19,855	18,512	19,087	16,919	39,725	12,682	175,301
Other Revenue	132,561	517,279	206,201	326,170	255,072	480,149	622,429	255,839	237,935	274,802	261,142	314,278	3,883,858
Total Receipts	$1,182,661	$1,856,143	$1,989,263	$1,960,468	$1,594,213	$2,094,250	$2,641,393	$1,101,307	$1,470,826	$2,684,724	$1,788,244	$2,538,346	$22,901,837
Transfer In	$123,876	$214,334	$64,289	$85,144	$60,363	$85,699	$62,722	$77,263	$64,168	$71,267	$67,327	$106,489	$1,082,940
Total Sources	$1,306,537	$2,070,478	$2,053,552	$2,045,611	$1,654,576	$2,179,948	$2,704,115	$1,178,570	$1,534,994	$2,755,990	$1,855,571	$2,644,835	$23,984,777
State Compensation	122,560	225,896	256,738	272,800	388,278	249,971	262,591	256,587	265,894	266,765	390,042	248,310	3,206,431
Agency Operations	83,961	154,107	175,260	233,397	190,788	193,753	228,006	188,299	193,410	220,399	217,392	260,590	2,339,361
Aid to Schools	642,036	1,211,083	748,908	404,660	138,675	550,937	688,077	688,297	847,287	847,328	625,740	267,562	7,660,589
Aid to Cities & Towns	213,073	4,478	82,201	15,496	4,717	234,875	16,869	5,013	6,913	7,621	5,153	6,970	603,380
Aid to Counties	188,654	(4,810)	44,607	66,556	40,522	199,016	21,721	22,646	16,206	14,746	37,032	19,945	666,841
Aid to Higher Ed	41,073	104,310	69,530	57,466	54,564	62,759	119,879	57,109	49,755	66,983	62,858	58,658	804,943
Aid to Non-Gov't	118	30,927	11,736	19,081	23,142	14,313	16,497	14,406	18,867	28,535	18,088	16,674	212,385
Aid to Other Gov't	13,012	5,179	11,829	15,234	7,713	15,962	10,372	9,720	2,315	6,285	5,388	9,491	112,499
DHS Payments to Individuals	796,596	467,495	279,830	448,873	439,083	687,101	414,078	451,062	304,837	444,194	362,968	268,906	5,365,023
Other Aid to Individuals	35,529	156,710	269,825	57,143	5,638	2,075	4,046	3,157	11,448	3,277	6,002	4,538	559,388
Other Expenditures	2,685	7,163	8,705	15,217	11,761	14,611	12,140	14,989	14,238	22,552	20,987	10,863	155,911
Total Disbursements	$2,139,298	$2,362,538	$1,959,169	$1,605,923	$1,304,880	$2,225,372	$1,794,275	$1,711,283	$1,731,170	$1,928,685	$1,751,649	$1,172,508	$21,686,750
Transfer Out*	$163,732	$228,317	$67,247	$96,324	$701,196	$77,607	$59,957	$104,424	$71,740	$69,092	$76,974	$155,371	$1,871,982
Total Uses	$2,303,030	$2,590,855	$2,026,416	$1,702,247	$2,006,076	$2,302,978	$1,854,232	$1,815,708	$1,802,910	$1,997,778	$1,828,624	$1,327,879	$23,558,733
Ending Cash Balance	$2,406,783	$1,886,406	$1,913,542	$2,256,907	$1,905,407	$1,782,377	$2,632,259	$1,995,121	$1,727,204	$2,485,417	$2,512,365	$3,829,320	
Minimum Cash Balance for the Month	$2,256,583	$1,499,951	$1,555,184	$1,531,306	$1,904,776	$1,418,157	$1,759,678	$1,949,823	$1,643,744	$1,400,919	$2,124,418	$2,290,378	

*Included in the $701,196 of transfers out in November is the $633,413 in transfers to the Debt Service Fund. The balance of $67,783 is for other transfers out.

PRELIMINARY STATUTORY GENERAL FUND
END OF 2013 LEGISLATIVE SESSION
Projected for Fiscal Year Ending June 30, 2015
($ in Thousands)

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Total
Beginning Cash Balance	$ 3,829,320	$ 2,366,306	$ 1,682,170	$ 1,748,539	$ 2,002,630	$ 1,498,115	$ 1,274,706	$ 2,088,006	$ 1,393,801	$ 1,171,370	$ 1,814,580	$ 1,859,982	
Individual Income Tax	684,464	617,322	969,605	708,427	530,247	896,245	1,243,695	320,224	499,077	1,600,194	639,552	973,768	9,682,820
Corporate Tax	55,987	39,517	221,475	56,046	10,761	201,154	28,920	19,943	257,831	64,649	44,584	145,513	1,146,380
Sales Tax	194,422	460,675	447,519	458,220	423,084	396,868	511,333	376,787	343,851	417,288	401,535	711,353	5,142,935
Property Tax	16,841	0	0	176,830	185,250	21,051	4,293	(0)	0	0	223,258	223,258	850,781
Tobacco Tax	15,536	55,932	50,615	55,543	49,600	47,365	78,474	49,169	53,801	49,642	51,610	69,040	626,327
Insurance Tax	744	5,880	83,035	3,847	2,272	97,083	1,234	15,640	101,430	2,960	1,761	86,978	402,866
Excise Tax	160,248	109,710	97,208	179,773	89,559	90,481	175,731	104,057	87,172	234,628	91,114	142,585	1,562,266
Investment Earnings	3	(1)	580	330	1,631	1,055	996	1,648	221	1,145	1,313	1,291	10,212
Interagency Grants	965	4,310	7,600	5,586	10,468	17,391	16,844	16,824	17,102	15,135	38,485	11,534	162,243
Other Revenue	140,245	517,425	208,789	342,894	244,320	492,589	629,850	257,423	249,839	269,590	254,911	317,940	3,925,815
Total Receipts	$ 1,269,455	$ 1,810,771	$ 2,086,427	$ 1,987,495	$ 1,547,191	$ 2,261,283	$ 2,691,370	$ 1,161,715	$ 1,610,323	$ 2,655,233	$ 1,748,123	$ 2,683,259	$23,512,645
Transfer In	$ 124,019	$ 213,145	$ 63,802	$ 86,359	$ 57,911	$ 86,638	$ 62,044	$ 74,495	$ 63,359	$ 70,873	$ 66,347	$ 103,287	$ 1,072,280
Total Sources	$ 1,393,474	$ 2,023,915	$ 2,150,230	$ 2,073,855	$ 1,605,101	$ 2,347,921	$ 2,753,414	$ 1,236,210	$ 1,673,682	$ 2,726,106	$ 1,814,470	$ 2,786,546	$24,584,925
State Compensation	125,289	229,557	261,386	277,923	395,396	254,830	267,832	261,433	270,206	271,919	396,904	252,860	3,265,536
Agency Operations	82,086	150,379	170,916	234,518	178,922	196,364	226,206	184,710	181,852	218,315	203,110	254,116	2,281,493
Aid to Schools	677,799	1,278,539	790,622	427,199	146,366	581,577	726,393	726,621	894,466	894,509	660,559	282,416	8,087,067
Aid to Cities & Towns	211,801	4,460	81,721	15,470	4,655	233,509	17,024	5,107	6,624	7,931	4,783	6,957	600,042
Aid to Counties	396,300	(42,560)	81,835	127,306	53,396	374,011	35,627	36,501	29,132	22,348	45,542	32,523	1,191,961
Aid to Higher Ed	40,681	104,816	69,696	57,681	54,706	77,206	106,530	56,446	50,146	67,572	62,723	58,880	807,082
Aid to Non-Gov't	121	31,618	11,978	19,719	23,294	15,169	17,759	13,555	19,169	29,546	17,388	16,993	216,309
Aid to Other Gov't	12,741	5,008	11,824	14,961	7,446	15,733	10,076	9,446	2,007	5,952	5,121	9,305	109,619
DHS Payments to Individuals	1,097,708	487,416	292,250	458,537	509,504	717,535	454,500	492,694	320,787	453,523	258,592	328,133	5,871,178
Other Aid to Individuals	36,675	211,769	231,088	66,050	5,714	2,624	4,353	3,409	18,688	2,993	6,353	4,804	594,521
Other Expenditures	5,958	10,627	13,240	21,224	17,566	25,792	14,395	37,766	32,031	39,895	31,766	17,375	267,635
Total Disbursements	$ 2,687,159	$ 2,471,629	$ 2,016,557	$ 1,720,588	$ 1,396,964	$ 2,494,349	$ 1,880,696	$ 1,827,687	$ 1,825,108	$ 2,014,503	$ 1,692,841	$ 1,264,362	$23,292,443
Transfer Out*	$ 169,330	$ 236,422	$ 67,305	$ 99,177	$ 712,651	$ 76,981	$ 59,418	$ 102,728	$ 71,004	$ 68,394	$ 76,227	$ 154,977	$ 1,894,613
Total Uses	$ 2,856,489	$ 2,708,051	$ 2,083,861	$ 1,819,764	$ 2,109,616	$ 2,571,330	$ 1,940,114	$ 1,930,415	$ 1,896,112	$ 2,082,896	$ 1,769,068	$ 1,419,340	$25,187,057
Ending Cash Balance	$ 2,366,306	$ 1,682,170	$ 1,748,539	$ 2,002,630	$ 1,498,115	$ 1,274,706	$ 2,088,006	$ 1,393,801	$ 1,171,370	$ 1,814,580	$ 1,859,982	$ 3,227,188	
Minimum Cash Balance for the Month	$ 2,087,309	$ 1,309,040	$ 1,401,347	$ 1,388,780	$ 1,486,455	$ 930,492	$ 1,285,675	$ 1,346,363	$ 1,071,571	$ 902,023	$ 1,514,039	$ 1,753,577	

*Included in the $712,651 of transfers out in November is the $646,752 in transfers to the Debt Service Fund. The balance of $65,899 is for other transfers out.

MINNESOTA DEFINED BENEFIT PENSION PLANS

General Information

The State has three major state-wide retirement systems that cover most of the public employees of the State and its counties, municipalities and school districts. These systems are the Minnesota State Retirement System ("MSRS"), the Public Employees Retirement Association ("PERA") and the State Teachers' Retirement Association ("TRA," and collectively, the "Retirement Systems"). The Retirement Systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay benefits to retired public employees and their beneficiaries. The State is the primary employer for MSRS.

MSRS, PERA and TRA each prepare and publish their own comprehensive annual financial report, consisting of financial statements and required supplementary information and contain detailed financial and actuarial information. Much of the information that is contained in this section "MINNESOTA DEFINED BENEFIT PENSION PLANS" (i) relies on information produced by the administrators of the Retirement Systems or their accounting and actuary agents, (ii) depends upon future events, which may or may not be consistent with any of the assumptions, may deviate significantly from those assumptions and may alter the outcomes of the plans and the obligations of the State and other employers as a result. The State intends to implement the two new GASB pension-related statements (Statement 67 - Financial Reporting for Pension Plans and Statement 68 - Accounting and Financial Reporting for Pensions) on or before their effective dates. These comprehensive annual financial reports for the Fiscal Year ended June 30, 2012 are available from the following public web sites:

MSRS: http://www.msrs.state.mn.us/info/fincl.htmls
PERA: http://www.mnpera.org/
TRA: http://www.minnesotatra.org/

Each plan administrator accounts for one or more pension plans as part of their system. For some of these plans, the State contributes as an employer, and performs only a fiduciary role for other plans. These pension plans are categorized as either defined benefit or defined contribution or investment trust funds. The State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans.

In a defined benefit pension plan ("DB"), a periodic (usually monthly) benefit is paid to retired, disabled and survivors of deceased employees in an amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. The benefit is payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree. To fund the benefits paid by the defined benefit pension plan, 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 State statute. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to State statutes. See "Actuarial Valuation Requirements" below.

Overview – MSRS

Minnesota State Retirement System ("MSRS") provides retirement coverage for 53,648 active employees, 35,830 retirees and beneficiaries, and 17,014 members who no longer contribute, but are eligible for future monthly benefits. These members participate in six unique defined benefit retirement funds. The largest funds include the State Employees Retirement Fund, Correctional Employees Retirement Fund and State Patrol Retirement Fund, which represents 96% of total assets for MSRS' defined benefit funds.

The MSRS administration is governed by an 11-member board of directors. The board includes four elected General Employees Retirement Plan members, one elected State Patrol Plan member, one elected Correctional Employees Plan member, one elected retired member, one designated representative for employees of Metropolitan Council's Transit division, and three members appointed by the governor. The board appoints an executive director who administers the plans in accordance with Minnesota law and board policies, and directs the daily operational activities of MSRS.

The State Employees Retirement Fund includes the General Employees Retirement Plan, a multiple-employer, cost-sharing plan, the State Fire Marshals Plan, the Military Affairs Plan, and the Transportation Pilots Plan. The General Employees Retirement Plan is the largest retirement plan that MSRS administers. It covers most state employees, civil service employees of the University of Minnesota, and employees of the Metropolitan Council. The State Fire Marshals Plan covers employees of the State Fire Marshals Division employed as deputy state fire marshal fire/arson investigators. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots Plans, but all state employees who are not members of another plan are covered by the General Employees Retirement Plan.

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single-employer plan. Membership is limited to those state employees who are state troopers, conservation officers, crime-bureau officers or gambling-enforcement agents.

The Correctional Employees Retirement Fund includes only the Correctional Employees Plan, a single-employer plan. Membership is limited to those state employees in covered correctional service, including employees with 75% working time spent in direct contact with inmates or patients at Minnesota correctional facilities.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to a judge or justice of any Minnesota court.

The Legislators Retirement Fund and the Elective State Officers Retirement Fund are funded on a pay-as-you go basis with direct appropriations from the State's General Fund. Each is a single-employer plan and closed to new membership. The Legislators Retirement Plan includes members of the Minnesota House of Representatives and Senate first elected to office before July 1, 1997 who opted to retain coverage under this plan. The Elective State Officers Plan includes only the constitutional officers first elected prior to July 1, 1997 who opted to retain coverage under this plan.

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Membership statistics for each of the MSRS funds, as of June 30, 2012, follows:

	State Employees Retirement Fund	State Patrol Retirement Fund	Correctional Employees Retirement Fund	Judges Retirement Fund	Legislators and Elective State Officers Retirement Funds	**Totals**
Members:						
Retirees	26,524	733	1,773	190	297	**29,517**
Beneficiaries	3,701	182	180	99	84	**4,246**
Disabilitants	1,750	48	244	25	N/A	**2,067**
Terminated members:						
Vested, no benefits	15,702	40	1,180	17	75	**17,014**
Non-Vested	5,788	15	473	0	1	**6,277**
Active members:						
Vested	38,227	771	3,408	229	34	**42,669**
Non-Vested	9,980	52	868	79	0	**10,979**
Totals	**101,672**	**1,841**	**8,126**	**639**	**491**	**112,769**
Annualized Payroll	$2,367,160,000	$62,524,000	$200,035,000	$38,644,000	$1,378,000	$2,669,741,000

MSRS also administers four defined contribution funds. These plans include the Unclassified Employees Retirement Fund, the Health Care Savings Fund, the Deferred Compensation Fund (an Internal Revenue Code Section 457 plan), and the Hennepin County Supplemental Retirement Fund.

Overview – PERA

Public Employees Retirement Association ("PERA") administers pension funds that serve approximately 235,000 active county, school and local public employees, benefit recipients, their survivors and dependents. PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located throughout the state. At June 30, 2012, PERA's membership included 153,735 current, active employees and 89,603 retirees and beneficiaries.

The PERA Board of Trustees is responsible for administering these funds in accordance with statutes passed by the Minnesota Legislature and has a fiduciary obligation to PERA's members, the governmental employers, the state, and its taxpayers. The PERA Board of Trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operation of the association.

PERA administers five separate defined benefit pension funds (including one multi-employer agent plan) and one defined contribution plan. Each has specific membership, contribution, benefit, and pension provisions.

The General Employees Retirement Fund (GERF) encompasses three plans: the PERA Coordinated Plan, the PERA Basic Plan, and the Minneapolis Employees Retirement Fund (MERF). The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan established in 1931, is not coordinated with the federal program and was closed to new members on December 31, 1967. The MERF was a separate entity until June 30, 2010, when it was consolidated under PERA's administration in the GERF. Assets and liabilities will be kept separate until the MERF becomes 80% funded, at which time the MERF will be fully merged into the GERF. MERF is a defined benefit plan with 4,055 retirees, 80 active members and 69 deferred members. All of the active members are eligible to retire. Employers include the City of Minneapolis; Minneapolis Schools; Metropolitan Airports Commission; Hennepin County; MnSCU; Metropolitan Council; and the Municipal Building Commission.

The Public Employees Police and Fire Fund (PEPFF) originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980. As of July 1, 1999, this fund also includes the members of 44 previously local police and fire relief associations that elected to have PERA administer their plan. In 2011 and 2012 respectively, legislation was enacted to merge the Minneapolis Police and Minneapolis Firefighters Relief Associations effective December 30, 2011, and the Virginia Fire and Fairmont Police Relief Associations effective June 29, 2011 with PEPFF .

The Local Government Correctional Service Retirement Fund (called the Public Employees Correctional Fund or PECF) was created in 1999 to cover local government correctional service employees who spend most of their time in direct contact with inmates. The majority of these employees were formerly part of the Coordinated Plan.

Membership statistics for each of the funds, as of June 30, 2012, follows:

	General Employees Retirement Fund	**Public Employees Police & Fire Fund**	**Public Employees Correctional Fund**	**Minneapolis Employees Retirement Fund**	**TOTAL**
Retirees	68,110	7,558	582	3,265	79,515
Beneficiaries	7,425	1,848	25	790	10,088
Terminated Members:					
Vested, no benefits	44,354	1,303	2,091	69	47,817
Non Vested	115,287	971	1,727	0	117,985
Active Members:					
Vested	107,820	10,021	2,775	80	120,696
Non Vested	31,510	844	685	0	33,039
Totals	374,506	22,545	7,885	4,204	409,140
Annualized Payroll	$5,201,524,000	$807,180,000	$171,043,000	$5,272,000	$6,185,019,000

PERA also administers the Volunteer Firefighter Retirement Fund, a multi-employer, agent plan and Public Employees Defined Contribution Plan, which was established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services. The defined contribution plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

***Overview* – TRA**

Teachers' Retirement Association ("TRA") had 579 reporting employer units, 76,649 active members and a total of 55,425 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2012.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. Teachers employed by the Minnesota State College and Universities may elect TRA coverage. Effective June 30, 2006, former members of the Minneapolis Teachers Retirement Fund Association (MTRFA) are members of TRA and are included in the membership totals presented.

TRA is managed by eight trustees: three are statutorily appointed and five are elected. The appointed trustees are the Commissioner of Education, the Commissioner of Management and Budget and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the Board of Trustees.

Membership statistics for the fund, as of June 30, 2012, follows:

Retirees	50,780
Disabilitants	591
Beneficiaries	4,054
Terminated Members:	
Vested, deferred	12,201
Non Vested	27,591
Active Members:	
Vested	61,727
Non Vested	14,922
Total	171,866
Annualized Payroll	$3,871,809,000

Investments

Assets of the pension funds are invested by the Minnesota State Board of Investment (the "SBI"). SBI prepares and publishes an annual financial report including financial statements and required supplementary information. The information that is contained in the sections "Investments" and "Investment Results" is provided by SBI.

The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership, as specified in the Constitution, is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General. All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

The prudent person rule, as codified in Minnesota Statutes Section 11A.09, requires all members of the Board, Investment Advisory Council, and SBI staff to *"...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom."* *Minnesota Statutes* Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

In addition to the prudent person rule, Minnesota Statutes Section 11A.24 contains a specific list of asset classes available for investment including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes 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.

A 17-member Investment Advisory Council, ten members of which are local investment professionals, advises the SBI on investment policy. The executive directors of the Retirement Systems also serve as members. Also, investment consultants are hired to monitor and evaluate investment performance of the investment firms hired by the SBI. Within the requirements defined by state law, the State Board of Investment, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The Board, its staff, and the Investment Advisory Council have conducted detailed analyses that address investment objectives, asset allocation policy and management structure of each of the funds under the SBI's control. The studies guide the on-going management of these funds and are updated periodically.

The individual pension plans invest in investment pools administered by the SBI. The pools function much like mutual funds, with the pension plans purchasing "units" of the pools rather than purchasing individual securities. The Combined Funds represent the assets for both the active and retired public employees in the ten statewide retirement plans which are administered by the three state-wide retirement systems, TRA, PERA, and MSRS. O n December 31, 2012, the Combined Funds covered 535,998 active and retired employees and had a market value of $49.5 billion. The Combined Funds Market Value was $51.91 billion on 3/31/13.

Actuarial Assumed Return and Asset Allocation

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, Minnesota statutes specify the annual investment return the retirement fund assets are assumed to earn. The 2012 Legislature modified the investment earnings assumption to a "select and ultimate" method, effective for the July 1, 2013 actuarial valuation report (For additional information on the select and ultimate method, see "Pension Legislation and Litigation," herein). The annualized investment return assumed is 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent annualized for Fiscal Year 2018 and years thereafter. Normally, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee's years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years. This provides the Combined Funds with a long investment time horizon and permits the Board to take advantage of the return opportunities offered by common stocks and other equity investments in order to meet the actuarial return target.

The allocation of assets among stocks, bonds, alternative investments and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the Combined Funds is reviewed periodically. SBI has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the Board includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to year basis and without impairing the Funds' ability to meet or exceed the actuarial return target over the long-term. The Combined Funds has a policy asset allocation based on the investment objectives of the Combined Funds and the expected long term performance of the capital markets. The policy asset allocation of the Combined Funds was approved by the Board in December 2008, and is as follows:

Domestic Stocks	45%
International Stocks	15%
Bonds	18%
Alternative Assets	20%
Unallocated Cash	2%

The SBI's asset rebalancing policy is as follows: When actual asset allocation deviates 5% to 10% from the target, rebalancing is at the discretion of the SBI. If the actual allocation deviates 10% or more from the target, assets must be redistributed to achieve long-term allocation targets. (The target allocation for domestic equity is 45% of the fund. A 5% deviation would equal 2.25%.) The uncommitted allocation in Alternatives is invested in fixed income. The Board recognizes that in some market situations the allocation to alternatives may exceed 20% but may not exceed 24%.

The following table represents the actual asset allocation and the market value for the Combined Funds as of June 30, 2012 and June 30, 2013.

Combined Funds Assets
Periods Ending June 30, 2012 and June 30, 2013

	Policy Targets	Actual Mix 6/30/2012	Market Value** (millions)	Actual Mix 6/30/2013	Market Value** (millions)
Domestic Stocks	**45.0%**	45.2%	$21,508	45.1%	$23,474
International Stocks	**15.0**	14.9	7,074	14.9	7,751
Bonds	**18.0**	22.3	10,597	23.0	11,973
Alternative Assets*	**20.0**	15.7	7,441	14.5	7,559
Unallocated Cash	**2.0**	1.9	914	2.5	1,328
	100.0%	**100.0%**	**$47,534**	**100.0%**	**$52,085**

*Any uninvested allocation is held in domestic bonds.
**Market value based on fair value as defined in GASB 31.
Source: SBI Combined Funds Performance, periods ending, June 30, 2012 and June 30, 2013.

Investment Results

All assets in the Combined Funds are managed externally by investment management firms retained by contract. Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date. The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts.

The rate of return in the Combined Funds was 14.2% in the Fiscal Year ending June 30, 2013. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2013 actuarial valuation report, the annualized assumed investment return is 8.0% for Fiscal Year 2013 through Fiscal Year 2017 and 8.5% annualized for Fiscal Year 2018 and years thereafter. (For additional information on the select and ultimate method, see "Pension Legislation and Litigation," herein). Over a 10 year period, the Combined Funds are expected to outperform a composite market index weighted in a manner that reflects the long-term asset allocation over the latest 10-year period.

Period Ending June 30, 2012

	2008	2009	2010	2011	2012	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 Yr.
Combined Funds	**-5.0%**	**-18.8%**	**15.2%**	**23.3%**	**2.4%**	**13.3%**	**2.3%**	**7.0%**	**8.2%**	**8.4%**	**10.2%**
Composite Index	-3.9%	-18.4%	13.4%	22.4%	3.0%	12.6%	2.3%	6.9%	8.0%	8.2%	N/A

Period Ending June 30, 2013

	2009	2010	2011	2012	2013	3 Yr.	5 Yr.	10 Yr.	20 Yr.	25 Yr.	30 Yr.
Combined Funds	**-18.8%**	**15.2%**	**23.3%**	**2.4%**	**14.2%**	**13.0%**	**6.2%**	**8.2%**	**8.2%**	**9.0%**	**9.4%**
Composite Index	-18.4%	13.4%	22.4%	3.0%	12.9%	12.5%	5.7%	7.9%	8.0%	8.7%	N/A

Source SBI

The Combined Fund outperformed the composite index over the last three years and five years. Actual returns relative to the total fund composite index for much of the last five years are shown above. For the 10 year period ending June 30, 2013, the Combined Funds outperformed its composite index by 0.3%. For the 20 year period ending June 30, 2013, the Combined Funds outperformed its composite index by 0.2%. The annualized return for the Combined Funds over the past 25 years was 9.0%; over the past 30 year period since June 30, 1983, the annualized rate is 9.4%

FY 2012 Funding Summary

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to PERA, TRA and certain local governments to assist with public pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to PERA, TRA, certain local governments and school districts that are contributing employers in these plans. Provided below is a Table summarizing the Retirement Systems, including: the types of pension plans (*e.g.*, defined benefit, defined contribution, etc.), whether the State contributes to the pension plan as an employer or otherwise, and the State's FY 2012 contributions to the various plans.

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Minnesota State Retirement System – State Participation and Contribution Summary
(Defined Benefit Plans in Bold)
($'s in Thousands)

Minnesota State Retirement System (MSRS)				
Plans Covered	Type	State Employer Participation?	State Provides Other Non-Employer Contributions?	FY 2012 State Pension Contributions(1)
State Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes(2)	No	$86,273
Correctional Employees Retirement Fund	**Single employer, State plan**	Yes	No	$24,188
Elective State Officers Fund	**Single employer, State plan**	Yes	No	$465
Judges Retirement Fund	**Single employer, State plan**	Yes	No	$7,922
Legislators Retirement Fund	**Single employer, State plan**	Yes	No	$3,935
State Patrol Retirement Fund	**Single employer, State plan**	Yes	No	$11,620
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	$5,918
Postretirement Healthcare Benefits Fund	Defined Contribution	N/A	N/A	N/A
State Deferred Compensation Fund	Deferred Compensation	N/A	N/A	N/A
Hennepin County Supplemental Retirement Fund	Defined Contribution	N/A	N/A	N/A
Public Employees Retirement Association (PERA)				
Plans Covered	Type	State Employer Participation?	State Provides Other Non-Employer Contributions?	FY 2012 State Pension Contributions(1)
General Employees Retirement Fund	**Multiple employer, cost-sharing plan**	Yes(3)	No(4)	$7,045
Minneapolis Employees Retirement Fund	**Multiple employer, cost-sharing plan**	No	Yes	$22,750
Public Employees Police and Fire Fund	**Multiple employer, cost-sharing plan**	No	No(4)	-
Public Employees Correctional Fund	**Multiple employer, cost-sharing plan**	No	No	-
Volunteer Firefighter Retirement Fund	Multiple employer, agent plan	N/A	Yes (4)	$153
Defined Contribution Fund	Defined Contribution	N/A	N/A	N/A
Teachers Retirement Association (TRA)				
Plans Covered	Type	State Employer Participation?	State Provides Other Non-Employer Contributions?	FY 2012 State Pension Contributions(1)
Teachers Retirement Fund	**Multiple employer, cost-sharing plan**	Yes(5)	Yes(5)	$27,994 (5)

(1) Includes: (i) State contributions made as an employer, (ii) General Fund appropriations made to the Funds and (iii) General Fund contributions made directly to certain local governments to assist them with their pension obligations. Does not include statutory State contributions made to local plans governed by State statutes. Employer contributions are made from a variety of State funds, including the General Fund. Based on payroll expense data for Fiscal Year 2012, the State's General Fund comprised approximately 49% of the MSRS employer contributions.

(2) The State is a primary employer for the State Employees Retirement Fund.

(3) The State does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from the Minnesota State Colleges and University system ("MnSCU"), the Public Defense Board, Department of Military Affairs and the court system that were grandfathered in.

(4) The State contributes to pension aid payment directly to local entities to assist the employers' pension obligation and does not contribute directly to PERA.

(5) The State does not make employer contributions to TRA, except for MnSCU faculty that have elected TRA, Perpich School for the Arts, certain Department of Education Employees formerly covered by TRA and the Faribault Academies. The total contribution from the State to TRA of $27,994 million is the sum of the direct General Fund appropriation of $17.017 million plus employer contributions for those employees in the plan listed above (assumed to be 5 percent of the total employer contribution amount to the fund).

Statutory Funding Requirements

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 appropriations. For substantially all of the defined benefit plans, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. Each fund's financing requirement is determined by a specific formula established in State law.

The statutory funding formulas are not always consistent with the calculated actuarial requirements as described below. No assurance can be provided that the formulas will not change in the future. A brief description is provided below of the existing formula for the Retirement System's Plans and the local defined contribution plans that are governed by State statutes:

1. *MSRS:* MSRS consists of the assets of ten pension funds, six of which encompass defined-benefit plans, in which the State participates as an employer or otherwise provides general government contributions. For each of the defined benefit plans* in MSRS (except as noted below), 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.

    a. *Legislators Retirement Plan.* General Fund appropriations are transferred to this account on a current disbursement basis as retirement benefits are paid to members who retired after July 1, 2003. Retirement benefits to members who retired on or prior to that date are financed by the remaining assets in the Legislators Retirement Plan. Upon depletion of those assets, all benefits will be funded on a pay-as-you-go basis from the State's General Fund.

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

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

2. *PERA:* PERA consists of the assets of six pension funds, five of which are defined benefit plans. The State does not make employer contributions to PERA other than for covered individuals employed by PERA, and a small number of employees from the Minnesota State Colleges and University system ("MnSCU"), the Public Defense Board, Department of Military Affairs and the court system that were grandfathered in. For each of the defined benefit funds in PERA (except as noted below), 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.

    a. Minneapolis Employees' Retirement Fund ("MERF"). This fund was closed to new members. In July 2008 the MERF Board of Trustees voted to transfer the management of their assets to the Minnesota State Board of Investment. On June 30, 2010, the administration of MERF was transferred to the Public Employees Retirement Association. All assets, service credit, benefits liabilities transferred to a separate MERF division account administered by PERA on June 30, 2010. The annual General Fund obligation is specified in statute as: the actuarially determined financial requirements of the MERF account less the employer and employee contribution of 9.75% of covered payroll, less the additional employer contribution of 2.68% of covered payroll, and less $3,900,000. The total State contribution cannot exceed $9,000,000 per year plus $13,750,000 on September 15, 2011, $13,750,000 on September 15, 2012, and $15,000,000 thereafter, until June 30, 2031. After June 30, 2012, the annual additional employer supplemental contribution will be a minimum of $27,000,000 and a maximum of $34,000,000.

    b. Local Police and Fire Amortization Aid. This aid program is specified in statute. As originally designed, it funded the 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 (now part of the Teacher's Retirement Association), St. Paul, and Duluth teacher retirement plans. The State's contribution remains at the Fiscal Year 1992 appropriation level, or less, until St. Paul Teachers' Plan becomes fully funded.

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* One of the funds, the State Employees Retirement Fund, includes four separate plans: the General State Employees Plan (which is the largest plan of the State Employees Retirement Fund), and plans for three separate groups: Minnesota Department of Transportation pilots, deputy state fire marshals, and Military Affairs personnel.

3. *TRA:* The State does not make employer contributions to TRA other than for MnSCU faculty who have elected TRA, Perpich School for the Arts, certain Department of Education employees formerly covered by TRA and the Faribault Academies. The State provides certain general government contributions to TRA for actuarial liabilities assumed in 2006 by the consolidation of the former Minneapolis Teacher Retirement Fund Association. For the Teachers' Retirement Fund, 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.

4. Local Defined Benefit Retirement Systems Governed by State Statutes – TRA on behalf of the Duluth Teachers Retirement Fund Association and the St. Paul Teachers' Retirement Fund Associations. For these associations, 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. The State also contributes to certain local police and fire associations including the Bloomington Police, Minneapolis Fire and Virginia Fire plans – the contribution for which is specified in statute.

Retirement Systems Funding

State law requires the Retirement Systems to "pre-fund" future benefit obligations. Rather than collecting only sufficient sums from current active workers to pay current retired members and beneficiaries, the Retirement Systems are required by statute to accumulate enough assets to cover all benefit liabilities of participating members. The three Retirement Systems use different full funding dates:

Retirement System	Fund	Funding Date
MSRS	State Employees Retirement Fund	2040
	State Patrol Retirement Fund	2037
	Correctional Employees Retirement Fund	2038
	Judges Retirement Fund	2039
	Legislators and Elected State Officers Retirement Funds	Not Applicable
PERA	General Employees Retirement Fund	2031
	Public Employees Police and Fire Fund	2038
	Public Employees Correctional Fund	2023
TRA	Teachers Retirement Association Fund	2037

To achieve full funding, contribution rates for the Retirement Systems are determined based upon current assets, future expected investment returns, current and projected liabilities based on the benefit provisions, demographics of the Retirement Systems' membership, statutory actuarial assumptions and what annual contributions will be needed to have enough assets to match current and projected liabilities by the required full-funding date. Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, Minnesota statutes specify the annual investment return the retirement fund assets are assumed to earn. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2013 actuarial valuation report, the annualized assumed investment return is 8.0% for Fiscal Year 2013 through Fiscal Year 2017 and 8.5% annualized for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5% to 0% for all years. (For additional information on the select and ultimate method, see "Pension Legislation and Litigation," herein)

The Legislature sets the contribution rates needed to fund the Retirement Systems by using the reports and advice of actuarial consultants. Each year an actuarial valuation report is completed to see if a Retirement System's contribution rates are meeting the funding requirements. If the contributions are not changed to match the funding requirements determined by the actuarial consultants, deficiencies are created and those deficiencies may become worse over time. Due to investment returns during Fiscal Year 2012 lower than the assumed rate of 8.0%, funding levels declined for each of the Retirement Systems for the Fiscal Year ending June 30, 2012 versus funding levels shown for the Fiscal Year ending June 30, 2011.

Every four to six years, the assumptions used to forecast funding requirements are tested against actual experience. The factors considered include but are not limited to:

- Expected average investment earnings assumption
- Number and timing of members retiring
- Number and timing of employees leaving prior to retirement
- Number of employees opting for lump-sum of their employee contributions, thereby forfeiting future benefit
- Number of new members added
- Life expectancies of both active and retired members

The most recent actuarial experience study for MSRS' State Employees Retirement Fund covered the period July 1, 2004, through June 30, 2008, and was completed by August 31, 2009. Several economic and demographic actuarial assumptions, including salary increases, payroll growth, and withdrawal and retirement rates changed based upon the recent experience study results. Any assumptions changes require approval of the various retirement systems board members and the Legislative Commission on Pensions and Retirement ("LCPR"). The LCPR has authority for reviewing the actuarial valuation and experience study results and modifying actuarial assumptions, as the Commission deems appropriate. Accordingly, the LCPR engaged an independent actuarial firm to review the recommendation of the actuary of the statewide retirement systems. The firm indicated in its June 22, 2010, report that it found, in general, the actuarial assumption changes proposed for MSRS were reasonable, justified by observed experience, and consistent with standard actuarial practice. However, the firm believes it is prudent to be more conservative in setting assumptions; if assumptions are set more aggressively they are more likely to produce experience losses which will only add to the Fund's difficulty in recovering from recent investment losses. In July 2010 the LCPR adopted a number of actuarial assumption changes effective for the July 1, 2010, actuarial valuation reports. These changes included changes to covered member payroll growth, withdrawal from service rates, retirement and disability rates, and mortality rates. The experience studies for MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds were completed on February 3, 2012. Based on the experience study results, the actuaries proposed no changes to current actuarial methods. However, the actuaries proposed reductions to the real wage growth, payroll growth and salary increase assumptions. The actuaries proposed lowering the investment return assumption from 8.5% to 8.00% and making adjustments to several other demographic assumptions to more closely match experience.

The most recent actuarial experience study for PERA's General Employees Retirement Fund covered the period July 1, 2004, through June 30, 2008, and was completed in 2009. As a result, several economic and demographic actuarial assumptions were adjusted in Fiscal Year 2010, including salary increases, payroll growth, withdrawal and retirement rates, and mortality rates. The most recent actuarial experience study for PERA's Public Employees Police and Fire Fund covered the period July 1, 2004, through June 30, 2009, and was completed in 2010. Several assumptions were adjusted in Fiscal Year 2011, including salary growth, payroll growth, mortality rates, withdrawal rates and retirement rates. These assumption changes increased the actuarially accrued liability $148 million in the Public Employees Police and Fire Fund.

The July 1, 2004, through June 30, 2008, actuarial experience study for TRA was completed in October 2009. The report contained a number of economic and demographic recommendations, as previously described. In July 2010, the LCPR enacted a set of assumption changes for TRA, effective for the July 1, 2011, actuarial evaluation, including converting to a service-based assumption for individual member salary growth. Another key assumption change was lowering the assumed growth in total member covered salary from 4.50% annually to 3.75% annually.

The following table provides a summary analysis of funding status for the Retirement Systems and certain local defined benefit retirement plans where the State provides non-employer general government contributions governed by State statutes as of June 30, 2012, based on the respective annual actuarial valuation reports.

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Funding Status of Defined Benefit Pension Funds to Which Minnesota Provides General Fund Resources as of June 30, 2012[(1)]
($'s in Millions)

		Actuarial Value			Market Value			Membership	
	Actuarial Accrued Liability [2]	Actuarial Value of Assets (AVA) [3]	Unfunded Actuarial Accrued Liability (UAAL) [4]	Funding Ratio [5]	Market Value of Assets (MVA) [6]	Unfunded Liability	Funding Ratio	Active Members	Other Members
1. Funds Where the State Has Custodial Responsibility									
Minnesota State Retirement System (MSRS):									
— State Employees Retirement Fund	$11,083	$9,162	$1,921	82.67%	$9,098	$1,985	82.09%	48,207	53,465
— Correctional Employees Retirement Fund	968	664	$304	68.55%	660	$308	68.12%	4,276	3,850
— State Patrol Retirement Fund	761	554	$207	72.84%	550	$211	72.27%	823	1,018
— Judges Retirement Fund	282	145	$137	51.46%	144	$138	51.17%	308	331
— Legislators Retirement Fund[(7)]	248	16	$232	6.27%	16	$232	6.27%	34	442
— Elective State Officers Fund[(7)]	9	0	$9	0.00%	0	$9	0.00%	0	15
Subtotal	$13,351	$10,541	$2,810		$10,468	$2,883		53,648	59,121
Public Employees Retirement Association (PERA):									
— General Employees Fund	18,599	13,662	4,937	73.46%	13,578	5,021	73.00%	139,330	235,176
— PERA Police & Fire Fund	7,403	5,798	1,605	78.32%	5,772	1,631	77.97%	10,865	11,680
— Minneapolis Employees Retirement Fund	1,220	843	377	69.10%	843	377	69.10%	80	4,124
— Local Correctional Service Fund	343	306	37	89.21%	305	38	88.92%	3,460	4,425
Subtotal	$27,565	$20,609	$6,956		$20,498	$7,067		153,735	255,405
Teachers' Retirement Association (TRA):	$23,025	$16,805	$6,220	72.99%	$16,686	$6,339	72.47%	76,649	95,217
Custodial Subtotal	$63,941	$47,955	$15,986		$47,652	$16,289		284,032	409,743
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[(8)]	124	123	2	98.66%	123	2	98.66%	119	192
St. Paul Teachers' Retirement Fund	1,471	912	559	62.00%	882	589	59.96%	3,828	6,552
Duluth Teachers' Retirement Fund	326	207	119	63.50%	195	131	59.82%	919	2,436
Other Contribution Subtotal	$1,921	$1,242	$680		$1,200	$722		4,866	9,180
TOTAL	**$65,862**	**$49,197**	**$16,666**		**$48,852**	**$17,011**		**288,898**	**418,923**

(1) The information provided in this table reflects the condition of all funds as of June 30, 2012. For additional information on the State's pension systems, refer to the State Financial Statements in Appendix F. See Footnote 8 – Pension and Investment Trust Funds (see pages F-74 through F-82) and Required Supplementary Information (see pages F-123 through F-129).

(2) The actuarial accrued liability of each of the pension funds is an estimate based on demographic and economic assumptions of the present value of benefits that the pension funds will pay during the assumed life expectancies of the applicable members after they retire.

(3) The actuarial value of assets of each of the pension funds represents the market-related value of the assets held by the pension funds as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period.

(4) The UAAL of each of the pension funds reflects the amount of the excess of the actuarial accrued liability of a pension funds over its actuarial value of assets.

(5) The Funded Ratio of each of the pension funds reflects the quotient obtained by dividing the actuarial value of assets of the pension funds by the actuarial accrued liability of the Pension Plan. The indicated percentages reflect the funded ratio as calculated pursuant to the requirements of the Governmental Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State.

(6) The market value of assets of each of the pension funds represents the fair market value of the assets held by the pension fund. The Elective State Officers Retirement Fund is a closed plan. It has no assets in trust (e.g., cash and investments); only the amount receivable from the State's General Fund is its current asset.

(7) The Legislators and Elective State Officers defined benefit retirement plans are financed on a pay-as-you-go basis. The Legislators Retirement Plan is funded with members' contributions paid to the State's General Fund and annual appropriations from the State's General Fund. Assets of the Legislators Retirement Fund finance benefits paid to former legislators who were first elected to office prior to July 1, 1997, and retired on or before January 1, 2003. These assets are expected to be depleted within the next five years. Upon depletion of those assets, all benefits will be funded with annual appropriations from the state's General Fund. Benefits paid to legislators who were first elected to office prior to July 1, 1997, and retired after January 1, 2003, are financed by State General Fund appropriations. Since the Elective State Officers Retirement Fund has no assets, all benefits paid are financed by the State General Fund appropriations. Legislators and Elective State Officers first elected after July 1, 1997 are members of the State's Unclassified Employees Retirement Fund, a defined contribution plan.

(8) Information for local police and fire associations reflects values as of December 31, 2012 for Bloomington Fire Relief Association.

Actuarial Valuation Requirements

State law regulates the administration of the pension funds. State law requires that all pension funds must conduct an actuarial valuation as of the end of the fiscal year. The purpose of the actuarial valuation is to calculate the actuarial accrued liability in each of the pension funds which estimates on the basis of demographic and economic assumptions the present value of benefits each of the pension funds will pay to its retired members and active members upon retirement. Independent actuaries provide annual actuarial valuations for each of the pension funds, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an Unfunded Actuarial Accrued Liability ("UAAL") of the applicable pension funds. An actuarial valuation will express the percentage that a pension fund is funded through a "Funded Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the pension fund by the actuarial accrued liability of the pension fund. An actuarial valuation will also state an actuarially recommended contribution amount, which is a recommended amount that the State and other sponsoring employers contribute to the applicable pension fund. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

To calculate the actuarial value of assets and actuarial accrued liability of each of the pension funds, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectances of retirees and beneficiaries. If the experience of the pension fund is different from these assumptions, the UAAL of the pension fund may increase or decrease to the extent of any variances. Consequently, the calculated actuarially required contributions may be impacted.

In the case of the expected rate of return of assets, the actual rate of return on the pension funds depends on the performance of their respective investment portfolios. The investment portfolios of the respective pension funds can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one fiscal year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL. For Fiscal Year 2009, the rate of return of the assets of the combined pension systems was negative 18.8%, causing the UAAL of the pension systems to increase between Fiscal Year 2008 and Fiscal Year 2009.

The actuarial valuations of the pension funds use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the pension funds. For example, the pension funds use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2012, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $49.2 billion. As of June 30, 2012, the aggregate actuarial value of all assets of the pension systems was $48.9 billion.

The pension funds have different amortization methods that are used to calculate the UAAL as summarized in the State's Comprehensive Annual Financial Report in Appendix F of this Official Statement (See page F-80).

Pension Legislation and Litigation

In August 2007 the LCPR unanimously approved a modification to the *Standards for Actuarial Work*. This action permitted the actuary retained to calculate the actuarial value of assets allocated to the Post Retirement Investment Fund at market value, as required by GAAP, beginning with the July 1, 2007, actuarial valuation, instead of reporting these assets at an amount equal to the liabilities. The change in asset valuation method resulted in decreases to the actuarial value of assets and increases in the unfunded actuarial accrued liabilities for many of the retirement plans. The funding ratios reported in the following paragraphs reflect this change. In August 2010, the LCPR unanimously approved additional changes to the *Standards for Actuarial Work*.

In 2008, the Legislature enacted legislation that provided that if the composite funding ratio of the Minnesota Post Retirement Investment Fund (MPRIF) fell below 80% at the end of any fiscal year, the Post Fund would be abolished. On June 30, 2008, the MPRIF funding ratio was calculated to be 79.7%. On June 30, 2009, assets and liabilities attributable to retired members in the MPRIF were transferred to the respective active member funds. In conjunction with the dissolution, benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA). The waiting period and proration schedule for the COLA paid in the first year of retirement were also revised.

In 2010, legislation was enacted to modify the annual 2.5% COLAs. Beginning January 1, 2011, each statewide retirement system has unique COLAs. For the TRA, post-retirement benefits are frozen for 2011 and 2012. Beginning January 1, 2013, TRA benefit recipients will receive a 2.0% adjustment annually. The benefit adjustment will increase from 2% to 2.5% once TRA's funding ratio exceeds 90%. For all of the defined benefit plans that the MSRS administers, with the exception of the State Patrol Retirement Fund, benefit recipients will receive a 2% adjustment annually. For the State Patrol Retirement Fund, benefit recipients will receive a 1.5% adjustment annually. The annual benefit adjustment will increase to 2.5% for each MSRS defined benefit fund, except for the Legislators and Elective Officers Retirement Funds, when each fund's accrued liability funding ratio reaches 90%, determined on a market value of assets basis. For the Legislators and the Elective State Officers Retirement Funds, the annual benefit adjustment will increase to 2.5% when the State Employees Retirement Fund is 90% funded on a market value of assets basis Benefit recipients of the PERA Public Employees Police and Fire Fund receive an annual adjustment equal to inflation up to 1.5% beginning January 1, 2013 until the funding reaches 90%. PERA's Public Employees Correctional Fund was 98.4% funded on a market value basis as of June 30, 2011, so future annual adjustments will be increased to 2.5% effective January 1, 2012. In addition, for all of the PERA plans, if after reaching 90% funding, the ratio subsequently drops below 90%, the prospective annual adjustments must again be 1% for PERA General Employees Retirement Fund and inflation up to 1.5% for the PERA Public Employees Police and Fire Fund until the 90% funded ratio is again attained.

A class action lawsuit was filed in May 2010 against the state's pension funds. *Swanson, et al v. State, Public Employees Retirement Association, Minnesota State Retirement System, Teachers Retirement Association (PERA, MSRS, TRA), et al.* (Ramsey County District Court). Plaintiffs challenged the 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. The district court granted summary judgment to the State on all issues and dismissed the plaintiffs' complaint. Plaintiffs had until September 6, 2011 to appeal. No appeal was filed by the deadline.

The 2010 pension bill provides numerous financial stability provisions intended to reduce future unfunded liabilities for MSRS, TRA, PERA, the St. Paul Teachers Retirement Fund Association (SPTRFA) and the Duluth Teachers Retirement Fund Association (DTRFA). Provisions include a change in future retirement benefit increases for all MSRS, PERA, TRA, SPTRFA and DTRFA plans. The MSRS State Patrol Retirement Plan, PERA General Employees Retirement Fund, PERA Public Employees Police and Fire Fund, TRA, SPTRFA, and DTRFA plans also include both employer and employee contribution rate increases. Various other provisions including a change in refund rates, change in deferred annuities augmentation rate, and increased vesting periods are included for some plans as a means to reduce future unfunded liabilities. At the end of Fiscal Year 2010, the MSRS, PERA, and TRA, combined, lowered unfunded liabilities by a total of over $5.9 billion.

The 2010 legislation also provided for the administrative consolidation of the closed MERF and PERA. MERF assets and liabilities are to remain separate from PERA until fiscal year end market value of assets of the MERF account equals or exceeds 80% of the actuarial accrued liability of the MERF account. The legislation also increases the annual State contribution to the MERF account from $9,000,000 annually to $22,750,000 in each FY 2012 and 2013 and $24,000,000 each year thereafter through FY 2031. Beginning in FY 2013 the annual additional employer supplemental contribution will be a minimum of $27,000,000 and a maximum of $34,000,000.

The 2010 legislature passed into law an early retirement incentive for eligible State employees. The incentive includes up to 24 months of health insurance payments in to a health care savings account for an employee who is granted the incentive. This provision is at the discretion of both the employee's agency and the Commissioner of MMB. In April 2011, MMB released a report detailing the results of the Legislature. In all, 1030 (1008 executive) employees used the incentive resulting in an estimated FY 2011 – 2013 executive branch all funds savings of $46.7 million.

The 2010 legislation extended the amortization date for MSRS State Employees Retirement Fund from 2020 to 2040.

In the 2011 Legislative Special Session the legislature passed a minor omnibus pension bill that was signed into law by the Governor. Included in the bill were modifications to the post retirement adjustments for SPTRFA that will reduce future liabilities and language permitting voluntary merger of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association with the PERA's Public Employee's Police and Fire Retirement Fund.

The 2012 legislature modified the investment earnings assumption for determining employee and employer contribution rates such that contributions plus expected investment earnings (at the assumed rate of return) will cover the projected cost of promised pension benefits. The investment earnings assumption was modified to a "select and ultimate" method, effective for July 1, 2012 actuarial valuation report. The "select" assumed annualized investment return of 8.0% is to be used for the first five years for Fiscal Year 2012 through Fiscal Year 2016, and the "ultimate" assumed annualized investment return rate of 8.5% is to be used for the sixth year forward, for Fiscal Year 2017 and years thereafter. This approach is employed to recognize the current market environment that has diminished the short term market expectations while recognizing that over the longer term the higher rate is expected to be met -- and actually has been met and exceeded. The legislation also directs delaying the next experience study until 2015 for TRA, MSRS's General Employees Retirement Plan, and PERA's General Employees Retirement Fund to cover the period of July 1, 2008, through June 30, 2014.

The 2013 legislature made several modifications to contribution rates, benefit formulas and direct state aid for the MSRS State Patrol Retirement Plan and Judges Retirement Plan. Changes to the MSRS State Patrol Retirement Plan include a 4 percent contribution rate increase from employees and a 6 percent increase from employers over a 4 year period. Specifically, State Patrol Retirement Plan employees will pay an additional 2 percent before the first day of the first pay period beginning after July 1, 2014, another 1 percent on or after the first day of the first pay period beginning after July 1, 2015, and another 1 percent on July 1, 2016. State Patrol Retirement Plan employers will be adding 3 percent of pay before the first day of the first pay period beginning after July 1, 2014, another 1.5% on or after the first day of the first pay period beginning after July 1, 2015 and another 1.5 percent on July 1, 2016. Total contributions at the end of the phase-in period in July, 2016 will be 14.4 percent and 21.6 percent of pay for employees and employers, respectively. Future annual adjustments paid to benefit recipients of the MSRS State Patrol Plan will be reduced from 1.5 percent to 1 percent per year until the Plan is again 85 percent funded, determined on a market value of assets basis. Annual adjustments will increase to 2.5 percent when the Plan reaches 90 percent funded, determined on a market value of assets basis. Additionally, the legislature appropriated direct state aid to the MSRS State Patrol Retirement Plan of $1 million per year beginning in FY 2014 until the plan is 90% funded, determined on a market value of assets basis. Changes to the MSRS Judges Retirement Plan include establishment of a tier 1 and tier 2 benefit program, with a tier 1 judge first appointed or elected on or before July 1, 2013 with 5 or more years of allowable service, and a tier 2 judge first appointed or elected after June 30, 2013, or first appointed on or before July 1, 2013 with less than 5 years of allowable service. Member contribution rates for judges in the tier 1 program will increase 1 percent, from 8 percent to 9 percent, effective July 1, 2013. Member contribution rates for judges in the tier 2 program will be 7 percent of salary. Employer contribution rates will increase 2 percent, from 20.5 percent to 22.5 percent, effective the first day of the first full pay period after June 30, 2013. Future annual adjustments paid to benefit recipients of the Judges Plan are reduced from 2 percent to 1.75 percent per year until the Judges Plan is again 70 percent funded, determined on a market value of assets basis. Thereafter, annual adjustments will be 2.5 percent.

The 2013 legislature also made several modifications to contribution rates, benefit formulas and direct state aid for the PERA Police and Fire Plan, TRA, the Duluth Teachers Retirement Fund and the St. Paul Teachers Retirement Fund. Changes to the PERA Police and Fire plan include the following: member and employer contributions will increase in two steps from 9.6% of salary to 10.8% of salary and 14.4% of salary to 16.2% of salary, respectively; post-retirement adjustments will be set at 1% until the fund becomes at least 90% funded on a market value basis for two consecutive actuarial valuations, and at that time, post-retirement adjustments will be reset at rates not to exceed 2.5%. However, if the funded ratio of the retirement fund is equal to or less than 85% for two consecutive actuarial valuations, or is equal to or less than 80% for the most recent actuarial valuation, post retirement adjustments will again be dropped to 1%. Additionally, direct state aid to the PERA Police and Fire fund was appropriated at $9 million per year beginning in FY 2014; and, a direct appropriation of $5.5 million per year in aid to local employers in the PERA Volunteer Firefighter Plan beginning in FY 2014.

Further 2013 legislative changes include, to the Duluth Teachers Retirement Plan,: employee contributions will increase by 1 percent of pay and employer contributions will increase by 0.71 percent of pay, current benefit accrual rates of 1.2% and 1.7% are increased to 1.4% and 1.9% for post-2013 service credit, and direct state aid will increase to $6.346 million from $346 thousand in FY 2014 and 2015 only. Changes to the St. Paul Teachers Retirement Plan include the following: employee and employer contributions will increase by 1 percent of pay each, current benefit accrual rates of 1.2% and 1.7% are increased to 1.4% and 1.9% for post-2015 service credit, and direct state aid will increase to $9.827 million from $2.827 million in FY 2014 and 2015 only. Other changes include reducing the early retirement benefit reductions for TRA, the St. Paul Teachers Retirement Plan and the Duluth Teachers Retirement Plan; requiring TRA, the St. Paul Teachers Retirement Plan and the Duluth Teachers Retirement Plan to jointly study the feasibility of a merger;

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans. Provided below is a more detailed State's FY 2012 contributions to the various plans.

MSRS – Actual Valuations

While MSRS administers six defined benefit pension funds, the three largest funds, the State Employees Retirement Fund, the Correctional Employees Retirement Fund, and the State Patrol Retirement Fund, represent 96% of the actuarial accrued liabilities for which MSRS is responsible. Refer to the MSRS Comprehensive Annual Financial Report for further discussion of actuarial valuations for the MSRS defined benefit pension funds as of July 1, 2012.

The State Employees Retirement Fund which includes the General Employees Retirement Plan, the State Fire Marshals Plan, the Military Affairs Plan and the Transportation Pilots Plan, is 82.7% funded, with the actuarial value of assets totaling $9.16 billion, and the actuarial accrued liability totaling $11.083 billion. For purposes of determining the actuarial value of assets, assets are based on a five-year moving average of expected and market values. The Fiscal Year 2009 asset loss associated with the Minnesota Post Retirement Investment Fund (MPRIF), which was dissolved on June 30, 2009, is recognized incrementally over five years at 20% per year. Prior to June 30, 2009, MPRIF asset gains and losses were not smoothed. The July 1, 2012 decline in funding status is attributed to lower than expected investment returns (the actual rate of return was 2.4% in comparison to an 8.5% expected return) and changes in the investment return and salary scale actuarial assumptions that increased the accrued liability by $507 million.

The actuarial valuation also calculates the required contribution rates that are necessary to ensure that the MSRS funds become fully funded. Under Minnesota statutes, the State Employees Retirement Fund must be fully funded by June 30, 2040, the State Patrol Retirement Fund must be fully funded by June 30, 2037, and the Correctional Employees Retirement Fund must be fully funded by 2038, and the Judges Retirement Fund must be fully funded by June 30, 2039. The June 30, 2012 actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers are 2.32% below the amount required to fully fund the MSRS funds by 2040. The contribution deficiency rate increased from (1.03)% to (2.32)% of payroll (projected annual payroll for the Fiscal Year beginning on the July 1, 2012 valuation date was $2.46 billion). The primary reason for the change in contribution deficiency was the recognition of deferred investment losses from prior years in the determination of the actuarial value of assets as well as the change in the assumed investment return. (See, "MSRS - Historical Funding," below.) Under current law, if MSRS has a contribution deficiency of more than 0.5%, MSRS may increase employee and employer contribution rates at 0.25% annually until the contribution deficiency is no longer greater than 0.5%. MSRS intends to implement contribution rate increases starting July 1, 2014, to minimize the contribution deficiency and improve MSRS' funded status.

Actuarial valuations results as of July 1, 2012, show that the MSRS Correctional Employees Retirement Fund is 68.55% funded, with the actuarial value of assets totaling $663.7 million, and the actuarial accrued liability totaling $968.2 million. The contribution deficiency decreased from (5.3)% to (4.6)% of payroll primarily due to the recognition of several economic and demographic actuarial assumption changes. The combined impact of the assumption changes was to decrease the actuarial liability by $8.3 million and decrease the contribution deficiency by 1.4% of payroll. However, with investments earning less than expected during 2012, the net change in the contribution deficiency was a 0.7% reduction. To minimize the contribution deficiency, current law permits MSRS to increase employee and employer contribution rates 0.25% annually until the contribution deficiency is no longer greater than 0.5%. MSRS intends to implement these contribution rate increases starting July 1, 2014.

The State Patrol Retirement Fund is 72.84% funded, with the actuarial value of assets totaling $554.2 million, and the actuarial accrued liability totaling $760.96 million based on July 1, 2012 actuarial valuation results. The contribution deficiency increased from (5.25)% to (11.52)% of payroll. The primary reasons for the increased contribution deficiency are the recognition of deferred investment losses from prior years and the impact of several actuarial assumption changes. The combined impact of the actuarial assumption changes was to increase the actuarial accrued liability by $37 million and increase the contribution deficiency by 2.9% of pay. To improve the financial stability of this fund, MSRS will increase employee and employer contribution rates beginning in July, 2014, as previously mentioned, implement a maximum retirement benefit amount, change vesting to 10 years for employees first hired after June 30, 2013, reduce post-retirement increases from 1.5 percent to 1 percent effective January 1, 2014, and increase the early retirement penalty.

The Judges Retirement Fund, is 51.46% funded, with the actuarial value of assets totaling $144.9 million and the actuarial accrued liability totaling $281.62 million based on July 1, 2012 actuarial valuation results. The contribution deficiency for the plan is (13.5)% of payroll. This rate increased from (5.17)% of payroll primarily due to the recognition of deferred investment losses in the determination of the actuarial value of assets and the impact of several actuarial assumption changes. The combined impact of the actuarial assumption changes was to increase the actuarial accrued liability by $25.6 million and the contribution deficiency by 6.2% of payroll. To improve the financial stability of this fund, MSRS will increase employee and employer contribution rate increases as previously mentioned, reduce the annual post-retirement increase from 2 percent to 1.75 percent effective January 1, 2014, and reduce the annual annuity benefit accrual rate to 2.5 percent for judges first hired or elected after June 30, 2013.

The Legislators and Elective State Officers Retirement Funds are funded on a pay-as-you-go basis with annual appropriations from the State's General Fund. Legislation enacted during the 2013 legislative session consolidates these small plans effective July 1, 2013.

MSRS - Actuarial Methods and Assumptions

The annual 5.0% employer and 5.0% employee contributions for Retirement Systems for the Current Biennium were established by State statute following the completion of the actuarial valuations as of July 1, 2010. The calculated actuarially required contribution of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using methods and assumptions:

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MSRS General Employees Retirement Plan
Actuarial Methods and Assumptions

Actuarial Cost Method	Individual entry age normal
Rate of Return on the Investment of Present and Future Assets	Select and Ultimate Rates -- July 1, 2012 through June 30, 2017: 8.0% pre-retirement and 6.0% post-retirement(1) July 1, 2017 and later: 8.5% pre-retirement and 6.5% post-retirement(1)
Projected Salary Increases	Reported salary at the valuation date increased according to the service-related rates that range from 3.5% for members with 17 or more years of service to 10.5% for members with one year of service.
Payroll Growth	3.75 percent per year.
Experience Studies	Period Covered: Fiscal Year 2004-2008
Asset Valuation	Asset valuations are based on market values at the end of the fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on the market value of assets and the asset return expected during the fiscal year based on the assumed interest rate.(1)
Total Unrecognized Investment Return (loss) at June 30, 2012	$64,204,000

(1)Effective commencing with the July 1, 2012 actuarial valuation report, the annualized assumed investment return is 8.0% for Fiscal Year 2013 through Fiscal Year 2017 and 8.5% annualized for Fiscal Year 2018 and years thereafter.

Sources: MSRS Comprehensive Annual Report, June 30, 2012 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2012.

The methods and assumptions used to calculate actuarially required contribution of the other defined benefit plans in the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2012. See "*General Information*" above. Also see "Pension Legislation and Litigation" below for information on changes that came into effect after June 30, 2012 to the methods and assumptions used to calculate actuarially required contribution for defined benefit plans.

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MSRS - Historical Funding

The actuarial valuations measure current costs and contribution requirements to determine how much employers and members should contribute to maintain appropriate funding progress to pay future benefits. Actuarial valuations also measure assets and liabilities to determine the level of funding for each defined benefit plan. The table below provides a historical comparison of the statutory actual employee and employer contribution rates (on a percentage of annual payroll basis compared to the calculated actuarially recommended rate (the calculated actuarial required contribution).

Minnesota State Retirement System
Percentage of Payroll Actual Contribution Rates as Compared to Actuarially Recommended Rates
Ten-year Contribution History

	Statutory Actual Contribution Rates			***Actuarial Recommended Rate***	***Sufficiency/ Deficiency***
As of	***Employee***	***Employer***	***Total***		
July 1, 2003	4.00%	4.00%	8.00%	9.43%	(1.43%)
July 1, 2004	4.00%	4.00%	8.00%	9.33%	(1.33%)
July 1, 2005	4.00%	4.00%	8.00%	10.55%	(2.55%)
July 1, 2006	4.00%	4.00%	8.00%	10.11%	(2.11%)
July 1, 2007	4.25%	4.25%	8.50%	11.76%	(3.26%)
July 1, 2008	4.50%	4.50%	9.00%	12.39%	(3.39%)
July 1, 2009	4.75%	4.75%	9.50%	14.85%	(5.85%)
July 1, 2010	5.00%	5.00%	10.00%	10.99%	(0.99%)
July 1, 2011	5.00%	5.00%	10.00%	11.03%	(1.03%)
July 1, 2012	5.00%	5.00%	10.00%	12.32%	(2.32%)

Sources: MSRS Comprehensive Annual Financial Reports (2003 – 2012) – Schedule of Actual Contribution Rates as Compared to Actuarially Recommended Rates.

Further, the better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. A high funding ratio gives means that present assets and projected investment earnings on those assets are sufficient to cover the liabilities for present and future annuities, survivor and disability benefits, refunds, and administrative expenses.

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Minnesota State Retirement System
State Employees Retirement Fund
Ten-year Funding History
($ in Thousands)

	Aggregate Accrued Liabilities				Portion Covered by Reported Assets			
Valuation Date (July 1)	**Active Member Contributions (1)**	**Retirees and Beneficiaries (2)**	**Employer Financed Portion (3)**	**Reported Assets**	**(1)**	**(2)**	**(3)**	**Funding Ratio**
2003	855,953	3,116,008	3,858,710	7,757,292	100	100	98.1	99.1
2004	888,028	3,287,223	3,703,112	7,884,984	100	100	100.2	100.0
2005	928,590	3,487,930	4,038,816	8,081,736	100	100	90.8	95.6
2006	966,951	3,689,443	4,162,767	8,486,756	100	100	92.0	96.2
2007	1,001,316	3,963,536	4,662,453	8,904,517	100	100	84.5	92.5
2008	1,041,731	4,251,341	4,701,530	9,013,456	100	100	79.1	90.2
2009	1,102,082	4,496,247	4,914,431	9,030,401	100	100	69.8	85.9
2010	1,155,473	4,535,401	4,573,197	8,960,391	100	100	71.5	87.3
2011	982,365	4,982,212	4,611,904	9,130,011	100	100	68.6	86.3
2012	1,044,810	5,489,756	4,548,661	9,162,301	100	100	57.8	82.7

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Source: MSRS Comprehensive Annual Report, June 30, 2012.

The historical funding history of the other defined benefit plans in the Retirement Systems is provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2012. See "*General Information*" above.

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MSRS - Eligibility and Benefit Formulas

Provided below is a description of the eligibility and benefit formulas of the MSRS, State Employees Retirement Plan.

MSRS State Employees Retirement Plan

A. Coverage	Most state employees, University of Minnesota non-faculty employees, and selected metropolitan agency employees
B. Contribution Rates	Employees: 5.0 percent effective July 1, 2010 Employers: 5.0 percent effective July 1, 2010 Employee contributions are "picked up" according to the provisions of Internal Revenue Code 414(h).
C. Benefit Formula	If first hired before July 1, 1989, the benefit formula is the greater of (a) or (b): (a) 1.2 percent of a high-five year salary for the first 10 years of allowable service and 1.7 percent of high-five salary for each subsequent year with a reduction of 0.25 percent for each month the member is under age 65 at time of retirement or under age 62 with 30 years of allowable service. There is no reduction in the formula if the member's age plus years of allowable service totals 90 (Rule of 90). (b) 1.7 percent of high-five year salary for each year of allowable service assuming augmentation to age 65 at three percent per year and actuarial reduction for each month the member is under age 65. If first hired after June 30, 1989, the benefit formula is 1.7 percent of high-five year salary for each year of allowable service with an actuarial equivalent, early retirement reduction. Salary includes wages, allowances and overtime. It excludes lump sum payments at separation, employer contributions to deferred compensation and tax sheltered annuity plans and benevolent vacation and sick leave donation programs.
D. Retirement Age and Service Requirements	*Eligibility for unreduced retirement benefits:* Age 65 for employees hired before July 1, 1989 or age 66 for employees hired on or after July 1, 1989 Age 62 for employees hired before July 1, 1989; with 30 or more years of service Rule of 90 for those employees hired before July 1, 1989. *Eligibility for reduced retirement benefits:* Age 55 with three years of service if hired prior to July 1, 2010 or five years of service if hired after June 30, 2010, reduced from full retirement age Any age with 30 years of service, reduced from age 62 (pre-July 1, 1989 hires only) The plan also offers total and permanent disability benefits for employees with at least three years of service (five years of service after June 30, 2010).
E. Surviving Spouse Benefit	If employee has at least three years of service at death, (five years if hired after June 30, 2010), generally, the spouse is eligible for a 100 percent survivor annuity or a refund.
F. Refunds	Employee contributions plus six percent interest compounded annually through June 30, 2011, and 4 percent thereafter.

Source: Minnesota State Retirement System 2012 Comprehensive Annual Financial Report.

Eligibility and benefit formulas for the various plans covered under the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2012. See "*General Information*" above.

Employer Contributions and General Fund Appropriations

The following table summarizes the employer contributions made to the MSRS for the last 10 years. Contributions are made from a variety of State funds, including the General Fund. Based on payroll expense data for Fiscal Year 2012, the State's General Fund comprised approximately 47% of the employer contributions. Other major fund categories included approximately 18% for the Trunk Highway Fund, 7% for federal funds and 13% for the special revenue fund. All other State employer contributions, which make up approximately 16% of the total were from 87 other funds of the State.

Employer Contribution History – Minnesota State Retirement System
($'s in Thousands)

Fiscal Year Ended (June 30th)	Employer Contributions(1)						Total
	State Employees Retirement Fund	Correctional Employees Retirement Fund	Elective State Officers Fund(2)	Judges Retirement Fund	Legislators Retirement Fund(2)	State Patrol Retirement Fund	
2003	$80,399	$10,480	$371	$6,923	$5,396	$6,826	$104,628
2004	78,622	10,627	383	7,110	425	6,504	90,663
2005	80,312	11,016	395	7,225	1,822	6,670	107,440
2006	82,645	12,152	417	7,336	5,684	7,055	115,289
2007	86,492	13,927	427	7,572	1,772	7,461	117,651
2008	96,746	18,623	435	7,936	2,217	8,279	134,236
2009	107,211	20,126	442	8,219	1,269	9,178	146,445
2010	113,716	21,988	453	8,283	1,975	10,104	156,519
2011	118,563	23,982	460	8,297	2,805	9,873	163,890
2012	115,159	24,188	465	7,922	3,935	11,620	163,289

(1) Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions.
(2) 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.

Sources: MSRS 2012 Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2012 and MSRS.

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State General Fund Appropriation History – Pension Related Local Government Aid
($'s in Thousands)

Fiscal Year Ended June 30th	Basic Local Police and Fire Association[1]	Local Police and Fire Associations Amortization Aid	PERA Aid[2]	Volunteer Firefighter Relief	Redirected Aid-St. Paul/TRA	Police-Fire Retirement Supp Aid[3]	Total
2002	$64,786	$2,056	$14,656	$448	$-	$-	$81,946
2003	69,242	4,164	14,586	481	-	-	88,473
2004	77,462	4,823	14,585	534	-	-	97,404
2005	87,877	3,454	14,584	522	-	-	106,437
2006	87,967	3,366	14,568	486	1,436	-	107,823
2007	89,424	2,886	14,560	572	790	-	108,232
2008	88,180	1,514	15,534	571	2,281	-	108,080
2009	83,183	572	14,520	609	1,888	-	100,772
2010	80,500	829	14,390	722	5,890	-	102,331
2011	82,005	1,000	14,384	627	4,886	-	102,902
2012	82,338	1,255	14,328	671	2,077	-	100,669
**2013*	79,968	2,753	14,317	670	2,077	-	99,785
**2014*	82,974	2,753	14,317	670	2,077	15,500	118,291
**2015*	85,305	2,753	14,317	670	2,077	15,500	120,622

[1] 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.
[2] Includes 2001 Regular Session, Ch. 169 FY 2002 $70,000 appropriation for PERA Claims.
[3] Police and Fire Retirement Supplemental Aid is a new aid included in Laws of 2013, Ch. 143. Annual aid payments are as follows: $9 million to the PERA Police & Fire fund, $5.5 to Volunteer Firefighter plan employers and $1 million to the MSRS State Patrol fund
* Projections for FY 2013 and thereafter as of February 2013 forecast and 2013 end of legislative session.

Source: Minnesota Management and Budget.

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State General Fund Appropriation History – Direct Aid to Pension Funds
($ in Thousands)

Fiscal Year Ended June 30th	Minneapolis Employees Retirement Fund[(1)]	TRA/Mpls Teachers Retirement Fund[(2)]	St. Paul Teachers Retirement Fund[(3)]	Duluth Teachers Retirement Fund[(3)]	Total
2002	$3,232	$15,394	$2,827	$486	$21,939
2003	4,510	14,537	2,953	-	22,000
2004	6,632	15,790	2,962	-	25,384
2005	7,093	15,741	2,967	-	25,801
2006	8,065	15,770	2,969	-	26,804
2007	9,000	15,800	2,967	-	27,767
2008	9,000	15,801	2,967	-	27,768
2009	8,873	15,454	2,827	346	27,500
2010	9,000	15,454	2,827	346	27,627
2011	9,000	15,454	2,827	346	27,627
2012	22,750	15,454	2,827	346	41,377
**2013*	22,750	15,454	2,827	346	41,377
**2014*	24,000	15,454	9,827	6,346	55,577
**2015*	24,000	15,454	9,827	6,346	55,577

(1) Includes FY 2001 Pre-1973 Retirement Adjustments-MERF. 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. In FY 2012 and 2013 the annual State contribution increased to $22.75 million and then to $24 million each year thereafter through FY 2031. Any requirements beyond the capped aid are the exclusive obligation of the employer units. On July 1, 2010, MERF became an administrative division within PERA. MERF assets and liabilities are to remain separate from PERA until fiscal year end market value of assets of the MERF account equals or exceeds 80 percent of the actuarial accrued liability of the MERF account.

(2) For FY 2002 - 2005 aid was appropriated directly to the Minneapolis Teachers Retirement Fund, in 2006 (when MTRFA was merged with TRA) and for years beyond aid was appropriated to the TRA.

(3) 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.

* Projections for FY 2013 and thereafter as of February 2013 forecast and 2013 end of legislative session.

Source: Minnesota Management and Budget: *Archived State of Minnesota Fund Balance Analysis Reports: http://www.mmb.state.mn.us/budget-fba-detail*

For additional information on the State's pension systems, refer to the State Financial Statements in Appendix F. See Footnote 8 – Pension and Investment Trust Funds (see pages F-74 through F-82) and Required Supplementary Information (see pages F-123 through F-129).

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POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. The employees involved are primarily conservation officers, correctional counselors at State correctional facilities, and highway patrol officers. If these employees elect retirement at age 55, the State pays the employer's share of health insurance benefits until the employees reach age 65. The plan is administered by the MSRS. As of July 1, 2012, the most recent actuarial valuation, the unfunded actuarial accrued liability was $652 million, and is being amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2013 is $66 million. The reduction in the estimated annual required contribution from the prior fiscal year ($80.079 million) as noted in the actuarial reports, is due to the State experiencing fewer claims than were assumed in the prior actuarial valuation.

Net OPEB Obligation
($ In Thousands)

Annual Required Contributions (ARC)[1]	$ 65,854
Interest on Net OPEB Obligation (NOO) [1]	9,149
Amortization Adjustment to ARC[1]	(7,703)
Annual OPEB Cost (Expense)	$ 67,300
Contributions	(38,348)
Increase in NOO	$ 28,952
NOO, Beginning Balance	$192,622
NOO, Ending	$221,574

[1] Components of annual OPEB cost.
Source: State of Minnesota Postretirement Medical Plan July 1, 2012 Actuarial Valuation.

For additional information on the State's post-employment benefits, refer to the State Financial Statements in Appendix F. See Footnote 9 – Termination and Postemployment Benefits (see pages F-83 through F-86). The data from the July 1, 2012 actuarial valuation will be incorporated into the State's CAFR for fiscal year ending June 30, 2013, which has not yet been completed.

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APPENDIX C

STATE DEBT

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APPENDIX C

STATE DEBT

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

Category	Type		Principal Amount		
1	Building	$	1,080		
	Transportation		242,390		
	Refunding Bonds		1,078,025		
	Various Purpose		3,094,325		
	Total Category 1			$	4,415,820
2	School Loan	$	19,465		
	Rural Farm Authority		45,500		
	Total Category 2			$	64,965
3	Trunk Highway	$	1,212,965		
	Trunk Highway Refunding		191,320		
	Total Category 3			$	1,404,285
	Total Outstanding as of the Date of the Bonds			$	5,885,070
1, 2	Plus Series 2013D Bonds				283,820
3	Plus Series 2013E Bonds				112,000
1, 2	Plus Series 2013F Bonds				373,940
1, 2	Less Various Purpose Refunded Bonds				(394,000)
	Total Outstanding as of the Date of the Bonds - Including These Issues			$	6,260,830

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 provisions.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
as of the Date of Issue of These Bonds
($ 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	523,873.5	523,849.0	0.0	$24.5
Building	X1997, Ch. 2	37,432.0	37,335.0	0.0	$97.0
Building	1999, Ch. 240	439,425.1	438,865.0	0.0	$560.1
Various Purpose	2000, Ch. 492	527,622.7	519,075.0	0.0	$8,547.7
Various Purpose	2002, Ch. 393	600,594.3	598,615.0	0.0	$1,979.3
Various Purpose	X2002, Ch. 1	15,273.0	15,055.0	0.0	$218.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.5	399,990.0	0.0	$201.5
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	0.0	$326.5
Various Purpose	2005, Ch. 20	917,968.2	912,779.0	0.0	$5,189.2
Various Purpose	2006, Ch. 258	993,856.9	986,803.0	500.0	$6,553.9
Various Purpose	X2007, Ch. 2	41,740.5	39,820.0	0.0	$1,920.5
Trunk Highway	2008, Ch. 152	1,782,745.6	1,045,035.0	97,200.0	$640,510.6
Transportation	2008, Ch. 152	60,035.0	60,000.0	0.0	$35.0
Various Purpose	2008, Ch. 179	795,014.9	770,947.0	10,000.0	$14,067.9
Various Purpose	2008, Ch. 365	105,236.4	103,070.0	150.0	$2,016.4
Trunk Highway	2009, Ch. 36	40,000.0	24,500.0	1,000.0	$14,500.0
Various Purpose	2009, Ch. 93	256,865.0	234,535.0	9,000.0	$13,330.0
Various Purpose	2010, Ch. 189	715,205.0	622,900.0	50,000.0	$42,305.0
Trunk Highway	2010, Ch. 189	26,445.0	24,600.0	300.0	$1,545.0
Trunk Highway	2010, Ch. 388	100,100.0	44,640.0	12,000.0	$43,460.0
Various Purpose	X2010, Ch. 1	34,657.0	16,000.0	2,500.0	$16,157.0
Various Purpose	X2011, Ch. 12	555,140.0	383,315.0	72,000.0	$99,825.0
Trunk Highway	2012, Ch. 287	16,120.0	12,065.0	0.0	$4,055.0
Various Purpose	2012, Ch. 293	566,858.0	253,520.0	101,850.0	$211,488.0
Various Purpose	X2012, Ch. 1	56,695.0	10,000.0	11,000.0	$35,695.0
Trunk Highway	X2012, Ch. 1	35,040.0	13,495.0	1,500.0	$20,045.0
Trunk Highway	2013, Ch. 117 (3)	300,300.0	0.0	0.0	$300,300.0
Various Purpose	2013, Ch. 136	178,795.0	45,000.0	53,000.0	$80,795.0
Totals		$10,499,385.2	$8,511,634.0	$422,000.0	$1,565,751.2

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(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.

(3) The effective date on these bonds is July 1, 2014. No bonds can be issued until after the effective date.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
as of the Date of Issue of These Bonds
($ in Thousands)

	Original Principal				Outstanding Principal 06/30/2013		Outstanding Principal as of Date of Issue	
Bond Issue	Various Purpose	Trunk Highway	Final Maturity	Interest Rate Range Outstanding	Various Purpose	Trunk Highway	Various Purpose	Trunk Highway
Series Dated June 1, 2003 (Refunding)	391,680	-	2013	4.00% - 5.00%	10,215	-	-	-
Series Dated August 1, 2003 (Refunding)	20,855	-	2012	5.00%	-	-	-	-
Series Dated November 1, 2004 (Refunding)	171,880	-	2024	5.00%	46,890	-	29,080	-
Series Dated October 3, 2005	285,400	111,600	2025	5.00%	159,740	72,540	28,290	66,960
Series Dated October 3, 2005 (Refunding)	160,960	-	2025	5.00%	58,160	-	41,440	-
Series Dated February 1, 2006 (Taxable)	3,000	-	2013	3.50%	3,000	-	-	-
Series Dated August 1, 2006	289,450	55,550	2026	5.00%	150,240	32,390	28,440	32,390
Series Dated August 1, 2006 (Taxable)	3,500	-	2013	5.00%	3,500	-	-	-
Series Dated November 1, 2006	327,000	73,000	2026	5.00%	189,125	46,550	48,375	42,900
Series Dated April 25, 2007	264,050	-	2018	5.00%	144,145	-	117,080	-
Series Dated August 14, 2007	656,000	14,000	2027	5.00%	433,500	10,050	433,500	9,340
Series Dated August 14, 2007 (Taxable)	8,000	-	2012	5.00% - 5.25%	-		-	
Series 2008A August 5, 2008	275,000	-	2028	4.625% - 5.00%	167,100	-	167,100	-
Series 2008B August 5, 2008	-	33,500	2028	4.00% - 5.00%	-	22,425	-	22,425
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	112,005	-	95,890	-
Series 2009A January 29, 2009	325,000	-	2028	4.00% - 5.00%	236,875	-	236,875	-
Series 2009B January 29, 2009	-	70,000	2028	3.00% - 4.375%	-	54,400	-	54,400
Series 2009C January 29, 2009 (Taxable)	5,000	-	2013	3.25%	5,000	-	5,000	-
Series 2009D August 26, 2009	192,275	-	2029	4.00% - 5.00%	154,495	-	154,495	-
Series 2009E August 26, 2009	-	80,000	2029	4.00% - 5.00%	-	68,000	-	64,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	241,400	-	207,975	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	2.00% - 5.00%	-	24,390	-	21,270
Series 2009H November 5, 2009	443,000	-	2029	2.00% - 5.00%	305,110	-	305,110	-
Series 2009I November 5, 2009	-	25,000	2029	2.00% - 5.00%	-	20,500	-	19,000
Series 2009J November 5, 2009 (Taxable)	7,000	-	2014	3.125%	7,000	-	7,000	-
Series 2009K November 5, 2009 (Refunding)	100,395	-	2022	2.00% - 5.00%	98,535	-	97,890	-
Series 2010A August 19, 2010	635,000	-	2030	3.00% - 5.00%	540,425	-	540,425	-
Series 2010B August 19, 2010	-	225,000	2030	4.00% - 5.00%	-	202,500	-	191,250
Series 2010C August 19, 2010 (Taxable)	5,000	-	2015	3.00%	5,000	-	5,000	-
Series 2010D September 29, 2010 (Refunding)	687,115	-	2024	1.75% - 5.00%	547,110	-	488,670	-
Series 2010E September 29, 2010 (Refunding)	-	220,670	2024	2.00% - 5.00%	-	186,710	-	170,050
Series 2011A October 12, 2011	445,000		2031	2.00% - 5.00%	417,650	-	390,300	-
Series 2011B October 12, 2011	-	320,000	2031	3.00% - 5.00%	-	304,000	-	288,000
Series 2011C October 12, 2011 (Taxable)	4,000	-	2016	1.35%	4,000	-	4,000	-
Series 2012A August 16, 2012	422,000	-	2032	2.50% - 5.00%	422,000	-	374,000	-
Series 2012B August 16, 2012	-	234,000	2032	2.00% - 5.00%	-	234,000	-	222,300
Series 2012C August 16, 2012 (Taxable)	2,500	-	2017	2.00%	2,500	-	2,500	-
Series 2013A August 15, 2013	273,350	-	2033	4.00% - 5.00%	-	-	273,350	-
Series 2013B August 15, 2013	-	200,000	2033	4.00% - 5.00%	-	-	-	200,000
Series 2013C August 15, 2013 (Taxable)	5,000	-	2018	2.50%	-	-	5,000	-
Series 2013D November 6, 2013	283,820	-	2033	3.00% - 5.00%	-	-	283,820	-
Series 2013E November 6, 2013	-	112,000	2033	2.00% - 5.00%	-	-	-	112,000
Series 2013F November 6, 2013 (Refunding)	373,940	-	2026	3.125% - 5.00%	-	-	373,940	-
Totals for Date:					4,464,720	1,278,455	4,744,545	1,516,285

The following table shows all debt service payments for outstanding general obligation bonds as of the date of this Official Statement.

Debt Service Payments on General Obligation Bonds
Bonds Outstanding as of October 2, 2013
($ in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2014	23,455	135,570	159,025	13,505	35,126	48,631
2015	446,620	203,773	650,393	92,255	60,837	153,092
2016	417,455	182,998	600,453	92,155	56,478	148,633
2017	398,060	163,263	561,323	91,690	52,096	143,786
2018	378,770	144,565	523,335	91,230	47,689	138,919
2019	332,415	127,382	459,797	90,885	43,321	134,206
2020	317,525	111,548	429,073	90,335	38,969	129,304
2021	288,980	96,544	385,524	89,830	34,635	124,465
2022	276,980	82,410	359,390	88,270	30,408	118,678
2023	254,355	69,138	323,493	85,410	26,299	111,709
2024	234,575	56,981	291,556	84,805	22,438	107,243
2025	221,195	45,819	267,014	77,685	18,970	96,655
2026	197,085	36,003	233,088	70,370	15,829	86,199
2027	171,760	27,262	199,022	62,385	12,913	75,298
2028	157,685	19,557	177,242	59,190	10,377	69,567
2029	116,465	13,085	129,550	57,135	7,977	65,112
2030	100,925	8,500	109,425	53,950	5,706	59,656
2031	78,190	4,864	83,054	48,950	3,605	52,555
2032	46,665	2,422	49,087	37,700	1,903	39,603
2033	26,415	1,062	27,477	21,700	813	22,513
2034	13,665	290	13,955	10,000	213	10,213
	$4,499,240	$1,533,036	$6,032,276	$1,409,435	$526,602	$1,936,037

** Totals do not include these Bonds*

For additional information on State general obligation bonds and other long term liabilities of the State, refer to the State Financial Statements in Appendix F.

Footnote 10 – Long-Term Commitments (see pages F-87 through F-88)
Footnote 11 – Operating Lease Agreements (see page F-89)
Footnote 12 – Long-term Liabilities (see pages F-90 through F-100).

The table shows the net debt service transfer amounts for the following fiscal years.

Net Amount Transferred to Debt Service Fund
for General Obligation Bonds Debt Service[1]
($ in thousands)

In Fiscal Year	General Fund	Trunk Highway Fund	All Other Funds[2]	Transfer Total
1999	$286,495	$5,149	$15,296	$306,940
2000	255,037	3,744	12,500	$271,281
2001	304,994	6,352	11,963	$323,309
2002	285,553	7,449	11,989	$304,991
2003	295,441	8,823	35,135	$339,399
2004	265,706	16,289	57,676	$339,671
2005	323,453	27,207	43,561	$394,221
2006	352,337	36,347	40,566	$429,250
2007	399,651	53,752	42,696	$496,099
2008	409,276	52,170	41,524	$502,970
2009	452,762	59,542	47,375	$559,679
2010	429,098	70,542	50,783	$550,423
2011	401,265	46,391	41,145	$488,801
2012	190,799	72,601	74,703	$338,103 [3]
2013 (est)	222,584	120,305	69,133	$412,022 [3]
2014 (est)	633,413	148,917	45,573	$827,903 [3]

[1] The Net Transfer amount is net of investment earnings in the Debt Service Fund and the Bond Proceeds Fund and bond premiums received from new bond issuances which are also appropriated to pay debt service on State general obligation bonds.

[2] The major portion of the All Other Funds category is made up of the debt service funding requirement paid by the higher education systems of the University of Minnesota and the Minnesota State Colleges and Universities.

[3] The debt service transfers for FY 2012 and FY 2013 were lower from prior fiscal years as a result of the Tobacco Securitization Bonds which were used in part to refund and prepay certain general obligation indebtedness of the State. See “Tobacco Settlement” in this official statement. The estimated debt service for FY 2014 is higher because of increased State general obligation bond issuance and it does not include the benefit of the Tobacco Securitization Bonds.

CAPITAL INVESTMENT GUIDELINES

Minnesota Statutes Section 16A.105 requires the Commissioner of Management and Budget to prepare a debt capacity forecast to be delivered to the governor and Legislature in February and November of each year.

On December 22, 2009, Minnesota Management and Budget adopted new Capital Investment Guidelines. These guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations[(1)] are recognized; and
- Continue Minnesota's conservative financial management practices.

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25% or less of total State personal income.

2. Total amount of principal (both issued, and authorized but unissued) for State general obligations, State moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of State personal income.

3. 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and market conditions.

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation. Total state personal income is derived from the IHS Global Insight, Inc. data used to develop the February 2013 revenue forecast and reflects the State 2013 Fiscal Year.

As of June 30, 2013, the last date of calculation, MMB was generally in compliance with the new Capital Investment Guidelines. The percentages as of that date were:

Guideline #1: Tax-supported principal outstanding as a percent of state personal income: 2.73%

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of state personal income: 4.58%

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2013, 39.4 percent were scheduled to mature within five years and 70.6 percent were scheduled to mature with ten years.[(2)]

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[1] Tax-supported debt obligations includes all of the State's general obligation bonds and the obligations summarized under "CONTINGENT LIABILITIES," in the descriptions titled "State Continuing Appropriations," "Lease Purchase Financing for Equipment," and "Lease Purchase Financing for Real Estate" in this Appendix C.

[2] Proceeds from the Tobacco Securitization Bonds were used to pay principal of and interest on the State's General Obligation Bonds in the Current Biennium, which affected the calculation of Guideline No. 3. It is the State's expectation that it will be in compliance with Guideline No. 3 as of the date of the next calculation.

MARKET VALUE OF TAXABLE PROPERTY

The market value, as defined by statute, of taxable real and personal property in the State, based upon the January 2012 valuation, was estimated by the Commissioner of Revenue to be $516,304,000,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY
($ in Thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Change from Prior Year
1999	$ 237,387,125	$ 3,931,269	$ 241,318,394	8.37
2000	260,679,384	4,003,571	264,682,955	9.68
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,524,447	363,687,940	11.83
2004	407,146,983	4,713,782	411,860,765	13.25
2005	459,506,046	4,807,666	464,313,712	12.74
2006	513,771,733	4,965,234	518,736,967	11.72
2007	556,559,833	5,051,289	561,611,123	8.27
2008	576,128,196	5,258,865	581,387,062	3.52
2009	577,697,830	5,510,840	583,208,669	0.31
2010	554,221,643	6,162,283	560,383,926	(3.91)
2011	515,531,688	6,815,342	522,347,003	(6.79)
2012	509,009,000	7,295,000	516,304,000	(1.16)

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CONTINGENT LIABILITIES

State Continuing Appropriations

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

Minnesota Department of Management and Budget. The 2009 Minnesota Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State Certificates of Participation ("COP's"). These COP's were issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system; (ii) the acquisition, development and implementation of an integrated tax software project; and (iii) the payment of all fees and expenses incurred in connection to the issuance of the COP's. In December, 2012 MMB prepaid $11,495,000 from reverted proceeds that reduced the COP's outstanding balance. As of the date of this Official Statement, there are $45,815,000 of the COP's outstanding.

The 2011 Minnesota Legislature authorized, in Minnesota Statutes, Section 16A.99, the issuance of State Appropriation Bonds. MMB issued $656,220,000 aggregate principal amount State General Fund Appropriation Refunding Bonds, Taxable Series 2012A and Tax-Exempt Series 2012B (the "State Appropriation Refunding Bonds"), all of which are currently outstanding. Net proceeds of the State Appropriation Refunding Bonds were applied to the prepayment and refunding of TSA Bonds as described herein.

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 special purpose revenue bonds issued by the U of M to finance a portion of the stadium. The U of M issued $137,250,000 in bonds for the stadium in December 2006, $109,300,000 of these bonds are still outstanding. The bonds mature in August 2029. 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. The U of M issued $153,120,000 in bonds for the Biomedical Science Research Facilities in September 2010, of which $111,400,000 is State secured appropriation bonds. The University of Minnesota also issued $71,820,000 in bonds for the Biomedical Science Research Facilities in October 2011, of which $52,485,000 is State secured appropriation bonds. As of the date of this Official Statement, $156,440,000 of these State secured bonds are still outstanding. The U of M anticipates issuing bonds in October, 2013 to fund the remaining portion of the project, with the expectation that approximately $38 million will include State secured obligations.

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 and of foreclosure or vacant housing to be used for affordable rental housing. 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 nonprofit housing bonds issued by MHFA for the program. MHFA issued $13,270,000 in bonds to finance this program in 2009 and an additional $21,750,000 in 2011. As of the date of this Official Statement, there are $29,680,000 of the MHFA nonprofit housing bonds outstanding.

In 2012, the Legislature authorized MHFA to issue up to $30,000,000 of housing infrastructure bonds and appropriated from the General Fund up to $2.2 million per year beginning in Fiscal Year 2014 through Fiscal Year 2036 to MHFA for the payment of the bonds. MHFA has issued $15,460,000 of the $30 million in bonds as authorized in legislation.

Lease Purchase Financing For Equipment

The Commissioner of Management and Budget is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner of Management and Budget has entered into master lease agreements providing for equipment financing and expects to continue this practice.

As of date of this Official Statement, $29,554,587 of principal is 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 of Management and Budget's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of the date of this Official Statement, principal in the amount of $1,217,145 is 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 the date of this Official Statement, $4,795,000 of the bonds 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 originally sold to finance both of the facilities was $193,105,000. In August 2008 the amount of $3,210,000 was defeased thereby reducing the State's liability. In May 2013 the balance of the original bond issues were refunded and as of the date of this Official Statement there are $115,760,000 of Port Authority Refunding Bonds outstanding. 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.

The 2013 Legislature has authorized the Commissioner of Administration to enter into a long-term lease purchase agreement for a Legislative Office Facility. The same legislation also authorized the Commissioner of Management and Budget to issue lease revenue bonds or certificates of participation to fund the lease purchase agreement. The legislation states the lease-purchase agreement must not be terminated, except for non-appropriation of money. Planning estimates have the project size as $89.5 million, with occupancy early in FY 2016. The exact timing of the issue(s) is not currently known, however it is anticipated that the initial funding will occur early in calendar year 2014.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner of Management and Budget, 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 the date of this Official Statement, there are approximately $570 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 the date of this Official Statement, 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 2036, is approximately $12.8 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 the date of this Official Statement is $1.7 billion, with the maximum amount of principal and interest payable in any one month being $675 million.

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.

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 shall issue revenue bonds payable from certain taconite production tax revenues in a total principal amount of $15,000,000, 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 issued $15,145,000 of the bonds in July, 2006 and as of the date of this Official Statement $10,260,000 of the bonds are outstanding. Laws 2013, Chapter 143 authorized the issuance of an additional $38,000,000 in revenue bonds for the same purpose as previously authorized. The IRRRB anticipates issuing these bonds in October 2013 for this program.

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 of Management and Budget, 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 Management and Budget of potential defaults, and the Commissioner of Management and Budget 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 of Management and Budget for this purpose. The amount of debt outstanding under this program may not exceed $1,000,000,000.

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 the date of this Official Statement, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2040, is approximately $632 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 Fiscal Year the total amount of principal and interest outstanding as of the date of this Official Statement, is $55 million with the maximum amount of principal and interest payable in any one month being $24 million. On August 1, 2013, the State made a $603,000 debt service payment under the program on behalf of the City of Williams with respect to the $600,000 City of Williams, Minnesota General Obligation Grant Anticipation Notes, Series 2010. The City of Williams is contractually obligated to repay the State, with interest, for the $603,000 debt service payment. The State does not expect to make any other debt service payments on behalf of cities or counties under the program 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.

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 and outstanding as of the date of this Official Statement 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 time (excluding the principal amount of any refunded bonds or notes) 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.

Minnesota Housing Finance Agency
Debt Outstanding as of October 1, 2013

	Number of Series	Final Maturity	Original Principal Amount (in thousands)	Outstanding Principal Amount (in thousands)
Rental Housing	13	2048	$ 133,000	$ 69,610
Residential Housing Finance.....	59	2048	2,096,385	1,223,160
Multifamily Housing	1	2051	15,000	14,810
	73		$2,244,385	$1,307,580

The MHFA has also issued and there were outstanding as of October 1, 2013: one series of its conduit multifamily revenue bonds outstanding in the aggregate principal amount of $29,285,504, and 16 series of its Homeownership Finance and related bonds outstanding in the aggregate principal amount of $694,351,017, and 3 series of its Home Ownership Mortgage-backed Exempt Securities in the aggregate principal amount of $32,494,799. These bonds are general 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. Regents of the University of Minnesota (the "University") 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 University has sold and issued bonds, in addition to the special purpose revenue bonds previously mentioned, to finance the construction of buildings and structures, remodeling projects, and purchases of land and buildings needed by the University. The amount of such bonds outstanding as of the date of this Official Statement is $891,121,000. 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. See "Contingent Liabilities - State Continuing Appropriation" for additional information concerning other debt issued by the University of Minnesota.

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 "MOHE Act"). 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 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. As amended in 2009 and 2011, Section 136A.1787 of the MOHE Act provides that MOHE must annually determine and certify to the Governor, and the Governor shall 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. If MOHE determines that there is an anticipated deficiency in the debt service reserve fund in the current fiscal year, the Governor shall include and submit the amounts certified in a Governor's supplemental budget if the regular budget for that year has previously been enacted. The Legislature is not legally obligated to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. As of the date of this Official Statement, MOHE has $594,294,000 of bonds outstanding payable from the Student Educational Loan Fund, of which $594,294,000 are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above. MOHE has never certified a deficiency to the Governor. Bonds issued by MOHE are limited obligations of MOHE and are not a debt or liability of the State, but are payable solely from loan repayments, external forms of credit enhancement, loan and investment earnings, other money of the MOHE (including debt service reserve fund amounts), and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities ("MnSCU"). MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes 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 and colleges within the Minnesota State Colleges and Universities System. As of the date of this Official Statement, MnSCU has $284,835,000 tax exempt bonds and $22,865,000 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, 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 with outstanding balances of $3,119,710 and the other for $9,415,000. 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, as amended, authorizes 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 $1,300,000,000. As of the date of this Official Statement, the MHEFA has $909,676,030 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. The bonds are not the general obligation or indebtedness of MHEFA or the State and the loan repayment obligation and security for each issue is the responsibility 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 the date of this Official Statement, the MSABC has $4,770,000 principal amount of bonds outstanding. The MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota 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 the date of this Official Statement, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Management and Budget is authorized to issue up to $239.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $208.1 million of these bonds including 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 the date of this Official Statement, the RFA has $34,910,000 of revenue bonds for these programs.

Minnesota Public Facilities Authority ("MPFA"). The MPFA was established in 1987 and is governed by Minnesota Statutes, Chapter 446A which authorizes it to make loans to local government units. As of the date of this Official Statement, the MPFA has $330,470,000 Clean Water Revolving Fund Revenue Bonds outstanding, $111,200,000 Drinking Water Revolving Fund Revenue Bonds outstanding, $590,055,000 State Revolving Fund Revenue bonds outstanding and $13,160,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $1,044,885,000. 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 446A.087.

Tobacco Securitization Authority ("TSA"). TSA, is a body corporate and politic and a public instrumentality of, having a legal existence independent and separate from the state of Minnesota and established under Minnesota Statutes, Section 16A.98. TSA issued $756,955,000 aggregate principal amount Tobacco Securitization Authority Minnesota Tobacco Settlement Revenue Bonds, Taxable Series 2011A and Tax-Exempt Series 2011B (the "TSA Bonds"). Net proceeds of the Tobacco Securitization Bonds were applied to the prepayment and refunding of certain State general obligation indebtedness and certificates of participation. The TSA Bonds were refunded in their entirety from the proceeds of the sale of State General Fund Appropriation Refunding Bonds Series 2012A and Series 2012B dated November 21, 2012.

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 the date of this Official Statement, MAEDB has called all pooled revenue bonds outstanding, therefore there are no bonds outstanding that 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 has $398,373,539 of revenue bonds outstanding 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.

Minnesota Department of Management and Budget ("MMB"). The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of State revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Management and Budget sold $29,000,000 of the revenue bonds in June 2000. The balance of the original bond issue, $22,900,000, was refunded in a current refunding bond issue in August 2012 and as of the date of this Official Statement; there are $20,225,000 of Minnesota State Retirement System bonds outstanding.

The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of State revenue bonds. These revenue bonds are to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The 2007 Legislature authorized an additional $186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner of Management and Budget sold $35,000,000 of the revenue bonds in November 2006, an additional $42,205,000 of revenue bonds in November 2008, an additional $60,510,000 of revenue bonds in October 2009 and an additional $60,360,000 in revenue bonds in September 2011. As of the date of this Official Statement, there are $138,280,000 of the 911 Revenue Bonds outstanding.

APPENDIX D

PROJECT DESCRIPTION AND SCHEDULE OF BONDS TO BE REFUNDED

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PROJECT DESCRIPTION

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose. In the Order authorizing the issuance of the Bonds the Commissioner has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "General Obligation Bonds Authorized, Issued and Unissued'' and on page C-2 of Appendix C.

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
Special Session 2001, Chapter 12				
	BWSR	Statewide	CREP Program	43,000
2005, Chapter 20				
	BWSR	Statewide	RIM Reserve and CREP	23,000
	BWSR	Statewide	Local Government Road Wetland Replacement	4,362
2006, Chapter 258				
	U of M	Morris	West Central Research and Outreach	2,500
	Natural Resources	Statewide	State Trail Acquisition and Development	10,811
	Natural Resources	Statewide	Trail Connections Grants	2,010
	PCA	Statewide	Capital Assistance Program	4,000
	PCA	Koochiching	County Clean Energy Facility	2,500
	CAAPB	St. Paul	Capitol Building Restoration Ph. I	2,400
	Transportation	Minneapolis	Northstar Commuter Rail	60,000
	Met Council	Bloomington	Cedar Avenue Busway	5,000
	Housing Finance	Statewide	Permanent Supportive Housing Loans	17,500
	DEED	Hibbing	Central Iron Range Sanitary Sewer South Plant	2,500
	DEED	Statewide	Redevelopment Grants	9,000
Special Session 2007, Chapter 2				
	Public Safety	Statewide	Disaster Assistance Political Subdivision	13,000
	Transportation	Statewide	Local Road and Bridge Rehabilitation and Replacement	26,000
	Natural Resources	Statewide	State Facility Rehab and Replace	4,200
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	2,000
	BWSR	Statewide	RIM Conservation Easements	1,000
	DEED	Statewide	Public Infrastructure Grants	10,000
	Finance	Statewide	Bond Sale Expense	75
2008, Chapter 152				
	Transportation	Statewide	State Road Construction	1,717,694
	Transportation	Statewide	Great River Road	4,299
	Transportation	Statewide	Urban Partnership Agreement	24,778
	Transportation	Mankato	District Headquarters	23,983
	Transportation	Chaska	Chaska Truck Station	8,649
	Transportation	Rochester	Truck Station Design	2,000
	Met Council	Metropolitan	Urban Partnership Agreement	400
	Administration	St. Paul	Transportation Building Exterior Repair	18,197
	Finance	Statewide	Bond Sale Expense — Trunk Highway	1,800
	Transportation	Statewide	Local Bridge Replacement and Rehab	50,000
	Transportation	Statewide	Local Road Improvement Program	10,000
	MMB	Statewide	Bond Sale Expense — Bond Proceeds	60
2008, Chapter 179				
	U of M	Systemwide	HEAPR	35,000
	U of M	Minneapolis	Science teaching student services	48,333

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	U of M	Duluth	Civil engineering addition	10,000
	U of M	Morris	Community services building renovation	5,000
	U of M	Systemwide	Research and Outreach Centers	3,500
	U of M	Systemwide	General laboratory renovation	3,333
	MnSCU	Systemwide	HEAPR	55,000
	MnSCU	Alexandria	TC — law enforcement center addition	10,500
	MnSCU	Anoka	CC — classroom bldg addition, design, construction.	3,800
	MnSCU	Bemidji	SU — Sattgast Science Bldg addition and renovation.	8,900
	MnSCU	White Bear	Century College — renovation	7,900
	MnSCU	Dakota	TC — Transportation and emerging tech lab	200
	MnSCU	Minneapolis	Design and renovate science addition; LRC	2,400
	MnSCU	Inver Grove	Classroom addition and renovation.	13,200
	MnSCU	Minneapolis	Metro State Univ / MCTC — law enforcement	13,900
	MnSCU	Minneapolis	MCTC — workforce program and infrastructure renovation design	400
	MnSCU	Mankato	Trafton Hall, MSU	25,500
	MnSCU	Moorhead	Lommen Hall renovation	13,100
	MnSCU	Moorhead	Livingston Lord Library renovation and design	400
	MnSCU	Worthington	Field house design	450
	MnSCU	Moorhead	Trades addition and LRC	2,500
	MnSCU	Edina	Classroom addition and renovation.	7,000
	MnSCU	Anoka	Bioscience / health	900
	MnSCU	E.Grand Forks	Addition and renovation	7,800
	MnSCU	Owatonna	Land acquisition	3,500
	MnSCU	Ridgewater	Tech instruction design and const; renovation design	3,500
	MnSCU	Rochester	Workforce center co-location	200
	MnSCU	St. Cloud	Classroom renovation and addition design	400
	MnSCU	St. Cloud	Brown Hall Science renovation	14,800
	MnSCU	St. Cloud	Integrated science and engineering lab design	900
	MnSCU	St. Paul Coll.	Transportation and applied tech lab	13,500
	MnSCU	Marshall	Science, hotel, and restaurant admin renovation	9,000
	MnSCU	Marshall	Science lab renovation design	200
	MnSCU	Winona	Memorial Hall	8,400
	MnSCU	Systemwide	Science lab renovations	5,775
	Education	Osseo	Hennepin Regional Family Service Ctr.	2,000
	Education	Statewide	Library accessibility and improvement grants	1,500
	MN State Academies	Faribault	Asset preservation	2,400
	MN State Academies	Faribault	MSAD Frechette predesign	100
	MN State Academies	Faribault	MSAD Mott Hall (vocational building)	100
	Ctr for Arts Educ.	Golden Valley	Asset preservation	355
	Natural Resources	Systemwide	Asset preservation	1,000
	Natural Resources	Statewide	Flood hazard mitigation grants	30,000
	Natural Resources	Statewide	Groundwater monitoring, observation wells	500
	Natural Resources	Statewide	Dam renovation and removal	2,000
	Natural Resources	Statewide	Water control structures	500
	Natural Resources	Statewide	Mississippi river barrier	500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Natural Resources	Statewide	Stream protection and restoration	1,000
	Natural Resources	Statewide	Shoreline and aquatic habitat acquisition	1,000
	Natural Resources	Systemwide	Water access acquisition / fishing piers	650
	Natural Resources	Systemwide	Fish hatchery improvements	1,500
	Natural Resources	Systemwide	Wildlife area acquisition and improvement	5,000
	Natural Resources	Statewide	RIM critical habitat match	3,000
	Natural Resources	Systemwide	Native prairie conservation and protection	4,000
	Natural Resources	Systemwide	SNA acquisition and development	1,000
	Natural Resources	Systemwide	Forest land conservation easements	3,000
	Natural Resources	Systemwide	State forest land reforestation	3,000
	Natural Resources	Systemwide	Forest roads and bridges	1,000
	Natural Resources	Statewide	Diseased shade tree removal and replacement	500
	Natural Resources	Systemwide	State park development	19,041
	Natural Resources	Statewide	Big Bog State recreation area	1,600
	Natural Resources	Systemwide	State parks, prairies, and forestry restoration	545
	Natural Resources	Systemwide	Regional and local parks grants	1,621
	Natural Resources	Systemwide	State trail acquisition and development	15,320
	Natural Resources	Statewide	Regional and local trails grants	156
	Natural Resources	Systemwide	Trail connections	697
	Natural Resources	Systemwide	Drill core library and field office consolidation, renovation.	500
	PCA	Albert Lea	Remedial systems, Albert Lea	2,500
	BWSR	Statewide	RIM reserve	25,000
	BWSR	Statewide	Wetland replacement due to public road projects	4,200
	BWSR	Statewide	Clean Water Legacy	1,275
	Agriculture	E.Grand Fork	Seed potato inspection building	20
	Administration	St. Paul	Property acquisition	2,325
	Administration	St. Paul	State Capitol building restoration	13,400
	Military Affairs	Systemwide	Asset preservation	3,500
	Military Affairs	Systemwide	Facility life safety	1,000
	Military Affairs	Systemwide	ADA alterations	1,500
	Public Safety	Camp Ripley	Public safety training facility	5,000
	Public Safety	Marshall	Emergency response and training center	300
	Public Safety	Scott Cty	Public safety training facility	1,000
	Public Safety	Rochester	Regional public safety training center	3,655
	Transportation	Statewide	Local bridges replacement	2,000
	Transportation	Statewide	Greater MN transit	1,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Transportation	Norwood	Railroad track rehabilitation	3,000
	Met Council	Systemwide	Urban partnership agreement (UPA)	16,672
	Met Council	Systemwide	Cedar Avenue BRT	4,000
	Met Council	Systemwide	Metropolitan regional parks	10,500
	Met Council	Systemwide	Dakota County — North urban regional trail	1,400
	Human Services	Systemwide	Asset preservation / safety and security	3,000
	Human Services	Systemwide	Campus redevelopment/reuse/demolition	3,400
	Human Services	Pope Cty.	Chemical dependency treatment facility	150
	Human Services	Minneapolis	Hennepin County Medical Center	820
	Human Services	Systemwide	Remembering with Dignity	135
	Vet's Home Board	Systemwide	Asset preservation	4,000
	Vet's Home Board	Fergus Falls	Special care unit	2,700
	Vet's Home Board	Minneapolis	Campus HVAC upgrade	3,955
	Vet's Home Board	Silver Bay	Master plan renovation	227
	Vet's Home Board	Minneapolis	Veterans memorial, All Wars	100
	Vet's Home Board	Richfield	Veterans Memorial, All Veterans	100
	Vet's Home Board	Virginia	Veterans Memorial	100
	Corrections	Systemwide	Asset preservation	10,000
	Corrections	Faribault	MCF — expansion	16,000
	Corrections	Red Wing	MCF — vocational building	6,000
	DEED	Statewide	Greater MN business development public infrastructure grant program	7,000
	DEED	Statewide	Bioscience business development public infrastructure grant program	9,000
	DEED	Statewide	Redevelopment grant program	7,750
	DEED	Bemidji	Regional Event Center (BREC)	20,000
	DEED	Crookston	Ice arena (In DNR — House)	10,000
	DEED	Duluth	DECC/UMD Arena	38,000
	DEED	Nashwauk	Itasca County infrastructure	28,000
	DEED	Rochester	Mayo Civic Center	3,500
	DEED	Roseville	John Rose OVAL	600
	DEED	Saint Cloud	Convention center	2,000
	DEED	Saint Cloud	State University — National Hockey Center	6,500
	Public Facilities	Statewide	Wastewater infrastructure fund	15,300
	Public Facilities	Statewide	Total maximum daily load grants	2,000
	Public Facilities	Statewide	Small community wastewater treatment	1,500
	Public Facilities	Bayport	Storm sewer	150
	Housing Finance	Statewide	Emergency shelter / Transitional housing	1,000
	Historical Society	Systemwide	Historic sites asset preservation	4,000
	Historical Society	Minneapolis	Historic Fort Snelling visitor center and site revitalization	3,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Historical Society	Systemwide	County and local historic preservation grants	1,600
	Historical Society	St. Paul	Oliver H. Kelly Farm revitalization	300
	Historical Society	Systemwide	Heritage trails	294
	MMB	Statewide	Bond Sale Expenses	998
2008, Chapter 365				
	Natural Resources	Systemwide	Asset Preservation	3,400
	Natural Resources	Lake Vermilion	Lake Vermilion State Park Land Acquisition	20,000
	Metro Council	Minneapolis	Central Corridor Transit Way	70,000
	Metro Council	Bloomington	Old Cedar Avenue Bridge	2,000
	Veteran Affair	Minneapolis	Building 9 Demolition	1,000
	Veteran Affair	Minneapolis	New Nursing Facility	9,100
2009, Chapter 36				
	MnDOT	Systemwide	Interchange Construction	40,000
	MMB	Statewide	Bond Sale Expenses	40
2009, Chapter 93				
	U of M	Systemwide	HEAPR - University of MN	25,000
	U of M	Minneapolis	National Solar Rating and Certification Laboratory	2,150
	MNSCU	Systemwide	HEAPR - MnSCU	40,000
	DNR	Systemwide	Asset Preservation	1,000
	DNR	Statewide	Flood Hazard Mitigation Grants	53,800
	BWSR	Statewide	RIM Conservation Reserve	500
	RFA	Statewide	Rural Finance Authority Loans	35,000
	Am Sport	Blaine	National Sports Center -Asset Preservation	1,000
	Mil Affairs	Systemwide	Asset Preservation	3,602
	MnDOT	Statewide	Local Bridge Replacement & Rehabilitation	10,000
	MnDOT	Statewide	MN Valley Railroad Track Rehabilitation	4,000
	MnDOT	Statewide	Intercity Passenger Rail Projects	26,000
	MnDOT	Systemwide	Port Development Assistance	3,000
	MnDOT	Alexandria	Aircraft Surveillance Facility	2,000
	MnDOT	Big Fork	Airport Runway	1,700
	MnDOT	Duluth	Airport Terminal	4,900
	Met Cncl	Systemwide	Transit Capital Improvement Program	21,000
	Met Cncl	Minneapolis	Northtown Rail Yard Bridge	600
	Met Cncl	Minneapolis	Veterans Victory Memorial Parkway	1,000
	DHS	Systemwide	Asset Preservation	2,000
	Vets Affair	Systemwide	Asset Preservation	1,000
	Vets Affair	Systemwide	Veterans Cemeteries	1,500
	Correction	Systemwide	Asset Preservation	4,000
	DEED	St. Louis Cty	Redevelopment Grant Program	750
	MnHFA	Statewide	Public Housing	2,000
	Hist Soc.	Systemwide	Historic Sites Asset Preservation	2,165
	MMB	Statewide	Bond Sale Expenses	343
	Public Saf.	Statewide	State & Local Match for Federal Assistance	3,900
	BWSR	Statewide	RIM Conservation Easements	500
	MnDOT	Systemwide	Trunk Highways & Bridges	2,700
	MMB	Statewide	Bond Sale Expenses-Trunk Highway	5
	MMB	Statewide	Bond Sale Expenses-Various Purpose	250
2010, Chapter 189				
	U of M	Systemwide	HEAPR	56,000
	U of M	Twin Cities	Folwell Hall	23,000
	U of M	Systemwide	Physics and Nanotechnology	4,000
	U of M	Systemwide	Laboratory Renovation	6,667

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnSCU	Systemwide	HEAPR	52,000
	MnSCU	No. Hennepin	CC - Center for Business and Technology	14,782
	MnSCU	Systemwide	Classroom Initiative and Dem.	3,883
	MnSCU	Lake Superior	CTC - Health Science Center	12,098
	MnSCU	Metro State	SU - Classroom Center	5,860
	MnSCU	Eveleth	CTC - Shop Space Addition	5,477
	MnSCU	Alexandria	TC - Main Bldg Renovation & Addition	200
	MnSCU	Moorhead	CTC - Library and Classroom Addition	5,448
	MnSCU	St. Cloud	TC - Allied Health Center Renovation	5,421
	MnSCU	Edina	CC - Acad. Partner Ctr & Stud. Serv.	1,000
	MN Academies	Systemwide	Asset Preservation	2,000
	MN Academies	Systemwide	MSAB Independent Living Housing	500
	Perpich Center	Golden Valley	Alpha Building Demolition	755
	Perpich Center	Golden Valley	Delta Dorm Windows	489
	Perpich Center	Golden Valley	Storage Building	129
	Natural Resources	Statewide	Asset Preservation	1,000
	Natural Resources	Statewide	Flood Hazard Mitigation	63,500
	Natural Resources	Statewide	Ground Water Monitor & Observation Wells	1,000
	Natural Resources	Statewide	Dam Renovation and Removal	4,000
	Natural Resources	Statewide	WMA and AMA Acquisition	1,000
	Natural Resources	Statewide	RIM Critical Habitat Match	3,000
	Natural Resources	Statewide	MN Forests for the Future	500
	Natural Resources	Statewide	State Forest Land Reforestation	3,000
	Natural Resources	Statewide	Forest Roads and Bridges	1,000
	Natural Resources	Statewide	Shade Tree Program	3,000
	Natural Resources	Statewide	State Park Rehabilitation	4,659
	Natural Resources	Statewide	State Park and Recreation Area Acquisition	2,150
	Natural Resources	Cuyuna	State Park and Recreation Area Development	1,250
	Natural Resources	Glendalough	State Park and Recreation Area Development	350
	Natural Resources	Statewide	State Trail Rehabilitation	4,000
	Natural Resources	Aitkin County	Regional Trail - NW Regional ATV Trail	500
	Natural Resources	Statewide	Trail Connections	3,292
	Natural Resources	Fort Ripley	St. Mathias Trail Paving	50
	Natural Resources	Milaca	Rum River Buffer and Bridge Replacement	130
	Natural Resources	Hennepin County	Fort Snelling Upper Bluff	1,200
	PCA	Statewide	Closed Landfill Cleanup Program	8,700
	PCA	Statewide	Capital Assistance Program	5,075

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	BWSR	Statewide	Wetland Replacement	2,500
	MN Zoo	Apple Valley	Asset Preservation and Exhibit Renew.	6,000
	MN Zoo	Apple Valley	Master Plan Implementation, Phase I	15,000
	Administration	Statewide	CAPRA	2,000
	Administration	Statewide	Asset Preservation	8,075
	Administration	Eagan	Public Servant Memorial	100
	Amateur Sports	Blaine	Women's Hockey Center	950
	Amateur Sports	Rochester	National Volleyball Center Phase 2	4,000
	Military Affairs	Systemwide	Asset Preservation	4,000
	Military Affairs	Systemwide	Facility Life Safety Improvements	1,000
	Military Affairs	Systemwide	Facility ADA Compliance	900
	Military Affairs	St. Paul	Cedar Street Armory Renovation	5,000
	Military Affairs	Camp Ripley	Troop Support Facility	1,000
	Public Safety	Camp Ripley	Emergency Mgt Training Facility Phase II	6,000
	Public Safety	Arden Hills	State Emergency Operations Center	2,250
	Public Safety	Minneapolis	Emergency Oper. Ctr & Fire Training Facility	750
	Public Safety	Marshall	MN Emergency Resp. & Train Center (MERIT)	1,000
	MnDOT	Statewide	Local Bridge Replacement & Rehabilitation.	66,000
	MnDOT	Statewide	Rail Service Improvement	2,000
	MnDOT	Statewide	Minnesota Valley Railroad Track Rehabilitaiton.	5,000
	MnDOT	St. Cloud	Northstar Commuter Rail Extension	1,000
	MnDOT	Statewide	RR Grade Warning Devices Replace.	2,500
	MnDOT	Duluth	Airport Terminal	11,700
	MnDOT	Thief River Falls	Airport Hangar	2,097
	MnDOT	Rochester	Trunk Highway-Maintenance Facility	26,430
	Metro Council	Metro	Cities Inflow and Infiltration Grants	3,000
	Metro Council	Metro	Parks and Trails	10,500
	Metro Council	St. Paul	Como Zoo - St. Paul	11,000
	Metro Council	Bloomington	Old Cedar Avenue Bridge	2,000
	Metro Council	Inver Grove Hts.	Rock Island Bridge Park and Trail Development	1,000
	Metro Council	Minneapolis	Veterans Memorial Parks	2,000
	Health	Ramsey County	Gillette Children's Hospital	10,000
	Health	Hennepin County	HCMC Hyperbaric Chamber	5,000
	Human Services	Systemwide	Asset Preservation	2,000
	Human Services	Systemwide	Remember w/Dignity - Grave Markers	125
	Human Services	Moose Lake	MSOP Phase II	47,500
	Veterans Affairs	Systemwide	Asset Preservation	4,000
	Veterans Affairs	Luverne	Entrance Enclosure	450
	Veterans Affairs	Minneapolis	Building 17	9,450
	Corrections	Systemwide	Asset Preservation	8,000
	Corrections	Systemwide	ARMER Radio System Migration	5,800
	Corrections	Oak Park Heights	Perimeter Sec. Fence Detection Sys.	3,529

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Corrections	Oak Park Heights	Security System Upgrade	6,500
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Program	10,000
	DEED	Statewide	Innovative Business Development Grant Program	4,000
	DEED	Statewide	Redevelopment Account	5,000
	DEED	Duluth	Zoo	200
	DEED	Minneapolis	Orchestra Hall	16,000
	DEED	Ramsey County	Rice Street Bioscience Corridor	5,000
	DEED	St. Paul	Ordway Center for Performing Arts	16,000
	Public Facilities	Statewide	St. Match Clean Water Revolving Fund	19,200
	Public Facilities	Statewide	St. Match Drinking Water Revolving Fund	10,800
	Public Facilities	Statewide	Wastewater Infrastructure Fund Program.	27,000
	Historical Society	Statewide	Historic Sites Asset Preservation	3,400
	Historical Society	Statewide	County and Local Preservation Grants	1,000
	MMB	Statewide	Various Purpose Bond Sale Expenses	1,064
	MMB	Statewide	Trunk Highway Bond Sale Expenses	15
2010, Chapter 388				
	MnDOT	Systemwide	State Road Construction	30,000
	MnDOT	Systemwide	Interchange Construction	70,000
	MMB	Statewide	Bond Sale Expenses	100
Special Session 2010, Chapter 1				
	Public Safety	Statewide	Public Assistance Match	2,000
	MnDOT	Statewide	Local Bridge Replacement/Rehab	10,000
	Public Facilities	Statewide	Public Infrastructure	500
	Natural Resources	Statewide	Facility Damage	2,500
	Natural Resources	Statewide	Flood Hazard Mitigation	10,000
	Natural Resources	Statewide	Dam Renovation/Removal	1,000
	BWSR	Statewide	RIM Conservation Reserve	10,000
	MMB	Statewide	Bond Sale Expenses	40
	DEED	Greater MN	Disaster Recovery Facility Plan	750
Special Session 2011, Chapter 12				
	U of M	Systemwide	HEAPR	25,000
	U of M	Twin Cities	Physics and Nanotechnology	51,333
	MnSCU	Systemwide	HEAPR	30,000
	MnSCU	Anoka-Ramsey	Fine Arts Building Renovation	5,357
	MnSCU	Hennepin TC	Learning Res. & Student Services Renovation.	10,566
	MnSCU	Metro State	Sci. Ed. Center Design & Property Acquisition.	3,444
	MnSCU	Moorhead	Lord Library & Info. Technol. Renovation	14,901
	MnSCU	Normandale	Academic Part. Center and Student Services.	21,984
	MnSCU	Virginia	Iron Range Eng. Program Facilities	3,000
	MnSCU	St. Cloud	Integrated Science and Engineering Lab	42,334
	MN Academies	Systemwide	Asset Preservation	2,160
	Natural Resources	Statewide	Asset Preservation	17,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Natural Resources	Statewide	Flood Hazard Mitigation	50,000
	Natural Resources	Statewide	Roads and Bridges	4,800
	Natural Resources	Lake Vermilion	Park Development	8,000
	Natural Resources	Statewide	Ground Water Monitoring and Observation Wells	600
	Natural Resources	Coon Rapids	Dam Renovation	16,000
	Natural Resources	Statewide	State Trail Acquisition and Development	5,800
	Natural Resources	Two Harbors	Lake Superior Campground Expansion	1,250
	PCA	Statewide	Closed Landfill Cleanup Program	7,000
	PCA	Pope/Douglas	Solid Waste JPB - Capital Assistance Program.	550
	BWSR	Statewide	RIM Conservation Reserve	20,000
	BWSR	MN River Basin	Area II - Floodwater Retention Grants	1,000
	BWSR	Willmar	Easement Acquisition, Water Control, Wetland	1,614
	MN Zoo	Apple Valley	Asset Preservation and Exhibit Renewal	4,000
	Administration	Statewide	CAPRA	2,830
	Administration	Statewide	Asset Preservation	4,150
	Administration	Capitol Complex	Asset Preservation	4,000
	OET	Systemwide	Renovate Three Data Centers	5,659
	Military Affairs	Systemwide	Asset Preservation	3,775
	Military Affairs	Camp Ripley	State Education Complex Addition Design	1,830
	Public Safety	Hennepin County	Regional 911 Emergency Comm. Center	4,700
	Public Safety	Maplewood	East Metro Fire Safety Training Facility	3,000
	Public Safety	Scott County	Public Safety Training Center	1,000
	MnDOT	Statewide	Local Bridge Replacement/Rehab	33,000
	MnDOT	Statewide	Local Road Improvement Fund Grants	10,000
	MnDOT	Statewide	Railroad Grade Warning Devices Replace.	3,000
	MnDOT	Greater MN	Transit Assistance	2,500
	MnDOT	Statewide	Port Development Assistance	3,000
	MnDOT	Statewide	Airport Infrastructure Program	3,700
	MnDOT	St. Louis Park	Rail Service - Noise Abatement	700
	Metro Council	Systemwide	Transit Capital Improve Program	20,000
	Metro Council	Systemwide	Regional Parks and Trails	5,000
	Human Services	Systemwide	Asset Preservation	4,700
	Human Services	Systemwide	Early Childhood Learning Facilities	1,900
	Human Services	St. Peter	MSOP - Shantz Bldg Renovation	7,000
	Human Services	Systemwide	Remembering with Dignity	300
	Veterans Affairs	Systemwide	Asset Preservation	2,300
	Corrections	Systemwide	Asset Preservation	19,000
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Program	4,000
	DEED	Statewide	Innovative Business Dev.Grant Program	5,000
	DEED	Bloomington	Lindau Lane Corridor	15,450
	DEED	Hennepin County	African American History Museum	1,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Public Facilities	Statewide	Wastewater Infrastructure Fund Program	20,000
	Historical Society	Statewide	Historic Sites Asset Preservation	1,900
	MMB	Statewide	Bond Sale Expenses	553
2012, Chapter 287				
	MnDOT	Rochester	Maintenance Facility	16,100
	MMB	Statewide	Bond Sale Expenses	20
2012, Chapter 293				
	U of M	Systemwide	HEAPR	50,000
	U of M	Twin Cities	Combined Heat and Power Plant	10,000
	U of M	Itasca	Facility Improvements	4,060
	MnSCU	Systemwide	HEAPR	20,000
	MnSCU	Anoka-Ramsey	Bioscience/Health Addn	980
	MnSCU	Bemidji	Business Bldg Demo and Renovation/Addition Design	3,303
	MnSCU	Century College	Classroom Addition	5,000
	MnSCU	Dakota County TC	Trans and Tech Lab Renovation	7,230
	MnSCU	Mankato	Clinical Science Building Design	2,065
	MnSCU	Minneapolis TC	Workforce Program Renovation	13,389
	MnSCU	North Hennepin CC	Bioscience/Health Addition	26,292
	MnSCU	Northland CTC	Aviation Expansion Design	300
	MnSCU	Ridgewater CC	Technical Instruction Lab Renovation	13,851
	MnSCU	St. Cloud	Medium Heavy Truck and Autobody Addition	4,000
	MnSCU	St. Paul	Health and Science Alliance Center Addition/Renovation Design	1,500
	MnSCU	Worthington	Classroom Renovation/Addition	4,606
	MnSCU	Itasca CC	Renovation, Addition, Demo.	4,549
	MnSCU	Rochester	Work Force Center Colocation	8,746
	MnSCU	Faribault	Classroom Renovation & Addition	13,315
	MnSCU	SWSU-Marshall	Science Lab Renovation/Addition Design	500
	MnSCU	Systemwide	Engineering & Math Lab Initiatives	2,500
	Education	Statewide	Library Accessibility and Improvement Grants	1,000
	MN Academies	Systemwide	Asset Preservation	1,000
	Perpich Ctr Arts	Golden Valley	Loading Dock Repair	64
	Perpich Ctr Arts	Golden Valley	Road Repair	99
	Perpich Ctr Arts	Golden Valley	Storm Drainage	100
	Natural Resources	Statewide	Flood Hazard Mitigation	30,000
	Natural Resources	Statewide	Dam Repair, Reconstruction and Removal	3,000
	Natural Resources	Statewide	Roads and Bridges	2,000
	Natural Resources	Statewide	Forest Land Reforestation	2,500
	Natural Resources	Statewide	Parks and Trails Renewal and Development	4,000
	Natural Resources	Lake Vermilion	State Park Development	2,000
	Natural Resources	Lake Zumbro	Sedimentation Dredging	3,000
	PCA	Statewide	Closed Landfill Cleanup Program	2,000
	BWSR	Statewide	RIM Conservation Reserve	6,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	BWSR	Statewide	Wetland Restoration -Public Road Projects	6,000
	Agriculture	St. Paul	Emergency Power Supply for MDA/MDH Labs	706
	MN Zoo	Apple Valley	Asset Preservation	4,000
	Administration	Capitol Complex	Asset Preservation	500
	Administration	Capitol Complex	Capitol Restoration	44,000
	Administration	Statewide	CAPRA - Asset Preservation	1,000
	Administration	Hennepin County	Washburn Center for Children	5,000
	Administration	Capitol Complex	Peace Officers' Memorial Renovation	55
	Amatuer Sports	Blaine	National Sports Center HVAC Replacement,	375
	Military Affairs	Systemwide	Asset Preservation	4,000
	Military Affairs	Camp Ripley	State Education Complex Addition	19,500
	MnDOT	Statewide	Local Bridge Replacement/Rehab	30,000
	MnDOT	Statewide	Local Road Improvement Fund Grants	10,000
	MnDOT	Statewide	Greater Minnesota Transit Assistance	6,400
	MnDOT	Statewide	Railroad Warning Devices Replacement	2,000
	MnDOT	Statewide	Port Development Assistance	1,000
	Metro Council	Systemwide	Metropolitan Regional Parks	4,586
	Metro Council	Systemwide	Municipal Wastewater Systems Inflow & Infiltration Abatement Grants	4,000
	Metro Council	Minneapolis	Phillips Community Center Pool	1,750
	Metro Council	Minneapolis	Transportation Interchange	2,500
	Human Services	Systemwide	Asset Preservation	2,000
	Human Services	Maplewood	Harriet Tubman Center Renovation	2,000
	Human Services	St. Peter	Security Hospital (MSH) Phase I design	3,683
	Veterans Affairs	Systemwide	Asset Preservation	3,000
	Veterans Affairs	Minneapolis	Veterans Home Bldg 17 South Design	3,050
	Veterans Affairs	Minneapolis	Veterans Home Centralized Pharmacy Bldg 13	1,366
	Corrections	Systemwide	Asset Preservation	5,000
	Corrections	Stillwater	Well and Water Treatment Facility	3,391
	Corrections	NE Reg Correct Ctr	Asset Preservation and Betterments	737
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Prog.	6,000
	DEED	Statewide	Redevelopment Account Grants	3,000
	DEED	Statewide	Transportation Economic Development Program	3,000
	DEED	Statewide	Business Development Capital Project Grant Program	47,500
	DEED	Austin	Research and Technology Center	13,500
	DEED	Bemidji	Regional Public Television Station	3,000
	DEED	So. St. Paul	Floodwall Extension Engineering and Design	500
	Public Facilities	Statewide	Clean and Drinking Water Matching Funds	8,500
	Public Facilities	Statewide	Wastewater Infrastructure Fund Program	15,000
	MHFA	Statewide	Public Housing Rehabilitation	5,500
	Historical Society	Statewide	Historic Sites Asset Preservation	2,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Historical Society	Statewide	County and Local Preservation Grants	750
	MMB	Statewide	Bond Sale Expenses	560
Special Session 2012, Chapter 1				
	Public Safety	Statewide	State Match for Public Assistance	2,285
	Transportation	Statewide	Local Road and Bridges	30,000
	Public Facilities Auth.	Statewide	Disaster Relief Facilities Grants	6,000
	Natural Resources	Systemwide	Facility and Natural Resources Damage	6,855
	Natural Resources	Systemwide	Flood Hazard Mitigation Grants	9,000
	BWSR	Statewide	RIM Conservation Easements	1,500
	MMB	Statewide	Bond Sale Expense	61
	Transportation	Systemwide	State Trunk Highways and Bridges	35,000
	MMB	Statewide	Trunk Highway Bond Sale Expense	40
2013, Chapter 136				
	Natural Resources	Statewide	Flood Hazard Mitigation	20,000
	Administration	Capitol Complex	Capitol Renovation & Restoration	109,000
	Administration	Capitol Complex	Parking Facility	22,680
	Veterans Affairs	Minneapolis	Veterans Home Bldg 17 and Surrounding Area	18,935
	Public Facilities	Statewide	Clean and Drinking Water Matching Funds	8,000
	MMB	Statewide	Bond Sale Expenses	180

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SCHEDULE OF BONDS BEING REFUNDED

Various Purpose Refunding Bonds:

Proceeds of the Series 2013F Bonds will be used to refund the following bonds.

General Obligation State Various Purpose Bonds dated October 1, 2005**,** maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after October 1, 2016 will be called for redemption and prepayment on October 1, 2015 at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
10/01/2016	$13,145,000	5.000%	604129AL0
10/01/2017	13,145,000	5.000%	604129AM8
10/01/2018	13,145,000	5.000%	604129AN6
10/01/2019	13,145,000	5.000%	604129AP1
10/01/2020	13,145,000	5.000%	604129AQ9
10/01/2021	13,145,000	5.000%	604129AR7
10/01/2022	13,145,000	5.000%	604129AS5
10/01/2023	13,145,000	5.000%	604129AT3
10/01/2024	13,145,000	5.000%	604129AU0
10/01/2025	13,145,000	5.000%	604129AV8
Total	$131,450,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Various Purpose Bonds dated July 1, 2006**,** maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after June 1, 2017 will be called for redemption and prepayment on June 1, 2016 at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
06/01/2017	$12,180,000	5.000%	604129BR6
06/01/2018	12,180,000	5.000%	604129BS4
06/01/2019	12,180,000	5.000%	604129BT2
06/01/2020	12,180,000	5.000%	604129TU9
06/01/2021	12,180,000	5.000%	604129BV7
06/01/2022	12,180,000	5.000%	604129BW5
06/01/2023	12,180,000	5.000%	604129BX3
06/01/2024	12,180,000	5.000%	604129BY1
06/01/2025	12,180,000	5.000%	604129BZ8
06/01/2026	12,180,000	5.000%	604129CA2
Total	$121,800,000		

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General Obligation State Various Purpose Bonds dated November 1, 2006**,** maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2017 will be called for redemption and prepayment on November 1, 2016 at par plus accrued interest.

Maturing	**Principal Amount**	**Interest Rate**	**CUSIP***
11/01/2017	$14,075,000	5.000%	604129DC7
11/01/2018	14,075,000	5.000%	604129DD5
11/01/2019	14,075,000	5.000%	604129DE3
11/01/2020	14,075,000	5.000%	604129DF0
11/01/2021	14,075,000	5.000%	604129DG8
11/01/2022	14,075,000	5.000%	604129DH6
11/01/2023	14,075,000	5.000%	604129DJ2
11/01/2024	14,075,000	5.000%	604129DK9
11/01/2025	14,075,000	5.000%	604129DL7
11/01/2026	14,075,000	5.000%	604129DM5
Total	$140,750,000		

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APPENDIX E

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

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APPENDIX E

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Minnesota Share of U.S.	% Change U.S.	% Change Minnesota
Census (April 1)					
2000	281,425	4,920	1.75 %	-	-
2010	308,746	5,304	1.72	-	-
Intercensal Population Estimates (July 1)					
2000	282,162	4,934	1.75 %	1.1 %	1.2 %
2001	284,969	4,983	1.75	1.0	1.0
2002	287,625	5,019	1.74	0.9	0.7
2003	290,108	5,054	1.74	0.9	0.7
2004	292,805	5,088	1.74	0.9	0.7
2005	295,517	5,120	1.73	0.9	0.6
2006	298,380	5,164	1.73	1.0	0.9
2007	301,231	5,207	1.73	1.0	0.8
2008	304,094	5,247	1.73	1.0	0.8
2009	306,772	5,281	1.72	0.9	0.7
2010	309,326	5,311	1.72	0.8	0.6
2011	311,588	5,347	1.72	0.7	0.6
2012	313,914	5,379	1.71	0.7	0.6

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff in June 2013.

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NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2012
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Total Private	2,315.7	84.9	111,822	83.6
Goods-Producing	407.1	14.9	18,410	13.8
Mining and Logging	7.0	0.3	851	0.6
Construction	94.7	3.5	5,641	4.2
Manufacturing Durables	194.2	7.1	7,462	5.6
Manufacturing Non-Durables	111.2	4.1	4,456	3.3
Private Service Providing	1,908.6	70.0	93,411	69.8
Wholesale Trade	128.9	4.7	5,673	4.2
Retail Trade	282.7	10.4	14,875	11.1
Transportation, Warehousing, Utilities	91.7	3.4	4,969	3.7
Information	53.7	2.0	2,678	2.0
Financial Activities	177.1	6.5	7,786	5.8
Professional and Business Services	336.3	12.3	17,930	13.4
Education and Health Services	478.0	17.5	20,319	15.2
Leisure and Hospitality	244.3	9.0	13,746	10.3
Other Services	116.1	4.3	5,437	4.1
Government	411.8	15.1	21,917	16.4
Total (Non-Farm)	**2,727.5**	**100.0**	**133,739**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Data extracted by MMB staff June 2013.

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EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2012
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Wood Products	10.5	5.4	338	4.5
Fabricated Metal Products	41.2	21.2	1,411	18.9
Machinery	31.9	16.4	1,098	14.7
Computers and Electronic Products	45.7	23.5	1,094	14.7
Transportation Equipment	10.3	5.3	1,456	19.5
Medical Equipment and Supplies	15.7	8.1	311	4.2
Other Durables	38.8	20.0	1,754	23.5
Total Durable Goods Manufacturing	194.2	100.0	7,462	100.0

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Data extracted by MMB staff June 2013.

EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2012
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	44.4	39.9	1,469	33.0
Paper Mfg., & Printing and Related	33.8	30.4	841	18.9
Other Non-Durables	33.0	29.6	2,146	48.2
Total Non-Durable Goods	111.2	100.0	4,456	100.0

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Data extracted by MMB staff June 2013.

NON-FARM EMPLOYMENT-MIX OF UNITED STATES AND MINNESOTA: 1990, 2000 AND 2010
(Thousands of Jobs)

	Minnesota					United States				
				%Change					% Change	
Category	**1990**	**2000**	**2010**	**90-00**	**00-10**	**1990**	**2000**	**2010**	**90-00**	**00-10**
Total Private	1,788.0	2,277.3	2,224.7	27.4	(2.3)	91,072	111,091	107,427	22.0	(3.3)
Goods-Producing	427.8	523.5	386.3	22.4	(26.2)	23,723	24,649	17,751	3.9	(28.0)
Mining and Logging	8.4	8.1	6.0	(3.6)	(26.3)	765	599	705	(21.7)	17.7
Construction	77.9	118.8	87.6	52.5	(26.3)	5,263	6,787	5,518	29.0	(18.7)
Manufacturing Durables	217.2	255.4	183.4	17.6	(28.2)	10,737	10,877	7,064	1.3	(35.1)
Manufacturing Non-Durables	124.2	141.1	109.3	13.6	(22.5)	6,958	6,386	4,464	(8.2)	(30.1)
Private Service Providing	1,360.2	1,753.7	1,838.45	28.9	4.8	67,349	86,442	89,676	28.2	3.7
Wholesale Trade	106.6	129.0	123.2	21.0	(4.5)	5,268	5,933	5,452	12.6	(8.1)
Retail Trade	255.8	307.1	277.1	20.1	(9.8)	13,182	15,280	14,440	15.9	(5.5)
Transportation, Warehousing, Utilities	85.8	103.3	89.7	20.4	(13.1)	4,216	5,012	4,744	18.9	(5.3)
Information	54.3	69.2	54.1	27.4	(21.8)	2,688	3,630	2,707	35.0	(25.4)
Financial Activities	129.3	164.8	172.5	27.5	4.7	6,614	7,783	7,695	17.7	(1.1)
Professional and Business Services	214.5	319.2	314.0	48.8	(1.6)	10,848	16,666	16,728	53.6	0.4
Education and Health Services	241.8	324.5	458.4	34.2	41.3	10,984	15,109	19,531	37.6	29.3
Leisure and Hospitality	180.5	221.6	235.2	22.8	6.1	9,288	11,862	13,049	27.7	10.0
Other Services	91.3	114.6	114.1	25.5	(0.5)	4,261	5,168	5,331	21.3	3.2
Government	347.9	407.6	416.5	17.2	2.2	18,415	20,790	22,490	12.9	8.2
Total (Non-Farm)	**2,135.9**	**2,684.9**	**2,641.2**	**25.7**	**(1.6)**	**109,487**	**131,881**	**129,917**	**20.45**	**(1.5)**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.
Data extracted by MMB staff June 2013.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1995	$24,144	$23,262	103.8 %
1996	$25,871	$24,442	105.89
1997	$27,095	$25,654	105.6
1998	$29,273	$27,258	107.4
1999	$30,562	$28,333	107.9
2000	$32,599	$30,319	107.5
2001	$33,348	$31,157	107.0
2002	$34,071	$31,481	108.2
2003	$35,252	$32,295	109.2
2004	$37,017	$33,909	109.2
2005	$37,892	$35,452	106.9
2006	$39,867	$37,725	105.7
2007	$41,642	$39,506	105.4
2008	$43,466	$40,947	106.2
2009	$40,950	$38,637	106.0
2010	$42,528	$39,791	106.9
2011	$44,539	$41,561	107.2
2012p	$46,227	$42,693	108.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2013.
Note: Per capita personal income is total personal income divided by total midyear population estimates of the Census Bureau.
Note: Current dollars (not adjusted for inflation).

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PERSONAL INCOME GROWTH AND RESIDENT POPULATION IN TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2010

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Growth Rank 1990-2000	2010 Personal Income (Millions)	2000-2010 Annual Compound Rate of Increase (%)	Regional Growth Rank 2000-2010	2000 Census Population (Thousands)	2000 Per Capita Personal Income ($)	2000 Regional Rank	2010 Census Population (Thousands)	2010 Per Capita Personal Income ($)	2010 Regional Rank
Illinois	$238,635	$405,919	5.5	8	$539,680	2.9	9	12,419	$32,685	2	12,831	$42,062	3
Indiana	$97,005	$167,276	5.6	6	$220,866	2.8	10	6,080	$27,510	9	6,484	$34,064	12
Iowa	$48,250	$79,920	5.2	10	$115,548	3.8	4	2,926	$27,311	10	3,046	$37,930	8
Kansas	$44,750	$76,684	5.5	7	$110,205	3.7	5	2,688	$28,524	7	2,853	$38,626	6
Michigan	$174,296	$292,606	5.3	9	$339,044	1.5	12	9,938	$29,442	3	9,884	$34,304	11
Minnesota	$86,524	$160,833	6.4	1	$225,853	3.5	6	4,919	$32,693	1	5,304	$42,582	2
Missouri	$90,177	$156,359	5.7	4	$218,278	3.4	7	5,595	$27,945	8	5,989	$36,447	9
Nebraska	$28,388	$48,998	5.6	5	$72,190	4.0	3	1,711	$28,633	6	1,826	$39,527	5
North Dakota	$10,117	$16,430	5.0	11	$28,646	5.7	1	642	$25,584	12	673	$42,591	1
Ohio	$202,486	$326,075	4.9	12	$414,567	2.4	11	11,353	$28,721	5	11,537	$35,935	10
South Dakota	$11,206	$19,970	5.9	2	$32,303	4.9	2	755	$26,456	11	814	$39,675	4
Wisconsin	$88,213	$156,603	5.9	3	$216,339	3.3	8	5,364	$29,197	4	5,687	$38,041	7

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2013.
Note: Per capita personal income is total personal income divided by Census population.
Note: Current dollars (not adjusted for inflation).

PERSONAL INCOME GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2011-2012

Growth Rank	State	2011 Personal Income (Millions)	2012 Personal Income (Millions)	Percent Growth
1	North Dakota	$32,306	$36,306	12.4
2	Minnesota	$238,166	$248,663	4.4
3	Ohio	$436,818	$453,556	3.8
4	Indiana	$232,586	$241,243	3.7
5	Michigan	$358,152	$370,599	3.5
6	Missouri	$228,218	$235,154	3.0
7	Kansas	$117,386	$120,732	2.9
8	Iowa	$126,032	$129,503	2.8
9	Wisconsin	$226,042	$232,129	2.7
10	Illinois	$562,662	$577,008	2.5
11	Nebraska	$78,220	$80,052	2.3
12	South Dakota	$36,439	$36,384	-0.2
	Region	$2,673,026	$2,761,330	3.3

Note: Columns may not add due to rounding
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi
Data extracted by MMB staff June 2013.
Note: Current dollars (not adjusted for inflation).

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION
(Thousands of Jobs)

State	1990 Employment (Thousands of Jobs)	2000 Employment (Thousands of Jobs)	1990 – 2000 Percent Increase	Regional Growth Rank 1990-2000	2010 Employment (Thousands of Jobs)	2000 - 2010Percent Increase	Regional Growth Rank 2000-2010
Illinois	5,288	6,045	14.3%	12	5,613	(7.1)	10
Indiana	2,522	3,000	19.0	8	2,796	(6.8)	9
Iowa	1,226	1,479	20.6	7	1,469	(0.6)	4
Kansas	1,092	1,346	23.3	6	1,329	(1.3)	5
Michigan	3,946	4,676	18.5	9	3,863	(17.4)	12
Minnesota	2,136	2,685	25.7	2	2,641	(1.6)	6
Missouri	2,345	2,749	17.2	10	2,650	(3.6)	7
Nebraska	731	911	24.6	3	940	3.3	3
North Dakota	266	328	23.3	5	376	14.8	1
Ohio	4,882	5,625	15.2	11	5,029	(10.6)	11
South Dakota	289	378	31.0	1	403	6.7	2
Wisconsin	2,292	2,834	23.7	4	2,729	(3.7)	8
Region	27,014	32,054	18.7		29,839	(6.9)	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2013.

NON-FARM EMPLOYMENT GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2010-2012

State	2010 Employment (Thousands of Jobs)	2011 Employment (Thousands of Jobs)	2010-2011 Percent Increase	Regional Growth Rank 2010-2011	2012 Employment (Thousands of Jobs)	2011-2012 Percent Increase	Regional Growth Rank 2011-2012
Illinois	5,613	5,677	1.1	7	5,744	1.2	10
Indiana	2,796	2,841	1.6	4	2,902	2.1	2
Iowa	1,469	1,486	1.1	6	1,508	1.5	6
Kansas	1,329	1,340	0.8	10	1,358	1.4	9
Michigan	3,863	3,952	2.3	2	4,024	1.8	3
Minnesota	2,641	2,689	1.8	3	2,728	1.5	7
Missouri	2,650	2,656	0.2	12	2,669	0.5	12
Nebraska	940	947	0.7	11	960	1.4	8
North Dakota	376	397	5.5	1	430	8.3	1
Ohio	5,029	5,093	1.3	5	5,171	1.5	5
South Dakota	403	408	1.1	9	414	1.6	4
Wisconsin	2,729	2,759	1.1	8	2,785	0.9	11
Region	29,839	30,243	1.4		30,694	1.5	

Note: Columns may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2013.

MINNESOTA & UNITED STATES UNEMPLOYMENT RATES
(Percent)

	Annual Average	
Year	Minnesota	U.S.
2000	3.1%	4.0%
2001	3.9	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.6	5.5
2005	4.2	5.1
2006	4.1	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	8.0	9.3
2010	7.4	9.6
2011	6.5	9.0
2012	5.7	8.1
	Monthly Figures (Seasonally Adjusted)	
Month	Minnesota	U.S.
2012		
January	5.7%	8.3%
February	5.7	8.3
March	5.7	8.2
April	5.6	8.1
May	5.7	8.2
June	5.7	8.2
July	5.8	8.3
August	5.7	8.1
September	5.6	7.8
October	5.6	7.9
November	5.5	7.8
December	5.4	7.8
2013		
January	5.5	7.9
February	5.5	7.7
March	5.4	7.6
April	5.3	7.5
May	5.3	7.6
June	5.2	7.6
July	5.2	7.4
August	5.1	7.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi/tools/laus.
Data extracted by MMB staff September 2013.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2012	Rank 2011	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Rank
17	22	UnitedHealth Group	$ 101,618,000	$ 80,885,000	$ 5,526,000	Health Care: Insurance & Managed Care	1
36	38	Target	$ 73,301,000	$ 48,163,000	$ 2,999,000	General Merchandisers	2
61	53	Best Buy	$ 45,087,000	$ 16,787,000	$ (441,000)	Specialty Retailers: Other	4
69	78	Cenex Harvest States (CHS)	$ 40,599,300	$ 13,423,200	$ 1,260,600	Wholesalers: Food & Grocery	2
86	75	Supervalu	$ 36,100,000	$ 12,053,000	$ (1,040,000)	Food & Drug Stores	5
101	102	Minnesota Mining & Mfg. (3M)	$ 29,904,000	$ 33,876,000	$ 4,444,000	Miscellaneous	1
132	132	U.S. Bancorp	$ 22,202,000	$ 353,855,000	$ 5,647,000	Commercial Banks	9
169	181	General Mills	$ 16,657,900	$ 21,096,800	$ 1,567,300	Food Consumer Products	4
172	164	Medtronic	$ 16,507,000	$ 33,083,000	$ 3,617,000	Medical Products & Equipment	1
194	210	Land O'Lakes	$ 14,116,200	$ 6,356,700	$ 240,400	Food Consumer Products	6
229	365	Ecolab	$ 11,838,700	$ 17,572,300	$ 703,600	Chemicals	5
237	259	C.H. Robinson Worldwide	$ 11,359,100	$ 2,804,200	$ 593,800	Transportation & Logistics	1
246	268	Mosaic	$ 11,107,800	$ 16,690,400	$ 1,930,200	Chemicals	8
263	248	Ameriprise Financial	$ 10,259,000	$ 134,729,000	$ 1,029,000	Diversified Financials	6
266	246	Xcel Energy	$ 10,128,200	$ 31,140,700	$ 905,200	Utilities: Gas & Electric	14
319	327	Hormel Foods	$ 8,230,700	$ 4,564,000	$ 500,100	Food Consumer Products	11
325	332	Thrivent Financial for Lutherans	$ 8,018,400	$ 71,584,600	$ 487,600	Insurance: Life, Health (Mutual)	6
457	437	St. Jude Medical	$ 5,503,000	$ 9,271,000	$ 752,000	Medical Products & Equipment	6
500	498	Nash Finch	$ 4,820,800	$ 1,003,600	$ (93,900)	Wholesalers: Food & Grocery	6

Source: Fortune Magazine, dated May 6, 2013.

APPENDIX F
STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2012

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APPENDIX F

SELECTED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Table of Contents

BASIC FINANCIAL STATEMENTS

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O L A OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. James Schowalter, Commissioner, Minnesota Management and Budget

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, 2012, 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 represents 76 percent, 76 percent, and 23 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, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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E-mail: legislative.auditor@state.mn.us • Web Site: www.auditor.leg.state.mn.us • Minnesota Relay: 1-800-627-3529 or 7-1-1

The financial statements contained in this report are late. By state law, the Minnesota Department of Management and Budget is required to issue the State of Minnesota's financial statements by December 31 of each year. According to the department, the implementation of a new accounting system in July 2011 resulted in it being unable to produce timely financial statements for fiscal year 2012. This late release of the state's financial statements not only creates concern about legal compliance, it also diminishes the value of the information in the statements.

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, CISA
Deputy Legislative Auditor

March 20, 2013

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2012 Comprehensive Annual Financial Report

Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2012, 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.

Component Units

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. Discretely presented component units are shown separately from the primary government. 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 has one blended component unit, the Tobacco Securitization Authority, that is shown as a nonmajor special revenue fund.

The state's nine other component units are reported as discretely presented component units and 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 six 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

- 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.

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 23 individual state governmental funds, plus the blended component unit discussed above. 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 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 majority of the activity reported in the General Fund. A budgetary comparison statement has been provided for the General Fund activity with appropriations included in the biennial budget 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 16 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in net assets. Information from the 8 nonmajor enterprise funds and the 6 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 21 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which account 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 discretely presented 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 discretely presented component units' statements of net assets and statements of changes in net assets provide detail for each major discretely presented component unit and aggregate the detail for nonmajor discretely presented component units. Individual nonmajor discretely presented component unit detail can be found in the combining financial statements included in this report. The state's blended component unit is included in a combined single, aggregated column for nonmajor governmental funds. Individual fund data for this blended component unit is provided in the form of combining statements for nonmajor governmental funds 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, 2012, by $13.1 billion (presented as net assets). Of this amount, a deficit of $2.8 billion was reported as unrestricted net assets. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

- The state's total net assets increased by $993 million (8.2 percent) during fiscal year 2012. Net assets of governmental activities increased by $277 million (2.7 percent), while net assets of the business-type activities showed an increase of $716 million (37.4 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 $4.2 billion, an increase of $548 million compared to the prior year. Included in the ending fund balance is a General Fund unassigned deficit of $887 million. 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 $292 million (3.3 percent) during the current fiscal year. The increase is primarily a result of the state issuing tobacco settlement revenue bonds for the Tobacco Securitization Authority (blended component unit). This increase was offset by a decrease in loans in the Unemployment Insurance Fund (enterprise fund) due to the payoff of cash advances to the U.S. Treasury for unemployment benefits.

Government-wide Financial Analysis

As noted earlier, net assets serve as a useful indicator of a government's financial position over time. The state's combined net assets (governmental and business-type activities) totaled $13.1 billion at the end of fiscal year 2012, compared to $12.1 billion at the end of the previous year.

Net Assets
June 30, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current Assets[1]	$ 11,255,905	$ 10,303,270	$ 1,735,427	$ 1,545,363	$ 12,991,332	$ 11,848,633
Noncurrent Assets:						
Capital Assets[1]	12,791,184	12,375,682	2,004,524	1,906,660	14,795,708	14,282,342
Other Assets[1]	853,032	828,448	123,406	176,380	976,438	1,004,828
Total Assets	$ 24,900,121	$ 23,507,400	$ 3,863,357	$ 3,628,403	$ 28,763,478	$ 27,135,803
Current Liabilities	$ 6,709,396	$ 6,476,809	$ 368,881	$ 700,861	$ 7,078,277	$ 7,177,670
Noncurrent Liabilities	7,702,030	6,819,172	865,048	1,014,010	8,567,078	7,833,182
Total Liabilities	$ 14,411,426	$ 13,295,981	$ 1,233,929	$ 1,714,871	$ 15,645,355	$ 15,010,852
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt[1]	$ 9,773,122	$ 9,166,460	$ 1,383,762	$ 1,352,739	$ 11,156,884	$ 10,519,199
Restricted[1]	3,546,397	3,379,428	1,252,075	643,700	4,798,472	4,023,128
Unrestricted[1]	(2,830,824)	(2,334,469)	(6,409)	(82,907)	(2,837,233)	(2,417,376)
Total Net Assets	$ 10,488,695	$ 10,211,419	$ 2,629,428	$ 1,913,532	$ 13,118,123	$ 12,124,951

[1] 2011 has been restated to be consistent with 2012 presentation.

The largest portion, $11.1 billion of $13.1 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $4.8 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. Additional information on the state's net asset restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net assets balance represents a deficit in unrestricted net assets of $2.8 billion. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the noncapital portion of net assets for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased $993 million (8.2 percent) over the course of this fiscal year. This resulted from a $277 million (2.7 percent) increase in net assets of governmental activities, and a $716 million (37.4 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2012 and 2011
(In Thousands)

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011
Revenues:						
Program Revenues:						
Charges for Services	$ 1,296,943	$ 1,304,245	$ 3,088,037	$ 2,827,867	$ 4,384,980	$ 4,132,112
Operating Grants and Contributions	8,410,311	9,398,609	1,113,581	1,697,323	9,523,892	11,095,932
Capital Grants	135,113	202,285	-	1,515	135,113	203,800
General Revenues:						
Individual Income Taxes	8,409,530	7,883,583	-	-	8,409,530	7,883,583
Corporate Income Taxes	953,428	1,204,521	-	-	953,428	1,204,521
Sales Taxes	4,849,514	4,760,684	-	-	4,849,514	4,760,684
Property Taxes	809,044	771,020	-	-	809,044	771,020
Motor Vehicle Taxes	1,150,343	1,074,769	-	-	1,150,343	1,074,769
Fuel Taxes	849,955	851,245	-	-	849,955	851,245
Other Taxes	2,253,625	2,192,739	-	-	2,253,625	2,192,739
Tobacco Settlement	166,154	172,207	-	-	166,154	172,207
Investment/Interest Income	12,873	19,836	6,567	7,058	19,440	26,894
Other Revenues	94,707	139,406	12,134	18,765	106,841	158,171
Total Revenues	$ 29,391,540	$ 29,975,149	$ 4,220,319	$ 4,552,528	$ 33,611,859	$ 34,527,677
Expenses:						
Agricultural, Environmental and Energy Resources	$ 916,001	$ 969,947	$ -	$ -	$ 916,001	$ 969,947
Economic and Workforce Development	543,680	695,050	-	-	543,680	695,050
General Education	7,890,863	7,499,159	-	-	7,890,863	7,499,159
General Government	856,328	832,859	-	-	856,328	832,859
Health and Human Services	12,487,762	12,274,181	-	-	12,487,762	12,274,181
Higher Education	778,389	892,921	-	-	778,389	892,921
Intergovernmental Aid	1,358,521	1,339,943	-	-	1,358,521	1,339,943
Public Safety and Corrections	952,585	976,261	-	-	952,585	976,261
Transportation	2,343,031	2,897,408	-	-	2,343,031	2,897,408
Interest	506,909	322,773	-	-	506,909	322,773
State Colleges and Universities	-	-	1,816,268	1,903,985	1,816,268	1,903,985
Unemployment Insurance	-	-	1,490,943	2,228,405	1,490,943	2,228,405
Lottery	-	-	396,590	382,759	396,590	382,759
Other	-	-	280,817	269,880	280,817	269,880
Total Expenses	$ 28,634,069	$ 28,700,502	$ 3,984,618	$ 4,785,029	$ 32,618,687	$ 33,485,531
Excess (Deficiency) Before Transfers	$ 757,471	$ 1,274,647	$ 235,701	$ (232,501)	$ 993,172	$ 1,042,146
Transfers	(480,195)	(584,171)	480,195	584,171	-	-
Change in Net Assets	$ 277,276	$ 690,476	$ 715,896	$ 351,670	$ 993,172	$ 1,042,146
Net Assets, Beginning[1]	$ 10,211,419	$ 9,520,943	$ 1,913,532	$ 1,561,862	$ 12,124,951	$ 11,082,805
Net Assets, Ending	$ 10,488,695	$ 10,211,419	$ 2,629,428	$ 1,913,532	$ 13,118,123	$ 12,124,951

[1] 2011 has been restated to be consistent with 2012 presentation.

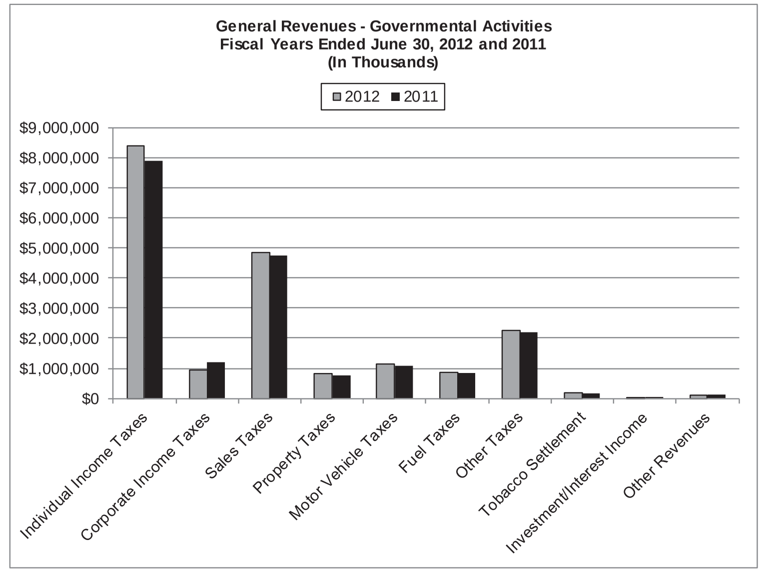
Approximately 57 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 1 percent came from other general revenues.

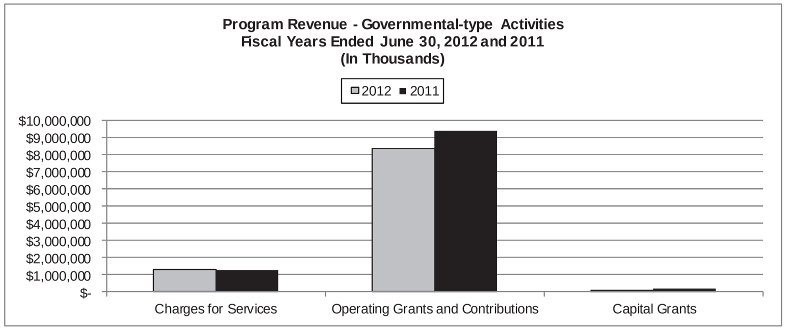
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

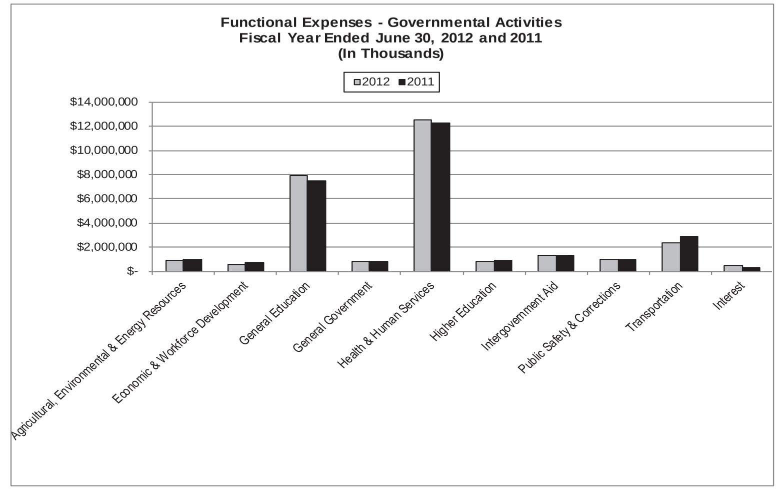
Governmental activities increased the state's net assets by $277 million compared to an increase of $690 million in the prior year.

There was a net decrease in revenues compared to the prior year. The decrease in revenue was primarily attributable to a decrease in federal program revenues related to the American Recovery and Reinvestment Act (ARRA). These decreases were partially offset by the increase in income and sales taxes as a result of the strengthening economy after an economic downturn.



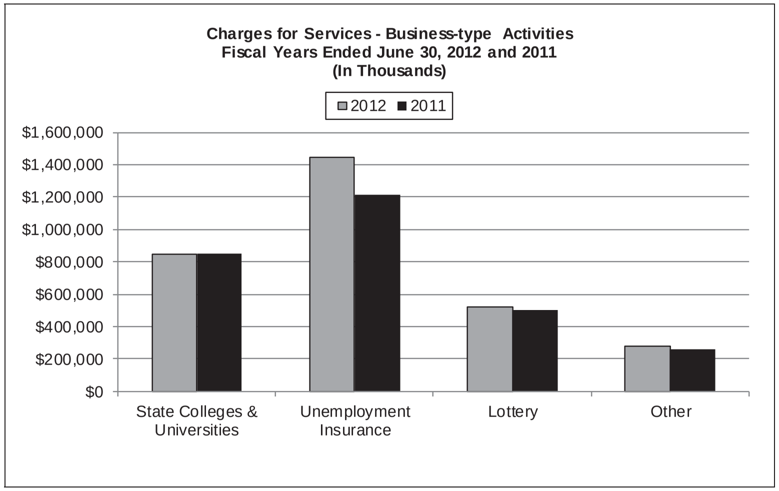


There was a slight decrease in functional expenses compared to the prior year. The decrease in transportation expense related to smaller grants to counties and cities as well as a one-time grant to Metropolitan Council (component unit). This grant was a result of the state transferring title of state-owned capital assets associated with the Northstar Commuter Rail project in the prior year. The decrease in higher education expense is due to a decrease in grants to the University of Minnesota (component unit), while the decrease in agricultural, environmental and energy resources expense is attributable to the reduction in grants from the federal government as the American Recovery and Reinvestment Act (ARRA) ended. The decrease in economic and workforce development expense is due to a decrease in grants for capital projects. These decreases were offset by an increase in state general education aid due to an increase of $50 per pupil as well as a slight increase of pupils.



Business-type Activities

Net assets for the state's proprietary funds increased by $716 million during the current year. This primarily resulted from a $122 million increase in net assets in the State Colleges and Universities Fund and a $597 million increase in net assets in the Unemployment Insurance Fund. The increase in net assets in the State Colleges and Universities Fund is consistent with the increase in net assets in the prior year. Both tuition and fee revenue and operating expenses increased due to an increase in the number of students enrolled, while federal grants decreased due to the ending of the funds received under the American Recovery and Reinvestment Act during fiscal year 2011. As a result of the continued strengthening economy, the Unemployment Insurance Fund had significant reductions in benefits paid during the current year as applicants transitioned to other programs, found employment, or were no longer eligible to receive benefits. In addition, insurance premiums increased due to a higher tax base and tax rates. These increases in net assets were partially offset by decreases in grants and subsidies as certain federal programs ended and the state no longer qualified for other programs as the unemployment rate decreased.



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 unassigned 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 $4.2 billion, an increase of $548 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 unassigned fund balance of the General Fund was a deficit of $887 million, a decrease in the unassigned fund balance of $125 million during the current year.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund; however, the changes in federal grants related to ARRA grants shifted some expenditures back to the General Fund from the Federal Fund (special revenue fund) in the Human Services function. As previously noted, the transportation expenditures decrease related to decreased grants to counties and cities, while higher education expenditures decrease related to decreased grants to the University of Minnesota (component unit). In addition, general government expenditures decreased due to reductions to most general government agencies. These decreases were offset by increases in state general education aid due to an increase of $50 per pupil as well as a slight increase in pupils.

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 $716 million during the current year. This primarily resulted from a $122 million increase in net assets of the State Colleges and Universities Fund and an increase of $597 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

General Fund Budgetary Highlights

Several significant economic forecast and budget actions occurred prior to and during fiscal year 2012. These are material to understanding changes in General Fund balances that occurred in fiscal year 2012. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 16A.152, require that the budget be balanced for the biennium. The following includes actions taken by the Minnesota Legislature and the Governor affecting fiscal year 2012.

Actions Establishing the Fiscal Year 2012 Budget

The February 2011 forecast projected a $5.028 billion deficit for the fiscal year 2012-13 biennium. This was an improvement from the November 2010 forecast projection, which was a $6.2 billion shortfall for the biennium.

The 2011 Legislative Session ended on the constitutional deadline without a budget agreement between the legislature and governor for the majority of state programs. The only budget bill enacted prior to the end of the regular session was Agriculture. This subsequently led to a 21-day state government shutdown of all activities deemed non-essential by the courts, including the temporary layoff of 19,000 state employees. In July 2011, the legislature and governor reached agreement on the fiscal year 2012-13 biennial budget and passed legislation ending the 21-day shutdown. The budget compromise for the fiscal year 2012-13 budget was balanced primarily through spending reductions, payment shifts, reductions to reserves, and use of the proceeds from bonds secured by tobacco settlement revenue to reduce debt service obligations.

Nearly two-thirds of the budget solution reflected one-time actions. These actions included the deferral of the repayment of the fiscal year 2010-11 K-12 school payment shift for a savings of $1.4 billion, extending and increasing the K-12 payment shift from 30 percent to 40 percent for a savings of $715 million, using proceeds from bonds secured by tobacco settlement revenue for a savings of $640 million, transfers from other funds in the amount of $174 million, one-time expenditure reductions totaling $135 million, and a reduction in the cash flow and budget reserves of $180 million. The remaining solution was primarily in permanent expenditure reductions totaling $1.977 billion.

Limited new spending was also included in the budget solution totaling $421 million, which included an increase to the general education per pupil formula by $50 each year.

Budget Actions during Fiscal Year 2012

The November 2011 forecast improved the budget outlook by creating an $876 million forecast balance driven by increased (1.2 percent) revenue projections and decreased spending primarily in human services programs. Current law directed this balance to restoring budget reserves. In February 2012, an additional forecast balance of $323 million was projected as a result of increased (0.3 percent) revenue projections and decreased (0.7 percent) spending. Of this amount, $5 million was added to the budget reserve, bringing the balance to $653 million, and $318 million was directed to reducing the school aid payment shift.

The 2012 legislative session resulted in minor adjustments to the fiscal year 2012-13 biennial budget. The major action taken during the 2012 session was the authorization of the construction of a new Vikings football stadium for a total project cost of $975 million. The state share of the project is $348 million, with costs to be offset by new tax revenues on expanded charitable gambling, electronic pull tabs, and bingo. A stadium reserve in the General Fund was created from these projected revenues.

In addition to the Vikings stadium, the legislature also approved a bonding bill totaling $550 million, of which $196 million is for higher education, $131 million is for economic development, and $97 million is for the environment.

Budget and GAAP Based Financial Outlook

Minnesota budgets and manages its financial affairs on a budgetary basis, which primarily uses a cash basis of accounting. Revenues are recorded when received and expenditures are recorded when the payments are made, with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. GAAP requires that the modified accrual basis of accounting be used to prepare governmental fund statements. The modified accrual basis of accounting recognizes revenues when they become both measureable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Expenditures are recognized when a liability occurs.

On a budgetary basis, the state's General Fund ended fiscal year 2012 with a balance of $680 million. On a GAAP basis, the General Fund reported a deficit of $113 million for fiscal year 2012, a difference of $793 million from the budgetary General Fund balance. Additional information on the differences between the budgetary basis and the GAAP basis for the General Fund is included in Note 18 – Budgetary Basis vs. GAAP of the notes to the financial statements.

The November 2012 forecast resulted in a $1.330 billion budget balance for fiscal year 2012-13 which was allocated by law to repay the K-12 school payment shift. After this repayment, $1.1 billion remains to fully repay the payment shift. While the budget outlook for fiscal year 2012-13 improved, the November forecast continues to project a $1.095 billion shortfall for fiscal year 2014-15.

The February 2013 forecast showed increased revenue estimates of $217 million, decreased spending of $63 million, and a reduction to the stadium reserve of $15 million due to decreasing lawful gambling revenues from the November 2012 forecast. This resulted in a $295 million balance in the fiscal year 2012-13 biennium. Of this amount, $9 million was allocated to restore the budget reserve, $282 million was allocated to repaying the K-12 payment shift leaving $808 million of the shift still outstanding, and the remaining $4 million, after rounding to the nearest one tenth of a percent, was added to the budgetary reserve. The fiscal year 2014-15 outlook also improved with the budget shortfall dropping to $627 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, 2012, was $17.8 billion, less accumulated depreciation of $3.0 billion, resulting in a net book value of $14.8 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures, internally generated computer software, and equipment. 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, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Capital Assets not Depreciated:						
Land	$ 2,114,604	$ 2,048,043	$ 88,420	$ 88,009	$ 2,203,024	$ 2,136,052
Buildings, Structures, Improvements	30,768	29,909	-	-	30,768	29,909
Construction in Progress	265,193	235,108	192,153	105,162	457,346	340,270
Development in Progress	29,947	74,673	-	-	29,947	74,673
Infrastructure	8,097,607	7,842,775	-	-	8,097,607	7,842,775
Easements	324,203	311,003	-	-	324,203	311,003
Art and Historical Treasures	3,731	2,353	-	-	3,731	2,353
Total Capital Assets not Depreciated	$ 10,866,053	$ 10,543,864	$ 280,573	$ 193,171	$ 11,146,626	$ 10,737,035
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 2,551,589	$ 2,474,807	$ 2,835,261	$ 2,734,339	$ 5,386,850	$ 5,209,146
Infrastructure	167,869	160,683	-	-	167,869	160,683
Internally Generated Computer Software	67,010	396	15,695	14,923	82,705	15,319
Easements	4,090	4,090	-	-	4,090	4,090
Library Collections	-	-	46,124	47,167	46,124	47,167
Equipment, Furniture, Fixtures	619,178	599,734	333,557	334,709	952,735	934,443
Total Capital Assets Depreciated	$ 3,409,736	$ 3,239,710	$ 3,230,637	$ 3,131,138	$ 6,640,373	$ 6,370,848
Less: Accumulated Depreciation[1]	1,484,605	1,407,892	1,506,686	1,417,649	2,991,291	2,825,541
Capital Assets Net of Depreciation	$ 1,925,131	$ 1,831,818	$ 1,723,951	$ 1,713,489	$ 3,649,082	$ 3,545,307
Total	$ 12,791,184	$ 12,375,682	$ 2,004,524	$ 1,906,660	$ 14,795,708	$ 14,282,342

[1] 2011 has been restated to be consistent with 2012 presentation.

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 (MnDOT).

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 2011, 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 several years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2011, indicated that 95 percent of principal arterial system bridges and 91 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.

Prior Period Adjustment Governmental Activities: During fiscal year 2012, equipment accumulated depreciation decreased by $18.9 million. This decrease was attributable to a change in the method of depreciation to align with federal reporting on certain assets at MnDOT due to the conversion of capital assets into a new accounting system.

During the current year, the state continued to shift emphasis to pavement and bridge preservation and maintenance. The overall expenditures were under budget primarily due to the delay of currently planned capital projects that were originally budgeted.

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 were rated on June 30, 2012, as follows:

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

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

The Certificates of Participation were issued by the state to finance the statewide systems and integrated tax system.

The state's blended component unit, Tobacco Securitization Authority, issued revenue bonds which are payable solely from the state's tobacco settlement revenue.

Outstanding Bonded Debt and Unamortized Premium
June 30, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General Obligation	$ 5,772,034	$ 5,814,900	$ 249,636	$ 260,618	$ 6,021,670	$ 6,075,518
Revenue	794,574	12,055	431,952	375,409	1,226,526	387,464
Certificate of Participation	70,742	79,408	-	-	70,742	79,408
Total	$ 6,637,350	$ 5,906,363	$ 681,588	$ 636,027	$ 7,318,938	$ 6,542,390

During fiscal year 2012, the state issued the following bonds:

- $445.0 million in general obligation state various purpose bonds
- $320.0 million in general obligation state trunk highway bonds
- $4.0 million in general obligation Rural Finance Authority bonds
- $60.4 million in revenue bonds for a statewide 911 emergency response communication system

During fiscal year 2012, the state's blended component unit, Tobacco Securitization Authority, which is reported as part of the state's operations, issued the following bonds:

- $757.0 million in tobacco settlement revenue bonds

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 Minnesota Management and Budget, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 5,623,946	$ 1,101,687	$ 6,725,633	$ 948,579
Investments	1,524,732	26,442	1,551,174	877,072
Accounts Receivable	2,638,533	559,777	3,198,310	409,539
Due from Component Units	33,822	-	33,822	-
Due from Primary Government	-	-	-	52,850
Accrued Investment/Interest Income	18,917	-	18,917	45,140
Federal Aid Receivable	1,338,669	22,341	1,361,010	3,073
Inventories	35,945	21,553	57,498	51,745
Loans and Notes Receivable	28,229	6,453	34,682	434,056
Internal Balances	6,439	(6,439)	-	-
Securities Lending Collateral	-	-	-	1,877
Other Assets	6,673	3,613	10,286	79,296
Total Current Assets	$ 11,255,905	$ 1,735,427	$ 12,991,332	$ 2,903,227
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 97,607	$ 97,607	$ 785,616
Investments-Restricted	-	-	-	997,458
Accounts Receivable-Restricted	-	-	-	47,778
Due from Primary Government-Restricted	-	-	-	20,944
Other Assets-Restricted	-	62	62	1,476
Due from Primary Government	-	-	-	14,488
Due from Component Units	66,863	-	66,863	-
Investments	-	-	-	3,535,957
Accounts Receivable	541,198	-	541,198	506,669
Loans and Notes Receivable	226,928	25,737	252,665	4,251,407
Depreciable Capital Assets (Net)	1,925,131	1,723,951	3,649,082	4,949,288
Nondepreciable Capital Assets	2,768,446	280,573	3,049,019	1,098,742
Infrastructure (Not depreciated)	8,097,607	-	8,097,607	-
Other Assets	18,043	-	18,043	13,775
Deferred Loss on Interest Rate Swap Agreements	-	-	-	39,634
Total Noncurrent Assets	$ 13,644,216	$ 2,127,930	$ 15,772,146	$ 16,263,232
Total Assets	$ 24,900,121	$ 3,863,357	$ 28,763,478	$ 19,166,459
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 5,595,464	$ 220,876	$ 5,816,340	$ 262,259
Due to Component Units	10,261	-	10,261	-
Due to Primary Government	-	-	-	60,914
Unearned Revenue	557,320	62,360	619,680	98,155
Accrued Interest Payable	91,029	3,850	94,879	76,779
Bonds and Notes Payable	294,198	42,344	336,542	555,884
Capital Leases Payable	7,026	4,784	11,810	595
Certificates of Participation Payable	8,245	-	8,245	-
Claims Payable	112,497	3,122	115,619	64,203
Compensated Absences Payable	33,319	15,683	49,002	150,784
Securities Lending Liabilities	-	-	-	1,877
Other Liabilities	37	15,862	15,899	64,971
Total Current Liabilities	$ 6,709,396	$ 368,881	$ 7,078,277	$ 1,336,421
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 134,704
Unearned Revenue-Restricted	-	-	-	43,993
Accrued Interest Payable-Restricted	-	-	-	10,087
Due to Primary Government	-	-	-	66,863
Unearned Revenue	-	-	-	23,128
Bonds and Notes Payable	6,301,022	644,259	6,945,281	5,890,553
Due to Component Units	14,488	-	14,488	-
Capital Leases Payable	137,293	35,353	172,646	10,225
Certificates of Participation Payable	62,497	-	62,497	-
Claims Payable	676,706	3,815	680,521	551,754
Compensated Absences Payable	246,125	123,542	369,667	98,443
Other Postemployment Benefits	166,156	26,303	192,459	133,821
Net Pension Obligation	97,743	-	97,743	-
Funds Held in Trust	-	-	-	223,755
Other Liabilities	-	31,776	31,776	50,172
Interest Rate Swap Agreements	-	-	-	39,634
Total Noncurrent Liabilities	$ 7,702,030	$ 865,048	$ 8,567,078	$ 7,277,132
Total Liabilities	$ 14,411,426	$ 1,233,929	$ 15,645,355	$ 8,613,553

STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 9,773,122	$ 1,383,762	$ 11,156,884	$ 3,883,714
Restricted for:				
Agricultural, Environmental and Energy Resources	$ 1,079,853	$ -	$ 1,079,853	$ -
Arts and Cultural Heritage	21,542	-	21,542	-
Capital Projects	-	9,320	9,320	-
Debt Service	-	119,469	119,469	-
Economic and Workforce Development	127,118	1,352	128,470	-
General Education	62,642	-	62,642	-
General Government	41,449	-	41,449	-
Health and Human Services	6,566	14,017	20,583	-
Higher Education	-	506,964	506,964	-
Public Safety and Corrections	29,808	56,079	85,887	-
School Aid-Expendable	6,064	-	6,064	-
School Aid-Nonexpendable	856,747	-	856,747	-
Transportation	1,314,608	-	1,314,608	-
Unemployment Benefits	-	518,666	518,666	-
Other Purposes	-	26,208	26,208	-
Component Units	-	-	-	5,665,293
Total Restricted	$ 3,546,397	$ 1,252,075	$ 4,798,472	$ 5,665,293
Unrestricted	$ (2,830,824)	$ (6,409)	$ (2,837,233)	$ 1,003,899
Total Net Assets	$ 10,488,695	$ 2,629,428	$ 13,118,123	$ 10,552,906

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBU-TIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBU-TIONS	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:								
Agricultural, Environmental and Energy Resources	$ 916,001	$ 384,593	$ 258,525	$ 3,621	$ (269,262)		$ (269,262)	
Economic and Workforce Development	543,680	59,481	243,326	-	(240,873)		(240,873)	
General Education	7,890,863	23,418	714,254	-	(7,153,191)		(7,153,191)	
General Government	856,328	249,824	25,165	26	(581,313)		(581,313)	
Health and Human Services	12,487,762	399,963	6,369,736	-	(5,718,063)		(5,718,063)	
Higher Education	778,389	636	289	-	(777,464)		(777,464)	
Intergovernment Aid	1,358,521	-	-	-	(1,358,521)		(1,358,521)	
Public Safety and Corrections	952,585	159,882	150,776	-	(641,927)		(641,927)	
Transportation	2,343,031	19,146	648,240	131,466	(1,544,179)		(1,544,179)	
Interest	506,909	-	-	-	(506,909)		(506,909)	
Total Governmental Activities	$ 28,634,069	$ 1,296,943	$ 8,410,311	$ 135,113	$ (18,791,702)		$ (18,791,702)	
Business-type Activities:								
State Colleges and Universities	$ 1,816,268	$ 848,541	$ 476,609	$ -		$ (491,118)	$ (491,118)	
Unemployment Insurance	1,490,943	1,444,622	636,972	-		590,651	590,651	
Lottery	396,590	520,049	-	-		123,459	123,459	
Other	280,817	274,825	-	-		(5,992)	(5,992)	
Total Business-type Activities	$ 3,984,618	$ 3,088,037	$ 1,113,581	$ -		$ 217,000	$ 217,000	
Total Primary Government	$ 32,618,687	$ 4,384,980	$ 9,523,892	$ 135,113	$ (18,791,702)	$ 217,000	$ (18,574,702)	
Component Units:								
University of Minnesota	$ 3,347,344	$ 1,406,677	$ 971,550	$ 170,922				$ (798,195)
Metropolitan Council	836,063	327,241	143,660	529,095				163,933
Housing Finance	401,252	204,807	203,043	-				6,598
Others	370,002	139,405	55,725	-				(174,872)
Total Component Units	$ 4,954,661	$ 2,078,130	$ 1,373,978	$ 700,017				$ (802,536)
General Revenues:								
Taxes:								
Individual Income Taxes					$ 8,409,530	$ -	$ 8,409,530	$ -
Corporate Income Taxes					953,428	-	953,428	-
Sales Taxes					4,849,514	-	4,849,514	-
Property Taxes					809,044	-	809,044	-
Motor Vehicle Taxes					1,150,343	-	1,150,343	-
Fuel Taxes					849,955	-	849,955	-
Other Taxes					2,253,625	-	2,253,625	264,948
Tobacco Settlement					166,154	-	166,154	-
Unallocated Investment/Interest Income					12,873	6,567	19,440	87,344
Other Revenues					94,707	12,134	106,841	317,342
State Grants Not Restricted					-	-	-	827,337
Extraordinary Item					-	-	-	22,788
Transfers					(480,195)	480,195	-	-
Total General Revenues and Transfers					$ 19,068,978	$ 498,896	$ 19,567,874	$ 1,519,759
Change in Net Assets					$ 277,276	$ 715,896	$ 993,172	$ 717,223
Net Assets, Beginning, as Reported					$ 10,009,567	$ 1,913,532	$ 11,923,099	$ 9,848,302
Prior Period Adjustments					201,852	-	201,852	(12,619)
Net Assets, Beginning, as Restated					$ 10,211,419	$ 1,913,532	$ 12,124,951	$ 9,835,683
Net Assets, Ending					$ 10,488,695	$ 2,629,428	$ 13,118,123	$ 10,552,906

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 2,204,827	$ 10,416	$ 3,095,598	$ 5,310,841
Investments	513,765	-	990,295	1,504,060
Accounts Receivable	2,612,534	203,784	359,741	3,176,059
Interfund Receivables	281,281	9,638	250,078	540,997
Due from Component Unit	-	-	100,685	100,685
Accrued Investment/Interest Income	13,159	-	5,583	18,742
Federal Aid Receivable	144,734	1,103,903	90,032	1,338,669
Inventories	-	-	35,731	35,731
Loans and Notes Receivable	118,418	107	136,632	255,157
Advances to Other Funds	-	-	640,000	640,000
Prepaid Expense	-	-	1	1
Investment in Land	-	-	16,010	16,010
Total Assets	$ 5,888,718	$ 1,327,848	$ 5,720,386	$ 12,936,952
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 4,062,611	$ 1,041,677	$ 440,280	$ 5,544,568
Interfund Payables	92,858	246,534	195,230	534,622
Due to Component Unit	55	1,989	6,021	8,065
Deferred Revenue	1,846,059	37,525	140,075	2,023,659
Advances from Other Funds	-	-	640,000	640,000
Total Liabilities	$ 6,001,583	$ 1,327,725	$ 1,421,606	$ 8,750,914
Fund Balances:				
Nonspendable	$ 625,689	$ -	$ 892,478	$ 1,518,167
Restricted	148,483	123	2,299,920	2,448,526
Committed	-	-	561,628	561,628
Assigned	-	-	642,158	642,158
Unassigned	(887,037)	-	(97,404)	(984,441)
Total Fund Balances	$ (112,865)	$ 123	$ 4,298,780	$ 4,186,038
Total Liabilities and Fund Balances	$ 5,888,718	$ 1,327,848	$ 5,720,386	$ 12,936,952

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, 2012
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 4,186,038
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	$ 8,097,607	
Nondepreciable Capital Assets	2,752,436	
Depreciable Capital Assets	3,316,454	
Accumulated Depreciation	(1,424,548)	
Total Capital Assets		12,741,949
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		1,483,184
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		17,006
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		276,722
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accrued Interest Payable	$ (91,002)	
General Obligation Bonds Payable	(5,153,512)	
Revenue Bonds Payable	(768,130)	
Loans and Notes Payable	(10,160)	
Bond Premium Payable	(644,966)	
Due to Component Units	(16,684)	
Capital Leases Payable	(144,319)	
Certificate of Participation Payable	(65,555)	
Certificate of Participation Premium Payable	(5,187)	
Claims Payable	(779,685)	
Compensated Absences Payable	(273,677)	
Net Other Post-Employment Benefits Obligation	(165,584)	
Net Pension Obligation	(97,743)	
Total Liabilities		(8,216,204)
Net Assets of Governmental Activities		$ 10,488,695

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, 2012
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 8,267,608	$ -	$ -	$ 8,267,608
Corporate Income Taxes	996,524	-	-	996,524
Sales Taxes	4,574,768	-	296,270	4,871,038
Property Taxes	813,723	-	-	813,723
Motor Vehicle Taxes	220,065	-	930,278	1,150,343
Fuel Taxes	-	-	851,410	851,410
Other Taxes	1,464,448	-	768,632	2,233,080
Tobacco Settlement	166,861	-	-	166,861
Federal Revenues	546	7,784,059	483,968	8,268,573
Licenses and Fees	225,681	4,435	322,830	552,946
Departmental Services	171,451	13,883	219,293	404,627
Investment/Interest Income	38,282	122	97,844	136,248
Other Revenues	306,889	51,974	210,791	569,654
Net Revenues	$ 17,246,846	$ 7,854,473	$ 4,181,316	$ 29,282,635
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources	$ 204,553	$ 193,754	$ 506,006	$ 904,313
Economic and Workforce Development	118,676	237,472	232,699	588,847
General Education	7,171,507	641,531	72,073	7,885,111
General Government	628,869	13,033	100,752	742,654
Health and Human Services	5,644,629	6,242,132	580,566	12,467,327
Higher Education	712,363	317	65,278	777,958
Intergovernmental Aid	1,358,142	-	378	1,358,520
Public Safety and Corrections	546,974	163,567	183,317	893,858
Transportation	277,690	296,301	1,726,793	2,300,784
Total Current Expenditures	$ 16,663,403	$ 7,788,107	$ 3,467,862	$ 27,919,372
Capital Outlay	14,476	27,228	497,904	539,608
Debt Service	56,876	-	982,650	1,039,526
Total Expenditures	$ 16,734,755	$ 7,815,335	$ 4,948,416	$ 29,498,506
Excess of Revenues Over (Under) Expenditures	$ 512,091	$ 39,138	$ (767,100)	$ (215,871)
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 760,894	$ 760,894
Revenue Bond Issuance	-	-	756,955	756,955
Payment to Refunded Bonds Escrow Agent	-	-	(400,775)	(400,775)
Bond Issue Premium	-	-	142,273	142,273
Transfers-In	485,353	1,664	658,940	1,145,957
Transfers-Out	(1,099,056)	(40,802)	(501,639)	(1,641,497)
Net Other Financing Sources (Uses)	$ (613,703)	$ (39,138)	$ 1,416,648	$ 763,807
Net Change in Fund Balances	$ (101,612)	$ -	$ 649,548	$ 547,936
Fund Balances, Beginning, as Reported	$ (149,842)	$ 123	$ 3,649,232	$ 3,499,513
Prior Period Adjustment	138,589	-	-	138,589
Fund Balances, Beginning, as Restated	$ (11,253)	$ 123	$ 3,649,232	$ 3,638,102
Fund Balances, Ending	$ (112,865)	$ 123	$ 4,298,780	$ 4,186,038

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, 2012
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ 547,936
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 $108,217 in the current period	431,391
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	(18,430)
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	(41,617)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	79,075
Bond and loan proceeds provide current financial resources to governmental funds; however, issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(1,660,122)
Repayment of bonds, loans and capital leases are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	943,755
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	(4,712)
Change in Net Assets of Governmental Activities	$ 277,276

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, 2012
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 7,774,855	$ 7,876,600	$ 7,973,240
Corporate Income Taxes	852,135	946,800	1,046,142
Sales Taxes	4,656,262	4,633,229	4,657,734
Property Taxes	779,323	779,955	799,333
Motor Vehicle Taxes	205,650	221,263	223,726
Other Taxes	1,198,439	1,142,253	1,198,935
Tobacco Settlements	161,901	160,906	166,861
Departmental Services/Licenses and Fees	288,677	293,421	335,315
Investment/Interest Income	2,000	3,680	2,976
Other Revenues	360,891	354,540	306,116
Net Revenues	$ 16,280,133	$ 16,412,647	$ 16,710,378
Expenditures:			
Agricultural Environmental and Energy Resources	$ 166,073	$ 166,096	$ 157,729
Economic and Workforce Development	66,919	66,919	64,804
General Education	6,438,807	6,749,834	6,730,034
General Government	708,212	708,996	656,455
Health and Human Services	5,694,743	5,441,127	5,290,463
Higher Education	720,146	720,146	711,314
Intergovernment Aid	1,382,558	1,382,557	1,382,558
Public Safety and Corrections	574,077	574,208	555,242
Transportation	259,788	280,999	280,417
Total Expenditures	$ 16,011,323	$ 16,090,882	$ 15,829,016
Excess of Revenues Over (Under) Expenditures	$ 268,810	$ 321,765	$ 881,362
Other Financing Sources (Uses):			
Transfers-In	$ 455,603	$ 453,534	$ 499,148
Transfers-Out	(1,014,295)	(1,014,295)	(1,014,295)
Net Other Financing Sources (Uses)	$ (558,692)	$ (560,761)	$ (515,147)
Net Change in Fund Balances	$ (289,882)	$ (238,996)	$ 366,215
Fund Balances, Beginning, As Reported	$ 1,349,368	$ 1,349,368	$ 1,349,368
Prior Period Adjustments	-	-	175,003
Fund Balances, Beginning, as Restated	$ 1,349,368	$ 1,349,368	$ 1,524,371
Budgetary Fund Balances, Ending	$ 1,059,486	$ 1,110,372	$ 1,890,586
Less: Appropriation Carryover	-	-	164,067
Less: Reserved for Long-Term Receivables	-	-	38,883
Less: Budgetary Reserve	-	-	1,007,618
Undesignated Fund Balance, Ending	$ 1,059,486	$ 1,110,372	$ 680,018

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 809,730	$ 105,464	$ 186,493	$ 1,101,687	$ 313,105
Investments	26,442	-	-	26,442	20,672
Accounts Receivable	58,435	470,222	31,120	559,777	40,857
Interfund Receivables	26,965	-	2,223	29,188	-
Accrued Investment/Interest Income	-	-	-	-	175
Federal Aid Receivable	12,434	9,907	-	22,341	-
Inventories	14,562	-	6,991	21,553	214
Loans and Notes Receivable	6,453	-	-	6,453	-
Prepaid Expenses	1,372	-	943	2,315	6,672
Other Assets	-	-	1,298	1,298	-
Total Current Assets	$ 956,393	$ 585,593	$ 229,068	$ 1,771,054	$ 381,695
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 97,607	$ -	$ -	$ 97,607	$ -
Other Assets-Restricted	62	-	-	62	-
Loans and Notes Receivable	25,737	-	-	25,737	-
Depreciable Capital Assets (Net)	1,611,821	-	112,130	1,723,951	33,225
Nondepreciable Capital Assets	263,404	-	17,169	280,573	-
Prepaid Expenses	-	-	-	-	1,037
Total Noncurrent Assets	$ 1,998,631	$ -	$ 129,299	$ 2,127,930	$ 34,262
Total Assets	$ 2,955,024	$ 585,593	$ 358,367	$ 3,898,984	$ 415,957
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 154,294	$ 29,327	$ 37,255	$ 220,876	$ 88,017
Interfund Payables	-	14,494	21,133	35,627	-
Unearned Revenue	40,417	19,833	2,110	62,360	16,845
Accrued Interest Payable	-	3,273	577	3,850	27
Bonds and Notes Payable	30,645	-	11,699	42,344	7,586
Capital Leases Payable	4,599	-	185	4,784	-
Claims Payable	3,122	-	-	3,122	9,518
Compensated Absences Payable	14,235	-	1,448	15,683	562
Other Liabilities	15,862	-	-	15,862	37
Total Current Liabilities	$ 263,174	$ 66,927	$ 74,407	$ 404,508	$ 122,592
Noncurrent Liabilities:					
Bonds and Notes Payable	$ 491,282	$ -	$ 152,977	$ 644,259	$ 10,866
Capital Leases Payable	34,961	-	392	35,353	-
Claims Payable	3,815	-	-	3,815	-
Compensated Absences Payable	114,020	-	9,522	123,542	5,205
Other Postemployment Benefits	24,386	-	1,917	26,303	572
Other Liabilities	31,776	-	-	31,776	-
Total Noncurrent Liabilities	$ 700,240	$ -	$ 164,808	$ 865,048	$ 16,643
Total Liabilities	$ 963,414	$ 66,927	$ 239,215	$ 1,269,556	$ 139,235
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,355,857	$ -	$ 27,905	$ 1,383,762	$ 14,529
Restricted for:					
Bond Covenants	$ 72,625	$ -	$ -	$ 72,625	$ -
Capital Projects	9,320	-	-	9,320	-
Debt Service	46,844	-	-	46,844	-
Economic and Workforce Development	-	-	1,352	1,352	-
Health and Human Services	-	-	14,017	14,017	-
Higher Education	506,964	-	-	506,964	-
Public Safety and Corrections	-	-	56,079	56,079	-
Unemployment Benefits	-	518,666	-	518,666	-
Other Purposes	-	-	26,208	26,208	-
Total Restricted	$ 635,753	$ 518,666	$ 97,656	$ 1,252,075	$ -
Unrestricted	$ -	$ -	$ (6,409)	$ (6,409)	$ 262,193
Total Net Assets	$ 1,991,610	$ 518,666	$ 119,152	$ 2,629,428	$ 276,722

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, 2012
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 724,284	$ -	$ -	$ 724,284	$ -
Restricted Student Payments, Net	107,255	-	-	107,255	-
Net Sales	-	-	746,893	746,893	176,046
Insurance Premiums	-	1,393,733	45,021	1,438,754	684,012
Other Income	17,002	50,889	2,960	70,851	7,037
Total Operating Revenues	$ 848,541	$ 1,444,622	$ 794,874	$ 3,088,037	$ 867,095
Less: Cost of Goods Sold	-	-	390,318	390,318	-
Gross Margin	$ 848,541	$ 1,444,622	$ 404,556	$ 2,697,719	$ 867,095
Operating Expenses:					
Purchased Services	$ 210,875	$ -	$ 55,365	$ 266,240	$ 148,777
Salaries and Fringe Benefits	1,203,159	-	114,897	1,318,056	49,421
Student Financial Aid	34,931	-	-	34,931	-
Unemployment Benefits	-	1,477,200	-	1,477,200	-
Claims	-	-	36,609	36,609	648,311
Depreciation and Amortization	104,102	-	11,457	115,559	8,884
Supplies and Materials	149,088	-	17,742	166,830	9,265
Repairs and Maintenance	33,299	-	1,228	34,527	7,618
Indirect Costs	-	-	4,248	4,248	1,619
Other Expenses	47,057	-	6,908	53,965	524
Total Operating Expenses	$ 1,782,511	$ 1,477,200	$ 248,454	$ 3,508,165	$ 874,419
Operating Income (Loss)	$ (933,970)	$ (32,578)	$ 156,102	$ (810,446)	$ (7,324)
Nonoperating Revenues (Expenses):					
Investment Income	$ 5,463	$ 650	$ 454	$ 6,567	$ 2,114
Federal Grants	369,139	-	-	369,139	26
Private Grants	30,822	-	-	30,822	-
Grants and Subsidies	76,648	636,972	-	713,620	-
Other Nonoperating Revenues	-	12,259	194	12,453	-
Interest and Financing Costs	(22,526)	(6,579)	(7,260)	(36,365)	(319)
Grants, Aids and Subsidies	(11,231)	(7,164)	(23,400)	(41,795)	-
Other Nonoperating Expenses	-	-	(7,975)	(7,975)	(8,239)
Gain (Loss) on Disposal of Capital Assets	(496)	-	177	(319)	576
Total Nonoperating Revenues (Expenses)	$ 447,819	$ 636,138	$ (37,810)	$ 1,046,147	$ (5,842)
Income (Loss) Before Transfers and Contributions	$ (486,151)	$ 603,560	$ 118,292	$ 235,701	$ (13,166)
Capital Contributions	56,361	-	-	56,361	-
Transfers-In	551,293	-	3,799	555,092	45
Transfers-Out	-	(6,168)	(125,090)	(131,258)	(28,496)
Change in Net Assets	$ 121,503	$ 597,392	$ (2,999)	$ 715,896	$ (41,617)
Net Assets, Beginning, as Reported	$ 1,870,107	$ (78,726)	$ 122,151	$ 1,913,532	$ 318,339
Net Assets, Ending	$ 1,991,610	$ 518,666	$ 119,152	$ 2,629,428	$ 276,722

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 850,437	$ 1,429,999	$ 790,620	$ 3,071,056	$ 850,115
Receipts from Other Revenues	-	-	4,297	4,297	14,050
Receipts from Repayment of Program Loans	3,908	-	-	3,908	-
Financial Aid Disbursements	(35,384)	-	-	(35,384)	-
Payments to Claimants	-	(1,495,836)	(352,914)	(1,848,750)	(637,035)
Payments to Suppliers	(443,354)	-	(124,629)	(567,983)	(113,887)
Payments to Employees	(1,243,191)	-	(118,524)	(1,361,715)	(51,373)
Payments to Others	-	-	(41,519)	(41,519)	(61,426)
Payments of Program Loans	(3,828)	-	-	(3,828)	-
Net Cash Flows from Operating Activities	$ (871,412)	$ (65,837)	$ 157,331	$ (779,918)	$ 444
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 474,680	$ 652,815	$ -	$ 1,127,495	$ -
Grant Disbursements	(11,231)	(7,068)	(20,734)	(39,033)	-
Transfers-In	551,293	-	3,799	555,092	45
Transfers-Out	-	(9,214)	(124,410)	(133,624)	(28,496)
Advances from Other Funds	-	-	-	-	2,615
Proceeds from Loans	-	865,871	-	865,871	-
Repayment of Loans	-	(1,326,050)	-	(1,326,050)	-
Proceeds from Bonds	-	-	67,420	67,420	-
Repayment of Bond Principal	-	-	(15,005)	(15,005)	-
Interest Paid	-	(14,895)	(7,260)	(22,155)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,014,742	$ 161,459	$ (96,190)	$ 1,080,011	$ (25,836)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 58,609	$ -	$ -	$ 58,609	$ -
Investment in Capital Assets	(189,420)	-	(18,905)	(208,325)	(12,507)
Proceeds from Disposal of Capital Assets	2,996	-	49	3,045	1,875
Proceeds from Capital Debt	21,655	-	-	21,655	-
Proceeds from Loans	-	-	-	-	10,019
Capital Lease Payments	(5,858)	-	(173)	(6,031)	-
Repayment of Loan Principal	(931)	-	-	(931)	(7,341)
Repayment of Bond Principal	(25,871)	-	(304)	(26,175)	-
Interest Paid	(22,569)	-	(109)	(22,678)	(564)
Net Cash Flows from Capital and Related Financing Activities	$ (161,389)	$ -	$ (19,442)	$ (180,831)	$ (8,518)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 12,533	$ -	$ -	$ 12,533	$ 5,660
Purchase of Investments	(11,313)	-	-	(11,313)	(6,094)
Investment Earnings	3,450	650	446	4,546	2,187
Net Cash Flows from Investing Activities	$ 4,670	$ 650	$ 446	$ 5,766	$ 1,753
Net Increase (Decrease) in Cash and Cash Equivalents	$ (13,389)	$ 96,272	$ 42,145	$ 125,028	$ (32,157)
Cash and Cash Equivalents, Beginning, as Reported	$ 920,726	$ 9,192	$ 144,348	$ 1,074,266	$ 345,262
Cash and Cash Equivalents, Ending	$ 907,337	$ 105,464	$ 186,493	$ 1,199,294	$ 313,105

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(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)	$ (933,970)	$ (32,578)	$ 156,102	$ (810,446)	$ (7,324)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization	$ 104,102	$ -	$ 11,457	$ 115,559	$ 8,884
Miscellaneous Nonoperating Revenues	421	16,865	-	17,286	-
Miscellaneous Nonoperating Expenses	-	-	(9,278)	(9,278)	(6,238)
Loan Principal Repayments	3,908	-	-	3,908	-
Loans Issued	(3,828)	-	-	(3,828)	-
Provision for Loan Defaults	198	-	-	198	-
Loans Forgiven	413	-	-	413	-
Change in Valuation of Assets	1,874	-	-	1,874	-
Change in Assets and Liabilities:					
Accounts Receivable	(458)	(30,430)	(6,040)	(36,928)	(13,053)
Inventories	(1,936)	-	254	(1,682)	19
Other Assets	-	-	131	131	(1,932)
Accounts Payable	(43,660)	(23,736)	7,769	(59,627)	11,417
Compensated Absences Payable	(285)	-	(2,705)	(2,990)	(168)
Unearned Revenues	2,354	4,092	180	6,626	9,072
Other Liabilities	(545)	(50)	(539)	(1,134)	(233)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 62,558	$ (33,259)	$ 1,229	$ 30,528	$ 7,768
Net Cash Flows from Operating Activities	$ (871,412)	$ (65,837)	$ 157,331	$ (779,918)	$ 444
Noncash Investing, Capital and Financing Activities:					
Transferred/Donated Assets	$ -	$ -	$ 7	$ 7	$ 346
Capital Assets Purchased on Account	7,745	-	-	7,745	-
Accrual of Computer Equipment as an Investment	-	-	-	-	
in Capital Assets	-	-	-	-	659
Bond Premium Amortization	2,334	-	-	2,334	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 46,921	$ -	$ 172,042
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,513,358	$ 71,829	$ -
Investments	52,137,240	336,065	-
Accrued Interest and Dividends	113,740	1,184	-
Securities Trades Receivables (Payables)	(869,470)	(5,853)	-
Total Investment Pool Participation	$ 53,894,868	$ 403,225	$ -
Receivables:			
Employer Contributions	$ 5,366	$ -	$ -
Member Contributions	15,897	-	-
Accounts Receivable	-	-	25,021
Interfund Receivables	10,470	-	-
Other Receivables	97,756	-	-
Accrued Interest and Dividends	53	-	-
Total Receivables	$ 129,542	$ -	$ 25,021
Securities Lending Collateral	$ 4,375,865	$ 21,607	$ -
Depreciable Capital Assets (Net)	27,041	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 58,474,666	$ 424,832	$ 197,063
LIABILITIES			
Accounts Payable	$ 20,957	$ -	$ 197,063
Interfund Payables	10,406	-	-
Accrued Expense	3	-	-
Revenue Bonds Payable	22,969	-	-
Bond Interest	41	-	-
Compensated Absences Payable	2,445	-	-
Securities Lending Liabilities	4,375,865	21,607	-
Other Liabilities	163	-	-
Total Liabilities	$ 4,432,849	$ 21,607	$ 197,063
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 54,041,817	$ 403,225	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 989,364	$ -
Member	1,181,467	-
Contributions From Other Sources	7,668	-
Participating Plans	304,474	31,417
Total Contributions	$ 2,482,973	$ 31,417
Net Investment Income:		
Investment Income	$ 1,304,805	$ 15,415
Less: Investment Expense	(72,861)	-
Net Investment Income	$ 1,231,944	$ 15,415
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 38,337	$ 185
Securities Lending Rebates and Fees	(15,960)	(77)
Net Securities Lending Revenue	$ 22,377	$ 108
Total Investment Income	$ 1,254,321	$ 15,523
Transfers From Other Funds	$ 68,303	$ -
Other Additions	30,565	-
Total Additions	$ 3,836,162	$ 46,940
Deductions:		
Benefits	$ 3,830,725	$ -
Refunds and Withdrawals	258,168	31,152
Administrative Expenses	35,391	219
Transfers To Other Funds	24,507	-
Total Deductions	$ 4,148,791	$ 31,371
Net Increase (Decrease)	$ (312,629)	$ 15,569
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 54,168,869	$ 571,567
Change in Reporting Entity	1,666	-
Change in Fund Structure	183,911	(183,911)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 54,354,446	$ 387,656
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 54,041,817	$ 403,225

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2011 and JUNE 30, 2012
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 100,541	$ 147,124	$ 199,011	$ 501,903	$ 948,579
Investments	32,797	361,003	190,292	292,980	877,072
Accounts Receivable	9,396	29,388	351,519	19,236	409,539
Due from Primary Government	-	46,472	4,182	2,196	52,850
Accrued Investment/Interest Income	16,296	1,564	5,212	22,068	45,140
Federal Aid Receivable	1,694	-	-	1,379	3,073
Inventories	-	28,365	23,325	55	51,745
Loans and Notes Receivable	-	-	8,899	425,157	434,056
Securities Lending Collateral	-	-	1,877	-	1,877
Prepaid Expenses	13,354	-	-	3,594	16,948
Other Assets	15,566	4,488	42,218	76	62,348
Total Current Assets	$ 189,644	$ 618,404	$ 826,535	$ 1,268,644	$ 2,903,227
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 332,141	$ 166,798	$ 192,598	$ 94,079	$ 785,616
Investments-Restricted	852,004	-	124,682	20,772	997,458
Accounts Receivable-Restricted	-	47,778	-	-	47,778
Due from Primary Government-Restricted	-	20,944	-	-	20,944
Other Assets-Restricted	-	1,476	-	-	1,476
Due from Primary Government	-	-	-	14,488	14,488
Investments	-	-	3,508,880	27,077	3,535,957
Accounts Receivable	-	-	159,254	347,415	506,669
Loans and Notes Receivable	1,845,098	49,464	53,468	2,303,377	4,251,407
Depreciable Capital Assets (Net)	1,937	2,514,212	2,428,909	4,230	4,949,288
Nondepreciable Capital Assets	-	768,883	328,892	967	1,098,742
Other Assets	-	-	6,697	7,078	13,775
Deferred Loss on Interest Swap Agreements	39,634	-	-	-	39,634
Total Noncurrent Assets	$ 3,070,814	$ 3,569,555	$ 6,803,380	$ 2,819,483	$ 16,263,232
Total Assets	$ 3,260,458	$ 4,187,959	$ 7,629,915	$ 4,088,127	$ 19,166,459
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 10,526	$ 67,739	$ 169,031	$ 14,963	$ 262,259
Due to Primary Government	-	-	4,822	56,092	60,914
Unearned Revenue	-	7,204	61,012	29,939	98,155
Accrued Interest Payable	42,987	3,068	12,002	18,722	76,779
Bonds and Notes Payable	62,765	134,050	287,525	71,544	555,884
Capital Leases Payable	-	595	-	-	595
Claims Payable	-	3,764	36,637	23,802	64,203
Compensated Absences Payable	196	18,463	132,026	99	150,784
Securities Lending Liabilities	-	-	1,877	-	1,877
Other Liabilities	-	647	63,738	586	64,971
Total Current Liabilities	$ 116,474	$ 235,530	$ 768,670	$ 215,747	$ 1,336,421
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 79,667	$ 55,037	$ -	$ 134,704
Unearned Revenue-Restricted	-	43,993	-	-	43,993
Accrued Interest Payable-Restricted	-	10,087	-	-	10,087
Due to Primary Government	-	-	25,817	41,046	66,863
Unearned Revenue	5,477	-	17,651	-	23,128
Bonds and Notes Payable	2,107,324	1,232,524	902,236	1,648,469	5,890,553
Capital Leases Payable	-	10,225	-	-	10,225
Claims Payable	-	14,084	11,472	526,198	551,754
Compensated Absences Payable	1,626	7,876	88,071	870	98,443
Other Postemployment Benefits	156	70,628	62,987	50	133,821
Funds Held in Trust	76,887	-	146,868	-	223,755
Other Liabilities	-	-	43,133	7,039	50,172
Interest Rate Swap Agreements	39,634	-	-	-	39,634
Total Noncurrent Liabilities	$ 2,231,104	$ 1,469,084	$ 1,353,272	$ 2,223,672	$ 7,277,132
Total Liabilities	$ 2,347,578	$ 1,704,614	$ 2,121,942	$ 2,439,419	$ 8,613,553
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,937	$ 2,181,916	$ 1,694,664	$ 5,197	$ 3,883,714
Restricted-Expendable	910,943	219,416	1,845,672	1,587,103	4,563,134
Restricted-Nonexpendable	-	-	1,102,159	-	1,102,159
Unrestricted	-	82,013	865,478	56,408	1,003,899
Total Net Assets	$ 912,880	$ 2,483,345	$ 5,507,973	$ 1,648,708	$ 10,552,906

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 and JUNE 30, 2012
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 401,252	$ 836,063	$ 3,347,344	$ 370,002	$ 4,954,661
Program Revenues:					
Charges for Services	$ 204,807	$ 327,241	$ 1,406,677	$ 139,405	$ 2,078,130
Operating Grants and Contributions	203,043	143,660	971,550	55,725	1,373,978
Capital Grants and Contributions	-	529,095	170,922	-	700,017
Net (Expense) Revenue	$ 6,598	$ 163,933	$ (798,195)	$ (174,872)	$ (802,536)
General Revenues:					
Taxes	$ -	$ 264,948	$ -	$ -	$ 264,948
Investment Income	-	16,031	57,362	13,951	87,344
Other Revenues	1,837	-	314,358	1,147	317,342
Total General Revenues before Grants	$ 1,837	$ 280,979	$ 371,720	$ 15,098	$ 669,634
State Grants Not Restricted	40,839	-	572,075	214,423	827,337
Total General Revenues	$ 42,676	$ 280,979	$ 943,795	$ 229,521	$ 1,496,971
Extraordinary Item	$ -	$ 22,788	$ -	$ -	$ 22,788
Change in Net Assets	$ 49,274	$ 467,700	$ 145,600	$ 54,649	$ 717,223
Net Assets, Beginning, as Reported	$ 863,606	$ 2,015,645	$ 5,374,992	$ 1,594,059	$ 9,848,302
Prior Period Adjustment	-	-	(12,619)	-	(12,619)
Net Assets, Beginning, as Restated	$ 863,606	$ 2,015,645	$ 5,362,373	$ 1,594,059	$ 9,835,683
Net Assets, Ending	$ 912,880	$ 2,483,345	$ 5,507,973	$ 1,648,708	$ 10,552,906

The notes are an integral part of 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). The state implemented the following GASB statement for the fiscal year ended June 30, 2012:

GASB Statement No. 64 "Derivative Instruments: Application of Hedge Accounting Termination Provisions" was issued in June 2011. The statement enhances comparability by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. This statement had no impact on the state.

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. Blended component units, although legally separate entities, are, in substance, part of the state's operations. Discretely presented component units are 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. Discretely presented component units are also identified separately in the note disclosures because of their separate legal status. All discretely presented component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

Blended Component Unit

Tobacco Securitization Authority (TSA) – TSA manages the securitization of the tobacco settlement revenue. The TSA is composed of a three member board consisting of commissioners of state departments. The commissioners direct the operations of TSA. TSA provides services exclusively for the state; thus, TSA is included as a special revenue fund. Additional information on the sales agreement between TSA and the state is located in Note 12 – General Long-Term Liabilities – Primary Government.

Discretely Presented Component Units

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

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. The state has the ability to significantly influence the programs, projects, and levels of services provided by HFA. 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 state has the ability to significantly influence the projects and levels of services provided by MC. 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. The state has the ability to significantly influence the programs and projects of AEDB. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.

- 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 the OHE director with the advice and consent of the senate.

- 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 discretely presented 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 55101-1998	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55455	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite E-200 St. Paul, Minnesota 55101-1351
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 5600 West 83rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	

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

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

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

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

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

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

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

The financial reports, available from the State Board of Investment, report on investments in investment pools, which include the majority of the state's Fiduciary Funds.

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 it's 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 a 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 taxes, 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 enterprise categories. All remaining governmental, proprietary, and fiduciary 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 bond 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 trust, 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. The fund types included in this category are the General Fund plus special revenue, capital project, debt service, and permanent funds.

- General Fund which accounts for all financial resources not accounted for and reported in another fund.
- Special revenue funds which account for revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Capital project funds which account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude capital-related outflows financed by proprietary funds or for assets that will be held in trust.
- 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 is the state's only major special revenue fund. It receives and disburses federal government grants, reimbursements, recoveries, and premiums.

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 services, employee insurance, technology services, plant management, and risk management.

The state has two major enterprise funds, the State Colleges and Universities Fund and the Unemployment Insurance Fund. The State Colleges and Universities Fund accounts for the activities of the Minnesota State Colleges and Universities (MnSCU) System. 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 trust, 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 individuals, private organizations, or other governmental units. Some examples include resources held for inmates of correctional facilities or residents of veterans and group homes, sales taxes to be distributed to local governments, and child support collections to be distributed to custodial parents.

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. Receivables not collected by the close of the books in late August are reported as deferred revenue. In addition, revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are also 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, capital leases, 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 (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 trust, 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, Investments, and Derivative Instruments for additional information regarding cash, investments, and derivative instruments.

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. The exception primarily relates to the Trunk Highway Fund (special revenue fund) and 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, infrastructure, and intangible assets, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. Capital assets are generally defined by the state as assets with an initial, individual cost of more than $30,000 for equipment, $300,000 for buildings, and $30,000 to $2,000,000 for internally generated computer software, depending on the fund type. Capital assets must also have 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. Permanent School Fund (permanent fund) land is reported at estimated historic cost. The land included in the Permanent School Fund was granted to the state by the federal government in connection with the state being admitted to the United States. 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 generally based on the following useful lives: 20-50 years for buildings, 20-50 years for large improvements, 20-50 years for easements, 8-12 years for internally generated computer software, 3-10 years for small improvements, and 3-12 years for equipment. Transportation infrastructure assets using the modified approach, land, construction and development in progress, permanent easements with indefinite useful lives, 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 in which costs to maintain and preserve these assets are expensed 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 on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. Long-term liabilities are the noncurrent portions of liabilities resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, supplementary and second injury benefit claims, pollution remediation obligations, 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 and Fund Balance Classification Policies and Procedures

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 are 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.

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the state legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts. Amounts that are constrained by the state’s intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by state officials to whom the state has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The state’s policy is that restricted amounts are spent first when expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the state’s policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 Minnesota Management and Budget and presented to the legislature for approval. Specific appropriations are required for the majority of the expenditures from the General Fund. The accounts not requiring specific appropriations are considered perspective differences in the budgetary basis vs. GAAP reconciliation. Specific appropriations are also required for all special revenue funds except the Federal, Municipal State-Aid Street, County State-Aid Highway, Douglas J. Johnson Economic Protection Trust, Endowment, and Miscellaneous Special Revenue funds as well as the Tobacco Securitization Authority Fund (blended component unit). 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 accounting system maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting point for the financial statements. The second ledger tracks information on a budgetary basis of accounting, which approximates a cash basis with the exception that, at year-end, encumbered amounts are included as expenditures of the year appropriated for budgetary reporting. The budget ledger controls expenditures by appropriation line item as established in the legally adopted appropriation bills. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

Generally, internal service fund activity has been eliminated from the government-wide statements. Internal service fund activity from external customers is reported under governmental activities in the government-wide statements. Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

Change in Fund Structure

The 2011 Laws of Minnesota authorized the transfer of the assets of the Minneapolis Police Relief Association from the Supplemental Retirement Fund (investment trust) to the Police and Fire Fund (pension trust) managed by the Public Employees Retirement Association board of directors. The transfer was reported as a change in fund structure in the Supplemental Retirement Fund (investment trust) and the Police and Fire Fund (pension trust).

The 2012 Laws of Minnesota authorized the consolidation of the Fairmont Police Relief Association, part of the Supplemental Retirement Fund (investment trust), into the Police and Fire Fund (pension trust) managed by the Public Employees Retirement Association board of directors. The transfer was reported as a change in fund structure in the Supplemental Retirement Fund (investment trust) and the Police and Fire Fund (pension trust).

The 2011 Laws of Minnesota authorized the consolidation of the Minneapolis Firefighters Relief Association, part of the Supplemental Retirement Fund (investment trust), into the Police and Fire Fund (pension trust) managed by the Public Employees Retirement Association board of directors. The transfer was reported as a change in fund structure in the Supplemental Retirement Fund (investment trust) and the Police and Fire Fund (pension trust).

Change in Reporting Entity

The 2012 Laws of Minnesota authorized the merger of the Virginia Fire Department Consolidation Account into the Police and Fire Fund (pension trust) managed by the Public Employees Retirement Association board of directors. Investment balances were reported as a change in reporting entity in the Police and Fire Fund (pension trust).

Note 2 – Cash, Investments, and Derivative Instruments

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.

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.

Generally, when applicable, the statutes limit investments to those rated by a nationally recognized rating agency within the top four quality ratings categories. 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.

Investment Derivative Instruments

Minnesota Statutes, Section 11A.24, provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This provision applies to foreign currency forward contracts used to offset the currency risk of a security. All other derivatives are exchange traded. The purpose of the SBI derivative activity is to equitize cash in the portfolio, to adjust the duration of the portfolio, or to offset current futures positions.

The cash inflows, cash outflows, and changes in fair value of investment derivatives are reported as investment income. The June 30, 2012, fair value of investment derivatives are reported as investments.

Synthetic Guaranteed Investment Contract (SGIC): SBI maintains a fully benefit-responsive SGIC for the Supplemental Investment Pool - Fixed Interest Account of the Pension Trust and Investment Trust Funds portfolio. The investment objective of the Fixed Interest Account is to protect investors in defined contribution and deferred compensation plans from loss of their original investment and to provide a competitive interest rate. On June 30, 2012, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $1,163,388,000 that is $57,495,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool and a guaranteed investment contract with fair values of $273,190,000 and $86,752,000, respectively.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2012:

Primary Government
Derivative Activity for the Year Ended June 30, 2012
By Derivative Type
(In Thousands)

	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	$ 17,968	$ 41,997	$ -
Warrants	13	-	-
	$ 17,981	$ 41,997	$ -
Fiduciary Activities:			
Futures	$ 5,111	$ (223,189)	$ -
Futures Options Bought	(473)	889	35
Futures Options Written	1,678	(674)	(202)
FX Forwards	5,293	447,101	(437)
Warrants/Stock Rights	435	644	278
	$ 12,044	$ 224,771	$ (326)

Credit Risk: Minnesota is exposed to credit risk through eight counter parties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counter parties combined exposes the state to a maximum loss of $3,170,000 should these counter parties fail to perform. These counter parties have S&P credit ratings of A or better.

Foreign Currency Risk: Currency futures and foreign stock index futures are exposed to foreign currency risk. Their currency risks are included in the investment Foreign Currency Risk schedule of this note.

Component Unit Derivative Activity: Derivative activity of the state's component units is disclosed in the last section of this note.

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 Barclays Capital US 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 include guidelines or limitations regarding credit risk.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
As of June 30, 2012
(In Thousands)

		Weighted Average Maturity	Lower of S & P or Moody S & P Equivalent Rating			
	Fair Value	(Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 436,268	0.96	100%	-	-	-
U.S. Agencies	832,311	0.93	96%	-	-	4%
Mortgage-backed Securities	273,912	3.33	90%	8%	1%	1%
State or Local Government Bonds	170,863	4.91	100%	-	-	-
Corporate Bonds	2,038,334	2.04	22%	45%	2%	31%
Yankee Bonds	108,448	1.79	52%	25%	3%	20%
Commercial Paper	2,130,971	0.13	81%	1%	-	18%
Repurchase Agreements	808,517	-	-	-	-	100%
Certificates of Deposit	693,465	0.14	11%	-	-	89%
Total Debt Securities	$ 7,493,089					
Equity Investments:						
Corporate Stock	$ 772,652					
Other Investments:						
Escheat Property	$ 9,798					
Money Market Accounts	8,840					
Total Other Investments	$ 18,638					
Total Investments	$ 8,284,379 [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.

Primary Government
Pension Trust and Investment Trust Funds
Investments and Cash Equivalent Investments
As of June 30, 2012
(In Thousands)

	Fair Value	Weighted Average Maturity (Years)	Lower of S & P or Moody S & P Equivalent Rating AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 2,397,325	9.24	100%	-	-	-
U.S. Agencies	559,235	4.81	94%	6%	-	-
Mortgage-backed Securities	4,219,349	4.47	88%	5%	3%	4%
Yankee Bonds	669,878	6.79	32%	61%	4%	3%
State or Local Government Bonds	168,926	20.81	22%	72%	-	6%
Corporate Bonds	2,593,410	8.66	5%	80%	15%	-
Foreign Country Bonds	44,987	7.36	22%	26%	52%	-
Asset-backed Securities	330,267	3.77	70%	13%	10%	7%
Short Term Notes	2,137,601	0.23	15%	-	-	85%
FX Forwards	(437)	N/A	-	-	-	100%
Total Debt Securities	$ 13,120,541					
Other Investments:						
Guaranteed Investment Account						
Guaranteed Investment Contract (GIC)	$ 86,752					
Synthetic GIC	1,105,893					
Short Term Investments Pool	273,190					
Total Guaranteed Investment Account	$ 1,465,835					
Futures Options	(167)					
Mutual Funds	4,058,274					
Total Other Investments	$ 5,523,942					
Equity Investments:						
Corporate Stock	$ 28,688,725					
Alternative Equities	7,407,929					
Stock Rights/Warrants	278					
Total Equity Investments	$ 36,096,932					
Total Investments	$ 54,741,415 [1]					

[1] Total investments include cash equivalent investments not included in the investment pools.

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations

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

Corporate Stock

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

The state did not have concentration of credit risk over five percent as of June 30, 2012.

Foreign Currency Risk – Investments

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

The primary government, excluding pension trust and investment trust funds, had no exposure to foreign currency risk as of June 30, 2012.

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2012
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 2,335	$ -	$ 404,784
Brazilian Real	539	-	83,942
Canadian Dollar	2,523	14,326	531,728
Danish Krone	498	-	76,564
Euro Currency	15,922	5,625	1,431,048
Hong Kong Dollar	3,023	-	389,757
Indian Rupee	140	-	121,900
Indonesian Rupiah	403	-	53,162
Japanese Yen	19,445	-	1,138,608
New Taiwan Dollar	338	-	90,669
Norwegian Krone	781	-	52,001
Pound Sterling	6,176	29,263	1,179,555
Singapore Dollar	670	-	85,421
South African Rand	776	-	61,114
South Korean Won	77	-	205,416
Swedish Krona	2,278	-	124,837
Swiss Franc	3,582	-	409,828
Other	1,458	-	277,709
Total	$ 60,964	$ 49,214	$ 6,718,043

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counterparty, 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 a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as agent in lending state securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the state, certain securities held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. State Street does not have 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 at least 100 percent of the fair value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the state in the event of default by a borrower. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default.

During the fiscal year, the state and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan, together with the cash collateral of other qualified tax-exempt plan lenders, was invested in a collective investment pool. As of June 30, 2012, such investment had an average duration of 3.87 days and an average weighted maturity of 26.04 days for USD collateral.

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, 2012, 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.

The fair value of collateral held and the fair value of securities on loan for the state as of June 30, 2012, were $7,410,269,000 and $7,193,788,000, respectively. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

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

Housing Finance Agency

As of June 30, 2012, Housing Finance Agency (HFA) had $1,317,483,000 of cash, cash equivalents, and investments. As of June 30, 2012, $349,846,000 of deposits and $948,801,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 0.1 – 28.6 years.

HFA cash equivalents included $82,836,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2012, all the investment agreement providers had a Standard & Poor's long-term credit rating of 'AA-' or higher and a Moody's long-term credit rating of 'A1' or higher, except for Depfa Bank PLC's Standard & Poor's rating which is discussed below. 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. Certain investment agreements with Depfa Bank PLC ($25,518,000) require a downgrade to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating is 'BBB' from Standard & Poor's, HFA reduced the carrying value of those agreements by $1,029,000 as of June 30, 2012.

HFA investments had an estimated fair market value of $884,801,000 as of June 30, 2012. Included in these investments were $10,983,000 in U.S. Treasuries (not rated), and $722,495,000 in U.S. Agencies having a Standard & Poor's rating of 'AA+' and Moody's Investors Services rating of 'Aaa.' An additional $87,590,000 in municipal debt investments had a Standard & Poor's rating of 'AA' and Moody's Investors Services rating of 'Aa3.'

HFA had investments in single issuers as of June 30, 2012, excluding investments issued or explicitly guaranteed by the U.S. Government, that exceeded five percent or more of total investments. These investments amounted to $99,043,000 and involved Federal National Mortgage Association.

HFA has entered into interest rate swap agreements to hedge its issuance of variable rate mortgage revenue bonds for the objective of reducing HFA's cost of capital compared to using long-term fixed rate bonds. These interest rate swap agreements have been determined to be effective hedges by HFA's consultant and are reported at fair value as of June 30, 2012, as Interest Rate Swap Agreements noncurrent liability. The change in fair value for fiscal year 2012 is reported in "Deferred Loss on Interest Swap Agreements" noncurrent asset.

As of June 30, 2012, HFA had eight and six interest rate swap agreements with counterparties the Bank of New York Mellon and Royal Bank of Canada for total notional amounts of $201,940,000 and 186,535,000 having fair values of ($17,846,000) and ($21,789,000), respectively. For these counterparties, respectively, the decrease in fair values for fiscal year ended June 30, 2012, were $3,821,000 and $4,998,000.

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, the Bank of New York Mellon and Royal Bank of Canada, have been rated by Moody's as 'Aa1,' and 'Aa3,' respectively, and by Standard & Poor's as 'AA-,' and 'AA-,' respectively.

All swaps are pay-fixed with initial notional amounts that matched the original principal amounts and have terms which reduce the notional amounts to approximately follow the anticipated reductions in outstanding principal. HFA has also purchased the right, generally based upon a 300 percent PSA prepayment rate (the standard prepayment model of the Security Industries and Financial Market Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match outstanding principal amounts of the associated bonds. HFA also has the right to terminate outstanding swaps in whole or in part at any time if it is not in default. The swap contracts may also be terminated by the counterparties but are generally limited to HFA payment default or other HFA defaults that remain uncured for 30 days.

The variable rate HFA pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one month or three month taxable LIBOR rate or the SIMFA index rate. This exposes HFA to basis risk (the risk that the rates do not equal), and this risk will vary over time due to inter-market conditions.

HFA assumes the risk that changes in the tax code may vary from the historical long-term relationship between taxable and tax-exempt short-term interest rates for economic reasons.

Metropolitan Council

As of December 31, 2011, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of $674,925,000. Of this amount, $683,226,000 was subject to rating. Using the Moody's Investors Services rating scale, $432,180,000 of these investments were rated 'Aaa' and $141,548,000 were rated 'Aa3,' while $109,498,000 were not rated. Outstanding checks of $8,301,000 comprise the remaining cash and investment amount.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $105,697,000 U.S. Treasury and agency investments, MC has a custodial credit risk exposure of $3,002,000 because the related securities are held by a custodial agent in the broker's name.

MC has adopted a 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, 2011. The investment portfolio has an average yield of 1.1 percent, modified duration of 2.7 years, effective duration of 1.5 years, and convexity of -.19.

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

Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2011
(In Thousands)

	Estimated Fair Value	
Fair Value of Portfolio Before Basis Point Increase	$	663,666
Fair Value of Portfolio After Basis Point Increase of:		
50 Points	$	657,757
100 Points	$	653,974
150 Points	$	649,949
200 Points	$	645,242

MC has used commodity futures as an energy forward pricing mechanism (EFPM) permitted by Minnesota Statutes, Section 473.1293. Statutorily, MC may not hedge more than 100% of the projected consumption of any of its commodities and only up to 23 months into the future. Since 2004, MC has hedged most of its annual diesel fuel consumption and since 2006, its natural gas consumption. The hedging transactions are separate from fuel purchase transactions. For 2011, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2011, MC had 196 New York Mercantile Exchange (NYMEX) heating oil futures contracts (8.2 million gallons) acquired from February 1, 2010, through December 1, 2011, to terminate on dates from January 31, 2012, through February 28, 2013. MC also had 19 natural gas futures contracts acquired from May 17, 2010, through October 19, 2010, to terminate on dates from January 27, 2012, through September 26, 2012.

As of December 31, 2011, the heating oil and natural gas futures contracts had a fair value of $23,603,000 and ($588,000), respectively. These values are reported in "Other Assets-Current" and offset in "Accounts Payable-Current."

MC is using NYMEX heating oil futures to hedge diesel fuel as MC has a risk if the prices significantly deviate from each other. Historically, there has been a strong correlation between the two products.

University of Minnesota

As of June 30, 2012, University of Minnesota (U of M), including its discretely presented component units, had $391,609,000 of cash and cash equivalents and $3,823,854,000 of investments. 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 $355,520,000 and investments of $1,859,256,000.

Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts are fully insured, regardless of balance, at qualified FDIC-insured institutions. As of June 30, 2012, U of M's bank balance of $182,183,000 was fully insured but uncollateralized.

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes U of M's investment policies and objectives. U of M uses internal investment pools designed to meet respective investment objectives within established 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, 2012, $1,169,159,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $963,427,000 was rated AA or Better
- $205,732,000 was not rated

The securities subject to interest rate risk were comprised of the following:

- $740,097,000 in government agencies with an average duration of 1.90 to 2.50 years
- $40,000,000 in mortgage backed securities with an average duration of 22.40 years
- $183,330,000 in cash and cash equivalents with an average duration of 0.00 years
- $166,847,000 in mutual funds with an average duration of 7.10 years

As of June 30, 2012, U of M had $127,677,000 of equity investments subject to foreign currency risk. The two largest components of this amount are $16,346,000 in Japanese Yen and $45,113,000 in Euro Currency.

U of M has entered into three pay-fixed, receive-variable interest rate swaps to convert all of a portion of the associated variable rate debt to synthetic fixed rates to hedge against the variability of cash flows for budgeting purposes. On February 1, 2011, the U of M terminated the three interest rate swap agreements at a cost of $17,195,000, which included a net realized loss of $4,695,000.

U of M has three other separate pay-fixed, receive-variable swaps that are considered ineffective. At June 30, 2012, the total fair value was ($15,600,000), with changes in fair value reported as investment income.

U of M is exposed to interest rate risk, termination risk (upon default of the other party), and basis risk.

Nonmajor Component Units

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2011, or June 30, 2012, as applicable
(In Thousands)

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 2,317	$ 20,772
National Sports Center Foundation	462	-
Office of Higher Education	279,170	-
Public Facilities Authority	276,226	53,329
Rural Finance Authority	23,267	-
Workers' Compensation Assigned Risk Plan	14,540	266,728
Total	$ 595,982	$ 340,829

Note 3 – Disaggregation of Receivables

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2012
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 1,011,388	$ -	$ -	$ 1,011,388
Sales and Use	415,327	-	21,084	436,411
Property	390,241	-	-	390,241
Health Care Provider	270,233	-	87,067	357,300
Highway Users	-	-	71,581	71,581
Child Support	66,976	66,779	287	134,042
Workers' Compensation	-	-	105,298	105,298
Other	458,369	137,005	78,096	673,470
Net Receivables	$ 2,612,534	$ 203,784	$ 363,413	$ 3,179,731

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	$ -	$ 470,222	$ -	$ 470,222
Tuition and Fees	58,435	-	-	58,435
Other	-	-	31,120	31,120
Net Receivables	$ 58,435	$ 470,222	$ 31,120	$ 559,777
Total Government-wide Net Receivables				$ 3,739,508

[1]Includes $3,672 Internal Service Funds.

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

- Corporate and Individual Taxes $241,078,000
- Sales and Use Taxes $68,498,000
- Child Support $278,153,000

Receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes $149,317,000
- Sales and Use Taxes $67,096,000
- Child Support $114,453,000
- Health Care Provider $139,036,000
- Other Receivables $71,296,000

Note 4 – Loans and Notes Receivable

Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2012
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ -	$ 32,190
Economic Development	69,867	107	41,973	-	-
School Districts	44,976	-	-	-	-
Agricultural, Environmental and Energy Resources	-	-	74,599	-	-
Transportation	-	-	16,343	163	-
Other	3,575	-	3,554	-	-
Total	$ 118,418	$ 107	$ 136,469	$ 163	$ 32,190

Component Units
Loans and Notes Receivable
As of June 30, 2012
(In Thousands)

Housing Finance Authority	$ 1,845,098
Metropolitan Council	49,464
University of Minnesota	62,367
Agricultural and Economic Development Board	738
Office of Higher Education	698,780
Public Facilities Authority	1,975,130
Rural Finance Authority	53,886
Total	$ 4,685,463

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/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.

Primary Government
Interfund Receivables and Payables
As of June 30, 2012
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 246,454
Nonmajor Governmental Funds	15,917
Nonmajor Enterprise Funds	18,910
Total Due to General Fund From Other Funds	$ 281,281
Due to the Federal Fund From:	
General Fund	$ 7,731
Nonmajor Governmental Funds	1,109
Unemployment Insurance Fund	798
Total Due to Federal Fund From Other Funds	$ 9,638
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 26,965
Total Due to State Colleges and Universities From Other Funds	$ 26,965
Due to the Nonmajor Enterprise Funds From:	
Nonmajor Enterprise Funds	$ 2,223
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,223
Due to Fiduciary Funds From:	
General Fund	$ 64
Fiduciary Funds	10,406
Total Due to Fiduciary Funds From Other Funds	$ 10,470
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 85,063
Federal Fund	80
Unemployment Insurance Fund	13,696
Nonmajor Governmental Funds	151,239
Total Due to Nonmajor Governmental Funds From Other Funds	$ 250,078

Primary Government
Interfund Transfers
Year Ended June 30, 2012
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 40,624
Nonmajor Governmental Funds	316,928
Nonmajor Enterprise Funds	100,609
Internal Service Funds	27,192
Total Transfers to General Fund From Other Funds	$ 485,353
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	$ 214
Nonmajor Governmental Funds	1,450
Total Transfers to Federal Fund From Other Funds	$ 1,664
Transfers and Capital Contributions to the State Colleges and Universities Fund From:	
General Fund	$ 551,293
Nonmajor Governmental Funds – Capital Contributions	56,361
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	$ 607,654
Transfers to Fiduciary Funds From:	
General Fund	$ 43,796
Fiduciary Funds	24,507
Total Transfers to Fiduciary Funds From Other Funds	$ 68,303
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 500,123
Federal Fund	178
Unemployment Insurance Fund	5,954
Nonmajor Governmental Funds	126,900
Nonmajor Enterprise Funds	24,481
Internal Service Funds	1,304
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 658,940
Transfers and Capital Contributions to the Nonmajor Enterprise Funds From:	
General Fund	$ 3,799
Total Transfers and Capital Contributions to Nonmajor Enterprise Funds From Other Funds	$ 3,799
Transfers and Capital Contributions to Internal Service Funds From:	
General Fund	$ 45
Total Transfers and Capital Contributions to Internal Service Funds From Other Funds	$ 45

Component Units

Primary Government and Component Units
Receivables and Payables
As of June 30, 2012
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Metropolitan Council	$ 67,416	$ -
University of Minnesota	4,182	30,639
Total Major Component Units	$ 71,598	$ 30,639
Nonmajor Component Units	$ 16,684	$ 97,138
Total Component Units	$ 88,282	$ 127,777

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ -	$ 55
Federal Fund	-	1,989
Total Major Governmental Funds	$ -	$ 2,044
Nonmajor Governmental Funds	$ 100,685	$ 6,021
Total Primary Government	$ 100,685	$ 8,065 (1)

(1) Due to component units on the Government-wide Statement of Net Assets totals $24,749 and includes $16,684 of loans payable to the Public Facilities Authority (component unit) that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $27,092,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The $80,217,000 difference between the Due From Primary Government balance and the Due To Component Units balance is also due to these different fiscal year ends as well as the $16,684,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2012
(In Thousands)

	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 2,048,043	$ 69,980	$ (3,419)	$ 2,114,604
Buildings, Structures, Improvements	29,909	859	-	30,768
Construction in Progress	235,108	113,727	(83,642)	265,193
Development in Progress	74,673	28,065	(72,791)	29,947
Infrastructure	7,842,775	264,173	(9,341)	8,097,607
Easements	311,003	13,200	-	324,203
Art and Historical Treasures	2,353	1,778	(400)	3,731
Total Capital Assets not Depreciated	$ 10,543,864	$ 491,782	$ (169,593)	$ 10,866,053
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 2,474,807	$ 84,922	$ (8,140)	$ 2,551,589
Infrastructure	160,683	7,214	(28)	167,869
Internally Generated Computer	396	66,614	-	67,010
Easements	4,090	-	-	4,090
Equipment, Furniture, Fixtures	599,734	54,946	(35,502)	619,178
Total Capital Assets Depreciated	$ 3,239,710	$ 213,696	$ (43,670)	$ 3,409,736
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (962,804)	$ (64,030)	$ 6,680	$ (1,020,154)
Infrastructure	(47,294)	(3,236)	2	(50,528)
Easements	(565)	(98)	-	(663)
Internally Generated Computer	-	(5,630)	-	(5,630)
Equipment, Furniture, Fixtures [1]	(397,229)	(44,107)	33,706	(407,630)
Total Accumulated Depreciation	$ (1,407,892)	$ (117,101)	$ 40,388	$ (1,484,605)
Total Capital Assets Depreciated, Net	$ 1,831,818	$ 96,595	$ (3,282)	$ 1,925,131
Governmental Act. Capital Assets, Net	$ 12,375,682	$ 588,377	$ (172,875)	$ 12,791,184

[1] Prior year amount has been restated for the prior period adjustment.

Prior Period Adjustment Governmental Activities: During fiscal year 2012, equipment accumulated depreciation decreased by $18,940,000 resulting in a prior period adjustment. This decrease was attributable to a change in the method of depreciation to align with federal reporting on certain assets at the Minnesota Department of Transportation due to the conversion of capital assets into a new accounting system. This change has been reflected as an adjustment to the beginning balance.

Capital outlay expenditures in the governmental funds totaled $539,608,000 for fiscal year 2012. Donations of general capital assets received during fiscal year 2012 were valued at $3,633,000. Transfers of $149,382,000 were primarily from construction in progress for completed projects. Permanent School Fund additions were $2,000. Additions in internal service funds were $12,853,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2012, consisted of equipment with a cost of $3,706,000 and buildings with a cost of $180,005,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2012
(In Thousands)

	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 88,009	$ 597	$ (186)	$ 88,420
Construction in Progress	105,162	183,760	(96,769)	192,153
Total Capital Assets not Depreciated	$ 193,171	$ 184,357	$ (96,955)	$ 280,573
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 2,734,339	$ 106,506	$ (5,584)	$ 2,835,261
Library Collections	47,167	5,970	(7,013)	46,124
Internally Generated Computer	14,923	1,558	(786)	15,695
Equipment, Furniture, Fixtures	334,709	14,665	(15,817)	333,557
Total Capital Assets Depreciated	$ 3,131,138	$ 128,699	$ (29,200)	$ 3,230,637
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,170,704)	$ (83,329)	$ 3,506	$ (1,250,527)
Library Collections	(27,630)	(6,589)	7,013	(27,206)
Internally Generated Computer	(6,718)	(2,148)	738	(8,128)
Equipment, Furniture, Fixtures	(212,597)	(23,479)	15,251	(220,825)
Total Accumulated Depreciation	$ (1,417,649)	$ (115,545)	$ 26,508	$ (1,506,686)
Total Capital Assets Depreciated, Net	$ 1,713,489	$ 13,154	$ (2,692)	$ 1,723,951
Business-type Act. Capital Assets, Net	$ 1,906,660	$ 197,511	$ (99,647)	$ 2,004,524
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,763	$ 1	$ -	$ 29,764
Equipment, Furniture, Fixtures	8,330	2,306	(915)	9,721
Total Capital Assets Depreciated	$ 38,093	$ 2,307	$ (915)	$ 39,485
Accumulated Depreciation for:				
Buildings	$ (7,440)	$ (760)	$ -	$ (8,200)
Equipment, Furniture, Fixtures	(4,295)	(559)	610	(4,244)
Total Accumulated Depreciation	$ (11,735)	$ (1,319)	$ 610	$ (12,444)
Total Capital Assets Depreciated, Net	$ 26,358	$ 988	$ (305)	$ 27,041
Fiduciary Funds, Capital Assets, Net	$ 26,787	$ 988	$ (305)	$ 27,470

Primary Government
Depreciation Expense
Government-wide
Year Ended June 30, 2012
(In Thousands)

Governmental Activities:	
Agricultural, Environmental & Energy Resources	$ 6,796
Economic and Workforce Development	2,210
General Education	5,003
General Government	19,980
Health and Human Services	19,181
Public Safety and Corrections	25,508
Transportation	29,539
Internal Service Funds	8,884
Total Governmental Activities	$ 117,101
Business-type Activities:	
State Colleges and Universities	$ 104,102
Lottery	893
Other	10,564
Total Business-type Activities	$ 115,559

Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2012
(In Thousands)

	Administration	Transportation
Authorization	$ 101,541	$ 718,188
Less: Expended through June 30, 2012	(59,121)	(329,486)
Less: Unexpended Commitment	(24,308)	(202,171)
Remaining Available Authorization	$ 18,112	$ 186,531

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. These acres totaled 2,521,276 on June 30, 2012.

Component Units

Component Units
Capital Assets
As of December 31, 2011, or June 30, 2012, as applicable
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 203,156	$ 90,189	$ 967	$ 294,312
Construction in Progress	-	565,727	186,973	-	752,700
Museums and Collections	-	-	51,728	-	51,728
Permanent Easement	-	-	2	-	2
Buildings and Improvements	-	3,194,728	3,322,497	5,592	6,522,817
Equipment	2,265	991,741	861,064	2,172	1,857,242
Capitalized Software	6,028	-	111,949	-	117,977
Other Intangible Assets	-	-	4,473	-	4,473
Infrastructure	-	-	438,055	-	438,055
Total	$ 8,293	$ 4,955,352	$ 5,066,930	$ 8,731	$10,039,306
Less: Accumulated Depreciation	$ 6,356	$ 1,672,257	$ 2,369,979	$ 3,534	$ 4,052,126
Net Total	$ 1,937	$ 3,283,095	$ 2,696,951[1]	$ 5,197	$ 5,987,180

[1] In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of $60,850 as of June 30, 2012.

Note 7 – Disaggregation of Payables

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2012
(In Thousands)

	Governmental Activities			
	General Fund[2]	Federal Fund	Nonmajor Governmental Funds[1]	Total
School Aid Programs	$ 2,583,846	$ 183,063	$ 1,258	$ 2,768,167
Tax Refunds	540,716	-	-	540,716
Medical Care Programs	561,552	648,474	66,300	1,276,326
Grants	207,120	129,391	77,056	413,567
Salaries and Benefits	58,074	12,275	28,058	98,407
Vendors/Service Providers	111,367	68,474	318,440	498,281
Net Payables	$ 4,062,675	$ 1,041,677	$ 491,112	$ 5,595,464

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 87,066	$ -	$ 994	$ 88,060
Vendors/Service Providers	67,228	29,327	36,261	132,816
Net Payables	$ 154,294	$ 29,327	$ 37,255	$ 220,876
Total Government-wide Net Payables				$ 5,816,340

[1] Includes $50,832 Internal Service Funds.

[2] Includes $64 interfund payable to Fiduciary Funds reclassified to accounts payable on the government-wide statement of net assets.

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 performs only a fiduciary role for other funds. 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, and Minnesota State Colleges and Universities (MnSCU), which publishes a stand-alone pension statement, 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.

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 Hennepin County Supplemental Retirement Fund Postretirement Health Care Benefits Fund Unclassified Employees Retirement Fund State Deferred Compensation Fund
Public Employees Retirement Association (PERA)	Public Employees Retirement Fund Minneapolis Employees Retirement Fund Police and Fire Fund Public Employees Correctional Fund Volunteer Firefighter Retirement Fund Defined Contribution Fund
Teachers Retirement Association (TRA)	Teachers Retirement Fund
Minnesota State Colleges and Universities	State Colleges and Universities Retirement Fund

See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses of MSRS, PERA and TRA. The address for MnSCU is included in the "Defined Contribution Funds" section of this note.

Basis of Accounting and Valuation of Investments

The four 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 due. Expenses are recognized when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the statutory terms of each plan.

Investments are reported at fair value, except as described below. 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 sales 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 Minnesota 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, 2012, this presentation resulted in a negative asset within the total investment pool participation.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple-employer, cost-sharing plans:

  The State Employees Retirement Fund (SERF) covers most state employees, University of Minnesota non-faculty employees, and selected metropolitan agency employees. Twenty-seven employers participate in this plan. 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 if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent of a member's average salary for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the average of the five highest paid consecutive years of service. Annual benefits increase by 2.0 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis. 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 units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: 'basic' for members not covered by the Social Security Act (closed to new members since 1968) and 'coordinated' for members 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. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

  The Minneapolis Employees Retirement Fund (MERF) participating employers primarily include the City of Minneapolis, Minneapolis Special School District No. 1, and Minneapolis-St. Paul Metropolitan Airports Commission. MERF was closed to new members as of July 1, 1978. The Actuarial Accrued Liability is 74 percent funded according to the latest actuarial evaluation. The annuity formula for participants is 2.0 percent for each of the first 10 years of service and 2.5 percent each year thereafter of average salary. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is funding a portion of the unfunded actuarial liability, which is set in the state's biennial budget. The state is not liable for any additional portion of the unfunded liability without legislative action. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

  The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Annual benefits increase by 1.0 percent, then by the CPI up to 1.5 percent until the fund is 90 percent of full funding, then the CPI up to 2.5 percent. 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. Eighty county employers participate in this plan. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. Annual benefits increase by at least 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. 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. Approximately 575 employers participate in this plan. 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 the coordinated members 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 2.5 percent, and for coordinated members, 1.2 and 1.7 percent for service rendered before July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increases will not occur until January 1, 2013, when they will be at least 2.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

- Multiple employer, agent plan

  The Volunteer Firefighter Retirement Fund (VFRF) was established on January 1, 2010, as a lump-sum defined benefit plan largely funded by fire state aid. Members do not contribute to the plan. Employer contributions are determined annually. There are 35 employers participating in this plan. If fire state aid plus investment income are not expected to cover the normal cost of benefits during the next calendar year, an employer contribution is calculated and payable by the end of the next calendar year. Benefits are determined by employee years of service multiplied by a benefit level chosen by the entity sponsoring the fire department from 20 possible levels ranging from $500 to $7,500 per year of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353G. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

- Single-employer (state of Minnesota) plans:

  The Correctional Employees Retirement Fund (CERF) covers state employees who have direct contact with inmates at Minnesota correctional facilities generally 75 percent of the time or higher. The annuity is 2.4 percent of average salary for each year of service and 2.2 percent for hires after June 30, 2010. Annual benefits increase by 2.0 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

  The Elective State Officers Fund (ESOF) covers state constitutional officers elected prior to July 1, 1997. The ESOF is excluded from the single-employers plan disclosures since no active, contributing members remain in the plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C. Annual benefits to retirees and survivors increase by 2.0 percent or 2.5 percent if SERF's accrued liability funding ratio is a least 90 percent determined on a market value of assets basis.

The Judicial Retirement Fund (JRF) covers judges of the Supreme Court, Court of Appeals, and district courts. The annuity is 2.7 percent of average salary for each year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.8 percent. Annual benefits increase by 2.0 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

The Legislative Retirement Fund (LRF) covers certain members of the state's House of Representatives and Senate. Legislators newly elected since July 1, 1997, are covered by the Unclassified Employee Retirement Fund (defined contribution fund). The annuity benefit formula ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on a member's length of service. Annual benefits increase by 2.0 percent or 2.5 percent if SERF's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. The annuity is 3.0 percent of average salary for each year of allowable service. Annual benefits increase by 1.5 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

Statutory Contribution Rates
Year Ended June 30, 2012

	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352.90-352.955	352C	490	3A	352B	352.01-352.87	354
Required Contribution Rate							
Active Members	8.60%	N/A	8.00%	9.00%	12.40%	5.00%	6.00%
Employer(s)	12.10%	N/A	20.50%	N/A	18.60%	5.00%	6.00%

Multiple Employer Plan
Required Contributions
(In Thousands)

Required Contributions[1]		SERF	TRF
Employee	2012	$ 118,358	$ 239,834
	2011	$ 122,029	$ 218,024
	2010	$ 113,716	$ 214,909
Employers[2]	2012	$ 115,159	$ 244,935
	2011	$ 118,563	$ 222,723
	2010	$ 115,181	$ 220,538
Primary Government[3]	2012	$ 86,273	$ 27,994
	2011	$ 86,698	$ 28,287
	2010	$ 82,642	$ 28,693

[1] Contribution rates are statutorily determined.

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

[3] Primary Government's portion of Employer Contributions.

Single Employer Plan Disclosures
As of June 30, 2012
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 52,185	$ 12,203	$ 17,212	$ 22,828
Interest on Net Pension Obligation (NPO)[1]	5,769	(654)	376	(1,171)
Amortization Adjustment to ARC[1]	(4,103)	489	(545)	1,012
Annual Pension Cost (APC)	$ 53,851	$ 12,038	$ 17,043	$ 22,669
Contributions	(41,391)	(10,853)	(4,059)	(19,373)
Increase (Decrease) in NPO	$ 12,460	$ 1,185	$ 12,984	$ 3,296
NPO, Beginning Balance	$ 67,872	$ (7,697)	$ 4,427	$ (13,790)
NPO, Ending (Asset)	$ 80,332	$ (6,512)	$ 17,411	$ (10,494)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2012	$ 53,851	$ 12,038	$ 17,043	$ 22,669
	2011	$ 50,077	$ 11,467	$ 6,750	$ 20,406
	2010	$ 49,088	$ 12,146	$ 7,992	$ 23,536
Percentage of APC Contributed	2012	77%	90%	24%	85%
	2011	82%	99%	44%	81%
	2010	76%	99%	27%	72%
Net Pension Obligation (NPO) (End of Year)	2012	$ 80,332	$ (6,512)	$ 17,411	$ (10,494)
	2011	$ 67,872	$ (7,697)	$ 4,427	$ (13,790)
	2010	$ 58,689	$ (7,857)	$ 642	$ (17,745)

Schedule of Funding Status
(In Thousands)

	CERF	JRF	LRF	SPRF
Actual Valuation Date	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial Value of Plan Assets	$ 637,027	$ 145,996	$ 19,140	$ 563,046
Actuarial Accrued Liability	$ 907,012	$ 248,630	$ 216,559	$ 700,898
Total Unfunded Actuarial Liability	$ 269,985	$ 102,634	$ 197,419	$ 137,852
Funded Ratio	70%	59%	9%	80%
Annual Covered Payroll	$ 197,702	$ 40,473	$ 1,774	$ 63,250
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	137%	254%	11,128%	218%

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

Actuarial Assumptions for MSRS Defined Benefit Retirement Plans

- The actuarial cost method used by all plans is the Individual Entry Age Normal Cost Method. The date of actuarial valuation is July 1, 2011.
- The calculation of the actuarial valuation of assets is the sum of the market asset value at July 1, 2011, plus the scheduled recognition of investment gains or losses during the current and the preceding four fiscal years.
- Expected net investment returns for pre-retirement and post-retirement for July 1, 2011, are 8.5 percent and 6.5 percent, respectively, except for the SPRF whose post-retirement return is 7.0 and LRF whose pre-retirement and post-retirement are 0.0 percent. Future return assumptions for pre-retirement and post-retirement, respectively, will be 8.0 percent and 6.0 percent, from July 1, 2012, to June 30, 2017. Beginning July 1, 2017, the net investment returns for pre-retirement and post-retirement will be 8.5 percent and 6.5 percent. SPRF expected net investment returns for pre-retirement and post-retirement are 8.0 percent and 6.5 percent from July 1, 2012, to June 30, 2017. Beginning July 1, 2017, the net investment returns for pre-retirement and post-retirement will be 8.5 and 7.0 percent. Future return assumptions for pre-retirement and post-retirement return is 0.0 percent for LRF.
- Minnesota statutory valuation standards do not require an inflation rate assumption to cost the plans. Benefit increases after retirement are accounted for by the 6.5 percent post-retirement investment return assumption that is 2.0 percent less than the pre-retirement investment return assumption, except for LRF whose benefit increases after retirement are 2.0 percent.
- The amortization method uses level percentage of projected payroll growth, except for the Legislative and ESOF Retirement plans, which use the level dollar amortization method.
- Projected payroll growth is a level 4.50 percent except for JRF, which is a level 4.0 percent, and SERF, which is a level 3.75 percent.
- The statutory amortization periods for SERF, CERF, ESORF, JRF, LRF, and SPRF are through June 30, of 2040, 2038, 2017, 2038, 2021, and 2036, respectively.
- The amortization period is closed.
- Additional actuarial assumptions are detailed in the July 1, 2011, actuarial valuation reports for the MSRS defined benefit retirement funds. These reports are located online at http://www.msrs.state.mn.us/info/fincl.htmls.

Defined Contribution Funds

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds. The benefits 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 accrued benefit liability or 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.

Postretirement Health Care Benefits Fund (PHCBF), authorized by Minnesota Statutes, Section 352.98, creates a post-retirement health care savings plan by which public employers and employees may save to cover post-retirement health care costs. Contributions to the plan are defined in a personnel policy or in a collective bargaining agreement. 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 termination of 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 Employees 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, specified employees of various statutorily designated entities, or judges who exceed the maximum benefit cap under the Judicial Retirement Fund. Statutory contribution rates are 5.0 percent for employee and 6.0 percent for employer. However, contribution rates for participating judges is 8.0 percent with no employer contribution. Benefits are either participant's account balance withdrawals or an annuity based on age, value of the participant's account, and a 6.0 percent post-retirement interest assumption.

The Minnesota Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan.

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. The statutory contribution rate is 5.0 percent. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses.

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 $60,000. Statutes allow additional employer and employee contributions under specific circumstances.

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
Year Ended June 30, 2012
(In Thousands)

	HCSRF	PHCBF	UERF	DCF	CURF
Employee Contributions	$ 458	$ 128,375	$ 5,586	$ 1,548	$ 34,926
Employer Contributions	$ 459	N/A	$ 5,918	$ 1,674	$ 41,500

Investment Trust Funds

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are 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). These funds are investment pools for external participants.

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 a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation. In addition, Minnesota Statutes, Section 136F.481, authorized MnSCU to implement an early separation incentive program in fiscal year 2010. Approximately 150 former faculty members and staff currently receive this benefit. The cost of the benefits was $1,891,000 during fiscal year ended June 30, 2012, with a remaining liability as of June 30, 2012, of $3,879,000.

Primary Government – Postemployment Benefits Other Than Pensions

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, Section 43A.27, Subdivision 3, and Minnesota Statutes, Section 471.61, Subdivision 2a, and required under the terms of selected employment contracts. All pre-age 65 state retirees with at least 5 years of allowable pension service who 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 percent 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, 2010, there were approximately 2,450 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 65. As of July 1, 2010, there were approximately 1,150 correctional and law enforcement retirees receiving an explicit rate subsidy.

The state also offered an early retirement incentive that provided up to 24 months of employer contributions to the health and dental premiums at the level of coverage the employee was receiving at the time of separation. Employees must have met the eligibility requirements and retire before June 30, 2011, to receive this benefit. There were approximately 1,000 retirees receiving an explicit rate subsidy under this incentive.

The state does not issue a separate financial report for its OPEB as the state does not fund an OPEB plan and operates on a pay-as-you-go basis.

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 ended June 30, 2012, the state contributed $53,217,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed $25,123,000 through their average required contribution of $447 per month for retiree-only coverage and $1,315 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 costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.75 percent discount rate. For year ending June 30, 2012, the state's ARC is $80,079,000.

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

OPEB Disclosures
As of June 30, 2012
(In Thousands)

Annual Required Contributions (ARC)(1)	$	80,079
Interest on Net OPEB Obligation (NOO)(1)		7,804
Amortization Adjustment to ARC(1)		(6,355)
Annual OPEB Cost (Expense)	$	81,528
Contributions		(53,217)
Increase in NOO	$	28,311
NOO, Beginning Balance	$	164,311
NOO, Ending(2)	$	192,622

(1)Components of annual OPEB cost.

(2)Governmental Activities, Business-type Activities, and Fiduciary Funds include $166,156; $26,303; and $163, respectively.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011, and 2010 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 81,528	65%	$ 192,622
June 30, 2011	$ 77,250	51%	$ 164,311
June 30, 2010	$ 73,312	43%	$ 126,579

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $799,321,000. 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 $3,027,241,000, and the ratio of the UAAL to the covered payroll was 26.4 percent.

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 is based on the substantive plan (the plan as understood by the employer and the plan members) and includes 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 Cost method. The date of actuarial valuation is July 1, 2010.
- Expected investment return is 4.75 percent based on the estimated long-term investment yield on the general assets of the state.
- Inflation rate is 3.0 percent.
- Projected salary increases are a level 4.0 percent.

- The annual health care cost trend rate is 7.65 percent initially, reduced by increments to an ultimate rate of 5.0 percent after approximately 20 years. The annual dental cost trend rate is 5.0 percent.
- 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 another 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 $106,218,000 as of December 31, 2011, for this purpose. The annual required contribution for 2011 was $31,217,000 or 11.4 percent of annual covered payroll. As of December 31, 2011, 2010, and 2009, the net OPEB obligation was $70,628,000, $57,948,000, and $44,400,000 respectively. The actuarial accrued liability (AAL) for benefits was $337,805,000 as of December 31, 2011, all of which was unfunded. The covered payroll was $275,037,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 122.8 percent.

University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible employees, 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 the year ended June 30, 2012, was $26,157,000 or 2.1 percent of annual covered payroll. As of June 30, 2012, 2011, and 2010, the net OPEB obligation was $62,987,000, $44,131,000, and $33,482,000. The actuarial accrued liability (AAL) for benefits was $116,182,000 as of June 30, 2012, all of which was unfunded. The covered payroll was $1,222,548,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 9.5 percent.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, gas taxes, motor vehicle registration revenues, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2012, were as follows:

Primary Government
Encumbrances
As of June 30, 2012
(In Thousands)

Major Fund: General Fund	$ 184,491
Non-Major Governmental Funds	1,397,744
Total Encumbrances	$1,582,235

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 Cleanup Fund (Petrofund) (special revenue fund). As of November 2012, the Petrofund has reimbursed eligible applicants approximately $423,000,000 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, 2017, are between $435,000,000 and $465,000,000 for investigative and cleanup costs.

Environmental and Remediation Fund

The Remediation Account was established in the state treasury as part of the Environmental and Remediation Fund (special revenue fund) to provide a reliable source of public money for response and corrective actions to address releases of hazardous substances, pollutants, contaminants, agricultural chemicals, and petroleum, and for environmental response actions at qualified closed landfills for which the state has assumed responsibility. Money in the general portion of the fund may be spent for remediation actions related to releases of hazardous substances, pollutants, or containments and to provide technical and other assistance. Additionally, funds may be spent for corrective actions to address incidents involving agricultural chemicals, including related administrative costs, enforcement and cost recovery actions.

In addition to the general portion of the fund, two dedicated accounts are held within the fund. Money in the dry cleaner environmental response and reimbursement account may be used for environmental response actions at dry cleaning facilities and sites as well as related administrative costs. The metropolitan landfill contingency action trust account receives twenty-five percent of the metropolitan solid waste landfill fee. Money in this dedicated account is appropriated for closure and post closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a 30 year period after closure if determined that the operator/owner cannot take the necessary actions as directed by the commissioner of the Minnesota Pollution Control Agency.

The Closed Landfill Investment Account consists of money credited to the fund plus interest and other earnings. Money in the fund may be spent only after fiscal year 2020 as determined by the commissioner of the Minnesota Pollution Control Agency on environmental response actions at qualified closed mixed municipal solid waste disposal facilities.

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of $95,449,000 for construction and renovation of college and university facilities as of June 30, 2012.

Component Units

As of June 30, 2012, the Housing Finance Agency (HFA) had committed approximately $273,919,000 for the purchase or origination of future loans or other housing assistance.

Metropolitan Council entered into contracts for various purposes such as transit services and construction projects. As of December 31, 2011, unpaid commitments for Metro Transit Bus services were approximately $73,966,000. Future commitments for Metro Transit Light Rail were approximately $234,696,000, while future commitments for Metro Transit Commuter Rail were approximately $5,548,000. Finally, future commitments for Regional Transit and Environmental Services were approximately $307,233,000 and $48,476,000, respectively.

University of Minnesota (U of M) had construction projects in progress with an estimated completion cost of $358,449,000 as of June 30, 2012. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2012, Public Facilities Authority (PFA) had committed approximately $195,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $38,000,000 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 fiscal year ended June 30, 2012, totaled approximately $87,417,000 and $22,756,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2011, totaled approximately $1,438,000 for component units.

Primary Government and Component Units
Future Minimum Lease Payments
(In Thousands)

Primary Government		Component Units			
Year Ended June 30	Amount	Year Ended June 30	Amount	Year Ended December 31	Amount
2013	$ 84,527	2013	$ 17,586	2012	$ 1,091
2014	66,317	2014	14,771	2013	1,131
2015	46,273	2015	9,602	2014	918
2016	39,083	2016	6,840	2015	487
2017	33,013	2017	6,547	2016	430
2018-2022	77,436	2018-2022	25,114	2017-2021	1,015
2023-2027	8,260	2023-2027	8,078	2022-2026	103
2028-2032	1,990	2028-2032	7,924	2027-2031	103
2033-2037	-	2033-2037	5,122	2032-2036	102
2038-2042	-	2038-2042	-	2037-2041	7
Total	$ 356,899	Total	$ 101,584	Total	$ 5,387

Note 12 – Long-Term Liabilities – Primary Government

Primary Government
Long-Term Liabilities
Year Ended June 30, 2012
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 5,814,900	$ 875,967	$ 918,833	$ 5,772,034	$ 282,837
Revenue Bonds	12,055	784,155	1,636	794,574	915
Loans	31,583	10,019	12,990	28,612	10,446
Due to Component Unit	18,818	-	2,134	16,684	2,196
Capital Leases	151,156	-	6,837	144,319	7,026
Certificates of Participation	79,408	-	8,666	70,742	8,245
Claims	840,693	48,257	99,747	789,203	112,497
Compensated Absences	285,035	234,810	240,401	279,444	33,319
Net Other Postemployment Obligation	142,597	68,989	45,430	166,156	-
Net Pension Obligation	72,299	70,894	45,450	97,743	-
Total	$ 7,448,544	$ 2,093,091	$ 1,382,124	$ 8,159,511	$ 457,481
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 260,618	$ 9,719	$ 20,701	$ 249,636	$ 18,483
Revenue Bonds	375,409	79,356	22,813	431,952	23,130
Loans	465,280	866,716	1,326,981	5,015	731
Capital Leases	46,168	-	6,031	40,137	4,784
Claims	7,717	3,477	4,257	6,937	3,122
Compensated Absences	141,839	23,200	25,814	139,225	15,683
Net Other Postemployment Obligation	21,513	12,347	7,557	26,303	-
Total	$ 1,318,544	$ 994,815	$ 1,414,154	$ 899,205	$ 65,933

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

	Governmental Activities				
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	Total
Liabilities For:					
General Obligation Bonds	$4,655,864	$ 1,116,170	$ -	$ 249,636	$ 6,021,670
Revenue Bonds	5,588	788,986	-	431,952	1,226,526
Loans	-	10,160	18,452	5,015	33,627
Due to Component Unit	-	16,684	-	-	16,684
Capital Leases	142,443	1,876	-	40,137	184,456
Certificates of Participation	70,742	-	-	-	70,742
Claims	114,541	665,144	9,518	6,937	796,140
Compensated Absences	141,934	131,743	5,767	139,225	418,669
Net Other Postemployment Benefit Obligation	165,584	-	572	26,303	192,459
Net Pension Obligation	97,743	-	-	-	97,743
Total	$5,394,439	$ 2,730,763	$ 34,309	$ 899,205	$ 9,058,716

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, net other postemployment benefit obligation, and net pension obligation.

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

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2013	$ 282,837	$ 236,808	$ 18,483	$ 10,905	$ 301,320	$ 247,713
2014	271,703	225,618	18,407	10,013	290,110	235,631
2015	451,012	209,626	17,993	9,119	469,005	218,745
2016	422,203	188,860	17,537	8,244	439,740	197,104
2017	398,676	169,210	16,704	7,383	415,380	176,593
2018-2022	1,664,989	587,900	76,381	25,196	1,741,370	613,096
2023-2027	1,160,997	241,089	51,793	9,131	1,212,790	250,220
2028-2032	501,095	41,356	15,185	1,028	516,280	42,384
Total	$ 5,153,512	$ 1,900,467	$ 232,483	$ 81,019	$ 5,385,995	$ 1,981,486
Bond Premium	618,522	-	17,153	-	635,675	-
Total	$ 5,772,034	$ 1,900,467	$ 249,636	$ 81,019	$ 6,021,670	$ 1,981,486

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

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2013	$ 915	$ 37,616	$ 23,130	$ 18,351	$ 24,045	$ 55,967
2014	37,855	37,579	24,305	17,430	62,160	55,009
2015	38,780	36,562	25,280	16,435	64,060	52,997
2016	31,295	35,348	26,230	15,399	57,525	50,747
2017	32,775	33,887	26,665	14,287	59,440	48,174
2018-2022	179,100	144,415	129,550	53,768	308,650	198,183
2023-2027	217,460	95,907	108,370	25,085	325,830	120,992
2028-2032	229,950	31,088	50,155	6,530	280,105	37,618
2033-2037	-	-	3,081	74	3,081	74
Total	$ 768,130	$ 452,402	$ 416,766	$ 167,359	$ 1,184,896	$ 619,761
Bond Premium	26,444	-	15,186	-	41,630	-
Total	$ 794,574	$ 452,402	$ 431,952	$ 167,359	$ 1,226,526	$ 619,761

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

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2013	$ 12,642	$ 755	$ 731	$ 213	$ 13,373	$ 968
2014	15,169	556	735	180	15,904	736
2015	5,964	418	429	157	6,393	575
2016	4,007	303	410	141	4,417	444
2017	2,203	212	366	452	2,569	664
2018-2022	2,627	607	1,630	132	4,257	739
2023-2027	1,873	289	714	-	2,587	289
2028-2032	811	35	-	-	811	35
Total	$ 45,296	$ 3,175	$ 5,015	$ 1,275	$ 50,311	$ 4,450

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

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2013	$ 7,026	$ 7,240	$ 4,784	$ 913	$ 11,810	$ 8,153
2014	7,312	6,930	4,760	1,028	12,072	7,958
2015	7,145	6,582	4,606	1,114	11,751	7,696
2016	7,491	6,212	4,353	1,205	11,844	7,417
2017	7,857	5,825	4,275	1,159	12,132	6,984
2018-2022	45,206	22,634	15,396	5,950	60,602	28,584
2023-2027	56,947	10,112	922	403	57,869	10,515
2028-2032	5,335	232	1,041	128	6,376	360
Total	$ 144,319	$ 65,767	$ 40,137	$ 11,900	$ 184,456	$ 77,667

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities Principal	Governmental Activities Interest
2013	$ 8,245	$ 2,974
2014	8,575	2,644
2015	8,920	2,301
2016	9,270	1,945
2017	9,690	1,527
2018 - 2022	20,855	1,577
Total	$ 65,555	$ 12,968
Premium on Certificates of Participation	5,187	-
Total	$ 70,742	$ 12,968

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 2012, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2012
(In Thousands)

General Fund	$ 221,572
Special Revenue Funds:	
Trunk Highway Fund	$ 72,601
Natural Resources Funds	9
Miscellaneous Special Revenue Fund	250
Total Special Revenue Funds	$ 72,860
Capital Projects Fund:	
Building Fund	$ 81
Total Transfers to Debt Service Fund	$ 294,513

General Obligation Bond Issues

In September 2011, the state issued $769,000,000 general obligation bonds, Series 2011A through Series 2011C:

- Series 2011A for $445,000,000 in state various purpose bonds were issued at a true interest rate of 2.82 percent.
- Series 2011B for $320,000,000 in state trunk highway bonds were issued at a true interest rate of 2.89 percent.
- Series 2011C for $4,000,000 in state taxable bonds were issued at a true interest rate of 1.32 percent.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

Primary Government
General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2012 Outstanding Amount	Refunded Bond Call/Maturity Date
October 23, 2009	$ 100,395	$ 92,225	$ 92,225	November 1, 2012
September 29, 2010	133,962	123,025	107,850	August 1, 2012
September 29, 2010	85,125	78,175	64,350	November 1, 2012
September 29, 2010	298,435	274,070	252,245	August 1, 2013
September 29, 2010	226,002	207,550	192,725	August 1, 2014
September 29, 2010	164,261	150,850	140,075	November 1, 2014
November 29, 2011	84,851	82,355	82,355	August 1, 2012
November 29, 2011	17,150	16,645	16,645	October 1, 2012
November 29, 2011	55,709	54,070	54,070	November 1, 2012
November 29, 2011	17,232	16,725	16,725	December 1, 2012
November 29, 2011	42,444	41,195	41,195	June 1, 2013
November 29, 2011	76,804	74,545	74,545	August 1, 2013
November 29, 2011	14,574	14,145	14,145	October 1, 2013
November 29, 2011	53,705	52,125	52,125	November 1, 2013
November 29, 2011	21,868	21,225	21,225	December 1, 2013
November 29, 2011	28,586	27,745	27,745	June 1, 2014
	$ 1,421,103	$ 1,326,670	$ 1,250,245	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2012. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

Primary Government
General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2012
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 698	$ 1,080	5.00
State Operated Community Services	-	1,766	5.00
State Transportation	1,760	199,105	4.00 - 5.00
Maximum Effort School Loan	-	21,990	5.00
Rural Finance Authority	10,000	44,000	1.35 - 5.25
Refunding Bonds	-	1,454,190	1.75 - 5.00
Trunk Highway	1,236,458	1,116,170	2.00 - 5.00
Various Purpose	1,356,480	2,547,694	2.00 - 5.00
Total	$ 2,605,396	$ 5,385,995	

State Appropriation Bonds

The following table is a schedule of state appropriation bonds authorized, but unissued as of June 30, 2012.

Primary Government
State Appropriation Bonds Authorized, but Unissued
As of June 30, 2012
(In Thousands)

Purpose	Authorized But Unissued
Professional Football Stadium	$ 498,000
Pay-for-Performance	10,000
Total	$ 508,000

During the fiscal year 2012 legislative session, the state was authorized to issue general fund appropriation bonds to finance the costs of a professional football stadium project of the Minnesota Sports Facilities Authority, a related organization. In addition, the Minnesota Pay-for-Performance Act of 2011 authorized issuance of up to $10 million bond proceeds as incentive payments to service providers for certain financial outcomes that will result in decreased costs or increased revenues to the state.

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of $10,160,000 were from local government entities to finance certain trunk highway projects. In addition, $16,684,000 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.

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.

Certificates of Participation

In August 2009, the state issued $74,980,000 of certificates of participation (COPs) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds are funding two projects for developing a) the state's statewide financial and procurement system and b) the state's integrated tax accounting system. The COPs were issued under a trust agreement with U.S. Bank, NA., trustee, who will collect rental payments according to the principal and interest schedule pursuant to the Technology Systems Lease Purchase Agreement for remittance to the investors. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of either or both projects and take whatever action at law which may appear necessary to collect rental payment(s).

Revenue Bonds Payable

In July 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 Board has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling $27,759,000 for fiscal year 2012, have averaged approximately 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 percent (7 years) and 4.50 percent (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 2012, principal and interest paid by the Iron Range Resources and Rehabilitation Board on the bonds was $1,391,000. The total principal and interest remaining to be paid as of June 30, 2012, is $13,858,000 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. On November 13, 2008, $42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. On October 22, 2009, $60,510,000 in revenue bonds were issued at a true interest rate of 3.17 percent. On August 16, 2011, $60,380,000 in revenue bonds were issued at a true interest rate of 2.96 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 30 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2012, is $197,546,000, payable through June 2026. Principal and interest paid during fiscal year 2012 and total 911 fee revenues were $21,648,000 and $68,516,000, 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 $300,000,000 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 1.0 percent to 6.5 percent. Vermilion Community College and Itasca Community College issued revenue bonds through the state of Minnesota Higher Education Facility Authority and the Itasca County Housing Redevelopment Authority. 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 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $383,458,000. Principal and interest paid for the current year and total customer net revenues were $19,434,000 and $111,171,000, 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 49 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,036,000. Principal and interest paid and total customer net revenues during fiscal year 2012 were $207,000 and $431,000, respectively. These revenue bonds have a variable interest rate of 2.5 percent 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 33.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $85,000. Principal and interest paid and total customer net revenues during fiscal year 2012 were $82,000 and $259,000, respectively. These revenue bonds have a fixed interest rate of 6.0 percent.

In July 2011, Minnesota Statutes, Section 16A.98, created the Tobacco Securitization Authority (TSA) (blended component unit, special revenue fund) to manage securitization of the tobacco settlement payments exclusively for the state's benefit.

In November 2011, the state and TSA entered into a sales agreement. In the agreement, the state will relinquish its future tobacco settlement revenue to TSA starting in fiscal year 2014 through 2031. TSA sold revenue bonds and transferred to the state $640 million of the proceeds and a residual certificate in exchange for the rights to receive and retain 100 percent of the state's tobacco settlement revenue starting in fiscal year 2014 through fiscal year 2031. The residual certificate represents the state's ownership interest in excess tobacco settlement revenue to be received by TSA during the terms of the sales agreement. The total tobacco settlement revenue sold, based on the projected payment schedule, is estimated to be $2.9 billion. These tobacco revenues will be used to pay principal and interest payments totaling $1.2 billion with the residuals expected to be approximately $1.7 billion. The proceeds from the sale of these revenues were used to refund a portion of the state's general obligation bonds and certificates of participation. For fiscal year 2012, principal and interest paid by Tobacco Securitization Authority Fund (blended component unit, special revenue fund) was $9,492,000. The total principal and interest remaining to be paid as of June 30, 2012, is $1,206,674,000. See Note 21 Subsequent Event for a Supreme Court conclusion impacting this agreement.

Claims

Municipal solid waste landfill liability of $161,523,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue fund) and the General Fund. The state has assumed responsibility for the long-term care of certain closed municipal solid waste facilities. Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. The state is responsible, in perpetuity, for performing cleanup and final closure work, as well as all postclosure maintenance and monitoring, at qualifying sites. There are currently 109 landfills in the program. Funding for the state's ongoing claims at these landfills comes from the Environmental and Remediation Fund (special revenue fund). The Environmental and Remediation Fund includes revenues from insurance recovery proceeds and financial assurance from previous owners and operators. Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, have been used for design and construction work at the publicly-owned landfills in the program. Estimated landfill closure and postclosure liabilities include planned response actions, future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and administrative costs. Since costs are estimated at current value, actual costs could be different because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

The state of Minnesota is financially responsible to remediate certain known pollution present on either state owned or non-state owned land. In most cases, the state voluntarily assumes responsibility for site assessment and clean-up activities when the responsible party cannot be found or is financially unable to perform the remediation. Pollution remediation obligation liabilities as of June 30, 2012, were $50,288,000. Of this total, $36,815,000 was the liability for remediation on sites designated pursuant to state or federal superfund laws. The pollution remediation amounts are estimated through an analysis of existing polluted sites. The liabilities are based on the weighted average of the pollution remediation outlays expected to be incurred to settle those liabilities. Because the liabilities are measured at their current value, they are subject to change due to inflation, technology improvements, or changes to applicable laws and regulations. Funding for the state's pollution remediation primarily comes from the Environmental and Remediation Fund (special revenue fund), which was established under Minnesota Statutes, Section 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes, Section 115C.08.

The governmental activities and business-type activities liability for workers' compensation of $114,874,000 and $6,937,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2012, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of $32,300,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of $420,700,000 are 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 percent) 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 2052 for supplementary benefits and 2042 for second injuries.

The remaining $9,518,000 is for claims in the Risk Management Fund (internal service fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $279,444,000 and $139,225,000 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.

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 2012, 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 2012, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was $2,076,000. The total principal and interest remaining to be paid as of June 30, 2012, is $ 37,935,000, payable through 2030.

Long-Term Debt Repayment Schedule
Fiduciary Funds
Revenue Bonds – SERF, TRF, and PERF
(In Thousands)

Year Ended June 30	Principal	Interest
2013	$ 750	$ 1,338
2014	775	1,297
2015	825	1,254
2016	875	1,208
2017	925	1,158
2018-2022	5,550	4,924
2023-2027	7,475	3,086
2028-2032	5,794	701
Total	$ 22,969	$ 14,966

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

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, 2012, net of unamortized discounts/premiums, was $2,170,089,000.

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 $1,362,469,000 in general obligation bonds and general obligation grant anticipation notes and $2,700,000 of revenue bonds outstanding on December 31, 2011, both net of unamortized discounts/premiums.

University of Minnesota (U of M) issues general obligation bonds and revenue bonds for capital projects. On June 30, 2012, the principal amount of general obligation bonds and revenue bonds outstanding, net of unamortized discounts/premiums, was $635,042,000 and $308,369,000, respectively.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2012, the principal amount of revenue bonds outstanding was $1,835,000.

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, 2012, the outstanding principal of revenue bonds was $547,265,000, net of unamortized discounts/premiums.

Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.04, 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, 2012, net of unamortized discounts/premiums, was $1,167,558,000.

Loans and Notes Payable

Metropolitan Council received loans from the Minnesota Housing Finance Authority in 2002 and 2004 for $400,000, and $730,000, respectively. In 2004, MC received a $275,000 loan from Hennepin County Housing and Redevelopment Authority for a total of $1,405,000 of loans outstanding on December 31, 2011. The terms of the loan agreements are 30 years, although they may be extended indefinitely if all the terms of the loan agreement are met.

University of Minnesota issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity and supported by a line of credit with a major commercial bank. On June 30, 2012, the outstanding commercial paper notes was $246,350,000. U of M intends to hold the commercial paper notes as a long-term financing vehicle.

National Sports Center Foundation refinanced a majority of its existing debt with a new bank in 2011. On December 31, 2011, the total outstanding loans and notes payable was $3,355,000.

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

	MC[1]			U of M	
Year Ended December 31	Principal	Interest[2]	Year Ended June 30	Principal	Interest
2012	$ 132,745	$ 39,892	2013	$ 31,757	$ 28,943
2013	105,835	37,725	2014	28,358	27,477
2014	129,577	34,939	2015	32,265	26,040
2015	85,206	32,195	2016	33,955	24,550
2016	85,083	29,453	2017	35,270	22,980
2017-2021	441,871	103,192	2018-2022	160,040	90,270
2022-2026	280,487	38,096	2023-2027	113,085	57,634
2027-2031	86,079	5,209	2028-2032	113,745	25,245
2032-2036	-	-	2033-2037	43,520	4,976
Total	$ 1,346,883	$ 320,701	Total	$ 591,995	$ 308,115
Unamortized Discounts/ Premiums and Issuance Costs	15,586	-		43,047	-
Total	$ 1,362,469	$ 320,701	Total	$ 635,042	$ 308,115

[1] MC general obligation bonds include general obligation grant anticipation notes of $90 million issued in fiscal year 2012.

[2] MC interest is net of Build America Bonds federal subsidy.

Component Units
Revenue Bonds
Major Component Units
(In Thousands)

Year Ended June 30	HFA Principal	HFA Interest	U of M Principal	U of M Interest	Year Ended December 31	MC Principal	MC Interest
2013	$ 62,765	$ 73,849	$ 9,418	$ 14,415	2012	$ 1,305	$ 81
2014	47,165	73,917	7,942	13,246	2013	1,365	27
2015	54,940	72,530	8,920	12,816	2014	-	-
2016	50,690	70,968	9,350	12,385	2015	-	-
2017	53,210	69,381	9,830	11,911	2016	-	-
2018-2022	276,940	318,935	57,150	51,545	2017-2021	-	-
2023-2027	351,315	264,067	73,130	35,557	2022-2026	-	-
2028-2032	451,705	191,807	62,730	17,654	2027-2031	-	-
2033-2037	496,915	105,965	44,630	5,044	2032-2036	-	-
2038-2042	293,335	22,741	-	-	2037-2041	-	-
2043-2047	19,600	1,858	-	-	2042-2046	-	-
2048-2052	5,830	221	-	-	2047-2051	-	-
Total	$2,164,410	$1,266,239	$ 283,100	$ 174,573	Total	$ 2,670	$ 108
Unamortized Discounts/ Premiums and Issuance Costs	5,679	-	25,269	-		30	-
Total	$2,170,089	$1,266,239	$ 308,369	$ 174,573	Total	$ 2,700	$ 108

Component Units
Revenue Bonds
Nonmajor Component Units
(In Thousands)

Year Ended June 30	AEDB Principal	AEDB Interest	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2013	$ 375	$ 76	$ -	$ 4,692	$ 70,550	$ 54,308
2014	385	59	360	4,692	73,825	50,939
2015	400	42	1,135	4,685	77,620	47,293
2016	120	31	1,090	4,651	83,835	43,426
2017	130	24	3,045	4,618	78,475	39,282
2018-2022	425	33	68,370	20,275	424,155	134,081
2023-2027	-	-	18,150	14,616	221,960	49,778
2028-2032	-	-	8,050	11,637	85,015	8,378
2033-2037	-	-	72,400	9,418	-	-
2038-2042	-	-	188,425	3,852	-	-
2043-2047	-	-	185,000	1,027	-	-
	$ 1,835	$ 265	$ 546,025	$ 84,163	$1,115,435	$ 427,485
Unamortized Discounts/Premiums and Issuance Costs	-	-	1,240	-	52,123	-
Total	$ 1,835	$ 265	$ 547,265	$ 84,163	$1,167,558	$ 427,485

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M had entered into three separate interest rate swaps. All of these were pay-fixed, receive-variable interest rate swaps which changed the variable interest rate bonds to synthetic fixed-rate bonds. On February 1, 2011, U of M terminated these interest rate swap agreements related to the Series 1999A, 2001C, and 2003A bonds at a cost of $17,195,000, which included a net realized loss of $4,695,000.

As of June 30, 2012, U of M has three freestanding pay-fixed, receive-variable interest rate swaps that are considered ineffective hedges, where the changes in fair value are included in investment income reported in the Statements of Activities. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

The interest rates on all of the bonds are reset periodically. The rates on all of the bonds, except the taxable Series 2008A bonds, the tax-exempt Series 2008B bonds, and the tax-exempt series 2010 and 2011 bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1.0 percent; 17.0 percent; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25 percent. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14.0 percent; or the three month average of the three-month T-Bill plus an applicable spread of 1.25 percent. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively, and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A and 2011B bonds cannot exceed 12.0 percent. The interest on the Series 2011A and 2011B bonds is payable monthly and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2.0 percent to 5.0 percent. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.62 percent for the year ended June 30, 2012.

Housing Finance Agency

As of June 30, 2012, all of the HFA interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed as an interest rate swap agreement liability, whereas the inception-to-date change in fair value as of June 30, 2012, is included in the deferred loss on interest rate swap agreements asset on the Statement of Net Assets. See Note 2 – Cash, Investment, and Derivative Instruments for more information.

Bond Defeasances

In prior years, University of Minnesota defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $153,600,000 outstanding as of June 30, 2012. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M's financial statements as of June 30, 2012.

Public Facilities Authority had $260,500,000 of various refunding series bonds that were defeased but not yet redeemed as of June 30, 2012. These amounts are not reflected in the financial statements as of June 30, 2012.

Housing Finance Agency defeased all outstanding Single Family Mortgage Bonds totaling $81,085,000 on April 26, 2012. On that date, HFA issued $150,750,000 of Residential Housing Finance Bonds, a portion of which defeased $45,720,000 of the Single Family Mortgage Bonds. The reacquisition price of the refunded bonds exceeded the net carrying amount by $447,000, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately $3,969,000 and resulted in a present value savings of approximately $5,786,000 for HFA with refunding bond proceeds and available cash.

On April 26, 2012, HFA defeased $35,365,000 of Single Family Mortgage Bonds. The reacquisition price exceeded the net carrying amount by $754,000, which is included in interest expense.

The trust account assets and the liability for the defeased bonds were not included in HFA's statement of net assets after April 26, 2012. At June 30, 2012, the outstanding principal of the defeased bonds was $12,380,000.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2012
(In Thousands)

	Minnesota State Colleges and Universities			
		Vermilion	Itasca	
	Revenue Fund	Modular Housing	Residence Halls	911 Services
Condensed Statement of Net Assets				
Assets:				
Current Assets	$ 80,419	$ 116	$ 12	$ 99,753
Restricted Assets	149,568	143	397	-
Notes Receivable	1,200	-	-	-
Capital Assets	277,628	760	3,308	98,948
Total Assets	$ 508,815	$ 1,019	$ 3,717	$ 198,701
Liabilities:				
Current Liabilities	$ 33,979	$ 91	$ 116	$ 17,325
Noncurrent Liabilities	263,186	-	1,946	151,903
Total Liabilities	$ 297,165	$ 91	$ 2,062	$ 169,228
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 109,444	$ 760	$ 1,267	$ -
Restricted	102,206	60	312	29,473
Unrestricted	-	108	76	-
Total Net Assets	$ 211,650	$ 928	$ 1,655	$ 29,473
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	$ 111,168	$ 259	$ 430	$ 68,516
Depreciation Expense	(13,925)	(34)	(119)	(8,170)
Other Operating Expenses	(74,432)	(139)	(209)	(36,356)
Operating Income (Loss)	$ 22,811	$ 86	$ 102	$ 23,990
Nonoperating Revenues (Expenses):				
Interest Income	$ 741	$ -	$ 8	$ 1
Private Grants	9,082	-	-	-
Interest Expense	(10,412)	(7)	(116)	(7,245)
Other	(78)	-	-	(20,960)
Transfers-In (Out)	-	-	-	(682)
Change in Net Assets	$ 22,144	$ 79	$ (6)	$ (4,896)
Beginning Net Assets	189,506	849	1,661	34,369
Ending Net Assets	$ 211,650	$ 928	$ 1,655	$ 29,473
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	$ 37,192	$ 109	$ 243	$ 30,876
Net Cash Provided Noncapital Activities	9,082	-	-	-
Noncapital Financing Activities	-	-	-	23,744
Capital and Related Financing Activities	(89,898)	(84)	(206)	(18,040)
Investing Activities	595	-	8	1
Net Increase (Decrease)	$ (43,029)	$ 25	$ 45	$ 36,581
Beginning Cash and Cash Equivalents	$ 203,093	$ 203	$ 264	$ 58,512
Ending Cash and Cash Equivalents	$ 160,064	$ 228	$ 309	$ 95,093

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.
- 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 15 – Contingent Liabilities

Public Employee Pension Funds

In addition to the pension trust funds included in the reporting entity (see Note 8 – Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The 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:

Primary Government
Contingent Liabilities
(In Thousands)

Fund	Liability as of	Unfunded Liability
St. Paul Teachers Retirement Fund	July 01, 2011	$ 417,157
Duluth Teachers Retirement Fund	June 30, 2011	$ 85,993

University of Minnesota

The University of Minnesota (U of M) issued revenue bonds to finance a football stadium on campus. In 2006, the Minnesota Legislature appropriated from the General Fund $10.25 million per year not to exceed 25 years starting in 2008. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M.

The U of M issued revenue bonds to finance Biomedical Science Research facilities. In 2008, the Minnesota Legislature appropriated from the General Fund amounts ranging from $850,000 to $15.55 million per year not to exceed 25 years starting in 2010. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M.

Housing Finance Agency

The Housing Finance Agency (HFA) issued appropriation bonds 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. In 2008, the Minnesota Legislature appropriated from the General Fund up to $2.4 million per year for 20 years starting in 2009.

School District Credit Enhancement Program

Minnesota Statutes established a school district credit enhancement program. If a school district is unable to pay its debt service due on school district and intermediate school district certificates of indebtedness, capital notes, certificate of participation, and general obligation bonds enrolled in the program, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through 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. The total amount of debt rolled in the program at June 30, 2012 is $13.2 billion. The state has not had to make any debt service payments on behalf of school districts or intermediate school districts under this program.

City and County Credit Enhancement Program

Minnesota Statutes established a city and county credit enhancement program. If a city or county is unable to pay its debt service due on general obligation bonds enrolled in the program issued for the construction, improvement, or rehabilitation of certain projects or certain redevelopment, contaminated site cleanup, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the city or county, or the levy of an ad valorem tax which may be made with the approval of Public Facility Authority. The total general obligation bonds enrolled into the program on June 30, 2012 is $503 million. The state has not had to make any debt service payments on behalf of cities or counties under this program.

Note 16 – Equity

Restricted Net Assets – Government-wide Statement of Net Assets

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, 2012
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Agricultural, Environmental and Energy Resources	$ 260,737	$ 807,257	$ 11,859	$ 1,079,853
Arts and Cultural Heritage	21,542	-	-	21,542
Capital Projects	-	-	9,320	9,320
Debt Service	-	-	119,469	119,469
Economic and Workforce Development	-	126,739	1,731	128,470
General Education	-	59,374	3,268	62,642
General Government	-	40,641	808	41,449
Health and Human Services	-	5,278	15,305	20,583
Higher Education	-	-	506,964	506,964
Public Safety and Corrections	-	29,693	56,194	85,887
School Aid - Expendable	6,064	-	-	6,064
School Aid - Nonexpendable	856,747	-	-	856,747
Transportation	1,298,649	15,959	-	1,314,608
Unemployment Benefits	-	-	518,666	518,666
Other Purposes	-	-	26,208	26,208
Total Restricted Net Assets	$ 2,443,739	$ 1,084,941	$ 1,269,792	$ 4,798,472

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:

Governmental Funds
Fund Balances
As of June 30, 2012
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ -	$ -	$ 35,731	$ 35,731
Trust or Permanent Fund Principal	625,689	-	856,747	1,482,436
Restricted for:				
Agricultural, Environmental and Energy Resources	22,395	123	470,789	493,307
Arts and Cultural Heritage	-	-	21,542	21,542
Capital Projects	-	-	181,208	181,208
Debt Service	-	-	129,441	129,441
Economic and Workforce Development	69,065	-	84,586	153,651
General Education	57,023	-	11,558	68,581
General Government	-	-	39,307	39,307
Health and Human Services	-	-	6,288	6,288
Public Safety	-	-	28,470	28,470
Transportation	-	-	1,326,731	1,326,731
Committed to:				
Agricultural, Environmental and Energy Resources	-	-	51,506	51,506
Economic and Workforce Development	-	-	201,134	201,134
General Education	-	-	1,414	1,414
General Government	-	-	14,594	14,594
Health and Human Services	-	-	178,305	178,305
Public Safety	-	-	79,406	79,406
Transportation	-	-	35,269	35,269
Assigned to:				
Capital Projects	-	-	2,158	2,158
General Government	-	-	640,000	640,000
Unassigned:	(887,037)	-	(97,404)	(984,441)
Total Fund Balances	$ (112,865)	$ 123	$ 4,298,780	$ 4,186,038

Deficit Equity Balances

A $3,749,000 deficit total net asset balance was reported in the Behavioral Services Fund (enterprise fund) as of June 30, 2012. Repayment schedules have been established. This fund's operations continue to be evaluated for future operations.

A $97,404,000 deficit fund balance in the Debt Service Fund (debt service) resulted from the state's Debt Service Fund receiving the proceeds of the revenue bonds reported in the Tobacco Securitization Authority Fund (blended component unit, special revenue fund) that were used to refund certain general obligation bonds and certificates of participation. These proceeds are recorded as an advance from other funds in the Debt Service Fund. See Note 12 – Long-Term Liabilities – Primary Government and Note 21 – Subsequent Events for further information on the advance from the Tobacco Securitization Authority Fund and the sale of the state's tobacco settlement revenue.

Note 17 – 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-funding 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 agencies that own state 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 $2,500,000 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 $500,000 bodily injury and property damage per person, and $1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides $10,000,000 excess of a $1,000,000 retention 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 does not self-insure. These coverages include aviation, medical malpractice, and foster care liability. The premiums for these policies are billed back to the agencies at cost.

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

All losses of state property are 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

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. Tort claims brought outside Minnesota state jurisdiction and in Federal court have unlimited liability exposure.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including work place safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program 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 $1,840,000.

The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a 'pay-as-you-go' revolving fund or a premium pool cost allocation fund. 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 Employee Insurance 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 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 $2,096,216 greater than coverage during the fiscal year ended June 30, 2012.

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, 2012, was 4,966 members and their dependents. The members of the pool include 46 school districts, 25 cities/townships, 3 counties, and 10 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.

Primary Government
Self-Insured Claim Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/11	$ 14,649	$ (3,349)	$ 2,091	$ 9,209
Fiscal Year Ended 6/30/12	$ 9,209	$ 2,448	$ 2,598	$ 9,059
Tort Claims				
Fiscal Year Ended 6/30/11	$ -	$ 818	$ 818	$ -
Fiscal Year Ended 6/30/12	$ -	$ 1,381	$ 1,381	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/11	$ 111,772	$ 39,901	$ 22,295	$ 129,378
Fiscal Year Ended 6/30/12	$ 129,378	$ 15,030	$ 22,596	$ 121,812
State Employee Insurance Plans				
Fiscal Year Ended 6/30/11	$ 44,816	$ 614,842	$ 612,034	$ 47,624
Fiscal Year Ended 6/30/12	$ 47,624	$ 645,863	$ 636,351	$ 57,136

Primary Government
Public Employee Insurance Program
Medical Claims
(In Thousands)

	Year Ended June 30	
	2012	2011
Unpaid Claims and Claim Adjustment Expenses, Beginning	$ 1,943	$ 1,960
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	$ 36,024	$ 22,643
Increases (Decreases) in Provision for Insured Events of Prior Years	585	12
Total Incurred Claims and Claim Adjustment Expenses	$ 36,609	$ 22,655
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 32,716	$ 20,720
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	2,498	1,952
Total Payments	$ 35,214	$ 22,672
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$ 3,338	$ 1,943

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 above. 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 $500,000 per claim and $1,500,000 per occurrence for a claim arising on or after July 1, 2009. For claims arising earlier, the limits are $400,000 per claim and $1,200,000 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 2.89 percent. The self-insurance retention limit for workers' compensation is $1,840,000 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 estimates claim liabilities. 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 1.5 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's liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

U of M's medical (health) and dental coverage for faculty and staff is a self-insured program. Under the plan, U of M pays claims, while the administration of the program is handled by independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of the U of M's liability for medical claims, including incurred but not reported claims, is recorded.

Component Units
Claims Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council - Workers' Compensation				
Fiscal Year Ended 12/31/10	$ 15,809	$ 10,106	$ 7,169	$ 18,746
Fiscal Year Ended 12/31/11	$ 18,746	$ 5,572	$ 6,470	$ 17,848
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/11	$ 7,818	$ 2,345	$ 2,300	$ 7,863
Fiscal Year Ended 6/30/12	$ 7,863	$ 2,110	$ 1,831	$ 8,142
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/11	$ 12,683	$ 3,517	$ 4,235	$ 11,965
Fiscal Year Ended 6/30/12	$ 11,965	$ 2,969	$ 3,360	$ 11,574
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/11	$ 18,644	$ 246,634	$ 241,117	$ 24,161
Fiscal Year Ended 6/30/12	$ 24,161	$ 246,924	$ 242,692	$ 28,393

Note 18 – 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. In addition, the GAAP General Fund includes several funds that are not included in the budgetary General Fund. A reconciliation of the fund balances under the two basis of accounting for the General Fund is provided in the following table.

General Fund
Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2012
(In Thousands)

GAAP Basis Fund Balance:	$ (112,865)
Less: Encumbrances	116,608
Unassigned Fund Balance	$ (229,473)
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (513,868)
Tax Refunds Payable	484,940
Human Services Receivable	(23,821)
Unearned Revenue	11,160
Escheat Asset	(10,337)
Other Receivables	(20,127)
Permanent School Fund Reimbursement	(4,893)
Investments at Market	8,532
Expenditure Accruals/Adjustments:	
Medical Care Programs	479,717
Human Services Grants Payable	60,303
Education Aids	2,535,355
Police and Fire Aid	77,331
Other Payables	2,918
Other Financial Sources (Uses):	
Transfers-In	(12,726)
Fund Structure Differences:	
Terminally Funded Pension Plans	64
Perspective Differences:	
Account with no Legally Adopted Budget	(954,489)
Long-Term Receivables	(38,883)
Appropriation Carryover	(164,067)
Budgetary Reserve	(1,007,618)
Budgetary Basis:	
Undesignated Fund Balance	$ 680,018

Note 19 – Litigation Note

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, 2011, and June 30, 2012, are $761,000. The maximum limit of liability for tort claims arising out of a single occurrence in Minnesota on or before January 1, 2000, and before January 1, 2008, is $1,000,000. The maximum limited liability for any one claim is $300,000 for claims arising before August 1, 2007, and $400,000 for claims arising on or after August 1, 2007, and before July 1, 2009, for any one claim and the maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, is $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) 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 Minnesota Department of Transportation (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 (special revenue fund). MnDOT has agreed to acquire properties for Metropolitan Council's (component unit) 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 MnDOT by Metropolitan Council.

   b. *Alliance Pipeline, L.P. v. Commissioner of Revenue, et al.* (Minnesota Tax Court). Alliance operates a natural gas pipeline company and owns and operates property throughout 13 Minnesota counties. In October 2009, Alliance filed an appeal in Minnesota Tax Court challenging the Commissioner's 2009 assessment of Alliance's natural gas pipeline property in Minnesota. Subsequently, Alliance appealed the Commissioner's assessment for tax years 2010 and 2011. The legal issues in this appeal are very similar to the legal challenges raised in the *Minnesota Energy Resources Corp. v. Commissioner* appeals listed below. Alliance argues: (1) that the Commissioner has failed to correctly determine the market value of the property as defined by Minnesota Statutes, Section 272.03, Subdivision 8; (2) that Minnesota Rule 8100 exceeds the Commissioner's statutory authority to the extent it creates a valuation process which does not value utility property at its fair market value; and (3) that the assessment is unconstitutional in violation of the Equal Protection Clause, the Uniformity Clause and the Due Process Clause of the Minnesota Constitution and the Equal Protection and Due Process and Commerce Clauses of the U.S. Constitution.

   c. *Electric Cooperative Assessment Cases* (Minnesota Tax Court). Electric cooperatives filed a series of 16 separate appeals in Tax Court of the Commissioner of Revenue's assessment of sales tax for varying periods generally ranging from 2003 through 2006. Each electric cooperative estimates costs for its members as it bills those members throughout the year and collects sales tax based on those estimates. At year's end, if the cooperative has charged members in excess of the actual costs, it issues patronage adjustments in the form of "capital credits" to the members for the difference in cost. After doing so, the appellants filed for a refund in the sales tax paid on the difference between the actual and estimated costs. The Department initially paid the refunds to each appellant, but later issued assessments for the amounts that had been refunded. Citing Minnesota Rule 8130.1100, Subpart 5 (stating that when part of contribution is credited back to member's capital account after sale, credited amount is included in taxable sales price), the Department denied each appellant's administrative appeal. There are an estimated 44 electric cooperatives in the state that are similarly situated. The Department estimates total financial potential impact to the state of the Commissioner losing the legal issue in these cases is approximately $20.9 million in one-time refunds with an on-going annual impact of $4.2 million. The electric cooperatives filed a motion for partial summary claiming some of the assignment periods at issue are time barred.

   d. *Minnesota Energy Resources Corp. v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation, appeals the market valuations made of the pipeline corporation's real, personal and operating property subject to assessment in 53 counties in Minnesota. The separate appeals for tax years 2008, 2009, 2010, and 2011 are consolidated. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in Minnesota Statutes, Section 272.03, Subdivision 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 Minnesota Statutes, Section 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 under the Minnesota rule in effect for 2008. A new Minnesota rule governs calculation for the 2009-2011 tax years. Minnesota Energy Resources Corp. objects to both the old and new rules. Specifically, Minnesota Energy Resources Corp. disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not included in depreciation, the weighting of cost factors and claim that the property tax assessments are not applied evenly throughout Minnesota.

   e. *Skaja v. Minnesota Department of Health* and *Bearder, et al. v. State of Minnesota, et al. Anderson v. State of Minnesota*. (Hennepin County District Court). On November 16, 2011, the Minnesota Supreme Court issued an opinion in the *Bearder* case, holding that blood specimens collected under the newborn screening program are "genetic information" and that statutes governing the newborn screening program provide a limited exception to the requirements of the Genetic Privacy Act. The *Bearder* case was remanded to district court for further proceedings. Twelve families subsequently served the *Skaja* complaint and seek class action status, declaratory relief, injunctive relief and damages for alleged violation of the Genetic Privacy Act. The purported class includes all parents and children whose blood specimens were stored or used after newborn screening testing was complete. The *Anderson* plaintiffs (additional parents of minor children) commenced their action on January 13, 2012, alleging that the Department's collection, storage and use of blood samples pursuant to the Screening Program violated Minnesota Statutes, Section 13.386, the genetic privacy law. The complaint is styled as a class action. Plaintiffs seek damages, injunctive relief and an award of attorney's fees and torts. On April 16, 2012, the district court consolidated the three cases for all purposes. Motions for class certification have been filed.

Note 20 – Prior Period Adjustment and Extraordinary Item

Primary Government – Prior Period Adjustment

During fiscal year 2012, the Department of Human Services recognized that the federal government owed the state reimbursement for the federal share of Medicaid expenditures incurred by the state in prior years that were not submitted for reimbursement. A prior period adjustment of $138.6 million was made in the General Fund to reflect the federal revenue due to the state.

During fiscal year 2012, the Department of Human Services recognized additional unbilled revenue related to HMO Provider Surcharges that should have been recognized in the prior year. A prior period adjustment of $44.3 million was made in the government-wide financial statements to reflect the revenue.

During fiscal year 2012, the Minnesota Department of Transportation changed the method of depreciation to align with the method used for federal reporting. This change resulted in a prior period adjustment of $18.9 million reflected in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

Discretely Presented Component Unit (University of Minnesota) – Prior Period Adjustment

During fiscal year 2012, the University of Minnesota identified an overstatement of Investments that was recorded as a prior period adjustment of $12.6 million.

Discretely Presented Component Unit (Metropolitan Council) – Extraordinary Item

On December 12, 2010, a combination of record snowfall and high winds led to the accumulation of large amounts of snow and ice on Metrodome roof causing it to collapse. Almost all events scheduled between December 12, 2010, and August 2011 were canceled as the Metrodome roof was replaced. The Metropolitan Sports Facilities Commission, a component unit of the Metropolitan Council (discretely presented component unit), received $22.8 million in insurance proceeds for property damage and business interruption coverage.

Note 21 – Subsequent Events

Primary Government

On August 9, 2012, the state sold $21.9 million of Retirement System Building Revenue Refunding bonds at a true interest rate of 1.63 percent. These bonds will provide funding for a current refunding of the Retirement System Building Revenue bonds, Series 2000 which were issued to finance the acquisition design, construction and equipping of a building and related facilities jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The revenue bonds are secured by certain pledged assets of each of the retirement systems.

On August 16, 2012, the state sold $422.0 million of general obligation state various purpose bonds Series 2012A at a true interest rate of 2.05 percent, $234.0 million of general obligation state trunk highway bonds Series 2012B at a true interest rate of 2.38 percent, and $2.5 million general obligation state taxable state bonds Series 2012C at a true interest rate of 1.03 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On December 18, 2012, the state defeased $13.0 million of certain maturities of certificates of participation Series 2009. These certificates were issued to provide funding for the development, acquisition, installation, and implementation of a new statewide accounting and procurement system and integrated tax software.

In August 2012, a special legislative session was held to provide disaster assistance of $167.5 million for flood relief. The primary sources of funds are $71.9 million from the General Fund and $82.5 million from general obligation bonds.

On October 31, 2012, the Minnesota Supreme Court concluded that the Appropriation Refunding Bonds do not constitute public debt for which the State has pledged its full faith, credit and taxing powers. The Minnesota Supreme Court held that, accordingly, the bonds are not subject to the Minnesota Constitution's Article XI, Section 5, restrictions on the use of the proceeds of "public debt." Resulting from the decision of this court case, on November 21, 2012, the state sold $54.7 million of state General Fund appropriation refunding bonds taxable Series 2012A at a true interest rate of 0.61 percent, and $601.6 million of state general fund appropriation refunding bonds tax-exempt Series 2012B at a true interest rate of 2.46 percent. The bonds were issued for the purpose of refunding tobacco settlement revenue bonds Series 2011A and Series 2011B of the Tobacco Securitization Authority. These appropriation bonds are payable only from amounts appropriated by the legislature of the state.

Blended Component Unit

As a result of the sale of the state general fund appropriation refunding bonds, as stated above, the Tobacco Securitization Authority (Authority, blended component unit), by resolution dated November 5, 2012, has authorized and directed the trustee for the Authority bonds to give notice of the extraordinary optional redemption of the Series 2011B Authority bonds and notice of defeasance of both series of the Authority. Subsequently, the Series 2011 bonds were defeased and the Sale Agreement between the Authority and the state terminated and released the lien of the Authority Indenture on the state's tobacco settlement revenues.

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 (MnDOT) 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
2011	3.30	3.20
2010	3.33	3.17
2009	3.25	3.12

Bridges and Tunnels

Measurement Scale

MnDOT 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 bridges under MnDOT'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:

Rating	Description
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	2011	2010	2009
Fair to Good	94.5%	94.4%	94.0%

All Other Systems	2011	2010	2009
Fair to Good	91.4%	91.3%	90.4%

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	2012	$ 257,442	$ 288,138	$ 545,580	$ 23,111	$ 504,601	$ 527,712	$ 1,073,292
	2011	241,801	270,378	512,179	25,390	356,957	382,347	894,526
	2010	128,668	391,274	519,942	14,172	328,573	342,745	862,687
	2009	153,692	357,479	511,171	12,312	250,415	262,727	773,898
	2008	183,449	308,443	491,892	10,836	223,926	234,762	726,654
Actual	2012	$ 105,736	$ 158,438	$ 264,174	$ 64,810	$ 571,693	$ 636,503	$ 900,677
	2011	153,245	156,672	309,917	60,898	566,820	627,718	937,635
	2010	142,295	188,096	330,391	71,361	531,980	603,341	933,732
	2009	175,274	257,489	432,763	37,994	408,090	446,084	878,847
	2008	252,306	279,664	531,970	35,341	364,939	400,280	932,250

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 former 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	2011	7/1/2011	7/1/2011	7/1/2011	7/1/2011
	2010	7/1/2010	7/1/2010	7/1/2010	7/1/2010
	2009	7/1/2009	7/1/2009	7/1/2009	7/1/2009
Actuarial Value of Plan Assets	2011	$ 637,027	$ 145,996	$ 19,140	$563,046
	2010	$ 603,863	$ 144,728	$ 26,821	$567,211
	2009	$ 590,339	$ 147,120	$ 28,663	$584,501
Actuarial Accrued Liability	2011	$ 907,012	$ 248,630	$ 216,559	$700,898
	2010	$ 851,086	$ 240,579	$ 86,236	$683,360
	2009	$ 821,250	$ 241,815	$ 90,431	$725,334
Total Unfunded Actuarial Liability	2011	$ 269,985	$ 102,634	$ 197,419	$137,852
	2010	$ 247,223	$ 95,851	$ 59,415	$116,149
	2009	$ 230,911	$ 94,695	$ 61,768	$140,833
Funded Ratio(1)	2011	70%	59%	9%	80%
	2010	71%	60%	31%	83%
	2009	72%	61%	32%	81%
Annual Covered Payroll	2011	$ 197,702	$ 40,473	$ 1,774	$ 63,250
	2010	$ 192,450	$ 39,291	$ 1,877	$ 63,250
	2009	$ 193,445	$ 39,444	$ 1,963	$ 61,511
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2011	137%	254%	11,128%	218%
	2010	128%	244%	3,165%	184%
	2009	119%	240%	3,147%	229%

(1)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		7/1/2010 (1)
		7/1/2008
		7/1/2006
Actuarial Value of Plan Assets	7/1/2010	$ -
	7/1/2008	$ -
	7/1/2006	$ -
Actuarial Accrued Liability	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
	7/1/2006	$ 659,044
Total Unfunded Actuarial Liability	7/1/2010	$ 799,321
	7/1/2008	$ 754,801
	7/1/2006	$ 659,044
Funded Ratio(2)	7/1/2010	0%
	7/1/2008	0%
	7/1/2006	0%
Annual Covered Payroll	7/1/2010	$ 3,027,241
	7/1/2008	$ 2,785,335
	7/1/2006	$ 2,838,228
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2010	26%
	7/1/2008	27%
	7/1/2006	23%

(1)The July 1, 2010, Actuarial Valuation Report is the most recently issued report available. The Actuarial Valuation Report is prepared every two years.

(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)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Required Contribution and Investment Revenue:										
Earned	$ 23,458	$ 22,764	$ 19,177	$ 14,942	$ 13,219	$ 13,439	$ 12,286	$ 25,031	$ 34,161	$ 45,413
Ceded	2,321	2,231	1,736	1,491	1,347	1,298	1,218	2,684	2,660	3,502
Net Earned	$ 21,137	$ 20,533	$ 17,441	$ 13,451	$ 11,872	$ 12,141	$ 11,068	$ 22,347	$ 31,501	$ 41,911
2. Unallocated Expenses	$ 2,528	$ 2,296	$ 1,904	$ 1,638	$ 1,547	$ 1,505	$ 1,534	$ 2,037	$ 2,411	$ 3,018
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	$ 19,715	$ 19,466	$ 16,499	$ 12,551	$ 11,206	$ 10,748	$ 9,473	$ 19,350	$ 24,134	$ 38,173
Ceded	1,570	1,980	1,913	1,382	1,782	380	667	562	1,491	2,149
Net Incurred	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 15,847	$ 15,699	$ 12,909	$ 10,055	$ 8,226	$ 9,403	$ 7,921	$ 16,848	$ 20,720	$ 32,716
One Year Latter	17,572	17,367	14,141	11,282	9,352	10,415	8,482	18,828	23,219	
Two Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454	18,826		
Three Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454			
Four Years Latter	17,579	17,764	14,139	11,301	9,358	10,413				
Five Years Latter	17,579	17,696	14,139	11,301	9,358					
Six Years Latter	17,579	17,696	14,139	11,301						
Seven Years Latter	17,579	17,696	14,139							
Eight Years Latter	17,579	17,969								
Nine Years Latter	17,579									
5. Re-estimated Ceded Claims and Expenses	$ 1,570	$ 1,980	$ 1,913	$ 1,382	$ 1,782	$ 380	$ 667	$ 562	$ 1,491	$ 2,149
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024
One Year Latter	17,595	17,385	14,152	11,294	9,362	10,425	8,502	18,848	23,249	
Two Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454	18,826		
Three Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454			
Four Years Latter	17,579	17,764	14,139	11,301	9,358	10,413				
Five Years Latter	17,579	17,696	14,139	11,301	9,358					
Six Years Latter	17,579	17,696	14,139	11,301						
Seven Years Latter	17,579	17,696	14,139							
Eight Years Latter	17,579	17,696								
Nine Years Latter	17,579									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ (566)	$ 210	$ (447)	$ 132	$ (66)	$ 45	$ (352)	$ 38	$ 606	$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.

3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)

7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

APPENDIX G

CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

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

Section 3. *Official Statement; Continuing Disclosure.*

3.01. *Official Statement.* The Official Statement relating to the Bonds dated October 24, 2013 (the "Official Statement"), is a final Official Statement within the meaning of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12 as in effect and interpreted from time to time ("Rule 15c2-12"). The initial purchasers of the Bonds designated in Section 12 hereof (the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds are reoffered.

3.02. *Continuing Disclosure.*

(a) *General Undertaking.* On behalf of the State the Commissioner covenants and agrees with the Registered Owners from time to time of the Bonds to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to 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 Bonds, as set forth in this Section. The State is the only "obligated person" in respect of the Bonds within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Bond, any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or is treated as the owner of the Bond for federal income tax purposes.

(b) *Information To Be Disclosed.* The Commissioner will provide, in the manner set forth in paragraph (c) hereof, either directly or indirectly through an agent designated by the Commissioner, the following information (the "Disclosure Information") at the following times:

(1) On or before December 31 of each year, commencing in 2013 (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 Electronic Municipal Market Access ("EMMA") facility for municipal securities disclosure. 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, not in excess of 10 business days after the occurrence of an event, notice of the occurrence of any of the following events:

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults, if material;

(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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(G) Modifications to rights to security holders, if material;

(H) Bond calls, if material, and tender offers;

(I) Defeasances;

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

(K) Rating changes;

(L) Bankruptcy, insolvency, receivership or similar event of the State;

(M) The consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(N) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

As used herein, an event is “material” if it would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of 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 Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of

transmission under 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.

(4) The State shall determine in the manner it deeps appropriate whether there has occurred a change in the MSRB's email address or filing procedures and requirement under the MSRB's EMMA facility each time the State is required to file information with the MSRB.

(d) *Term; Amendments; Interpretation.*

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

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

(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 Bond, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

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

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APPENDIX H

FORMS OF LEGAL OPINION

__, 2013

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $283,820,000 General Obligation State Various Purpose Bonds, Series 2013D
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $283,820,000 General Obligation State Various Purpose Bonds, Series 2013D, dated November 6, 2013 (the "Series 2013D Bonds"). The Series 2013D Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2013D Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Series 2013D Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2013D Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2013D Bonds, with covenants made by the Commissioner of

Management and Budget in the Order authorizing the issuance of the Series 2013D Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2013D Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2013D Bonds. No provision has been made for an increase in the interest payable on the Series 2013D Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2013D Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

__, 2013

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $112,000,000 General Obligation State Trunk Highway Bonds, Series 2013E, dated November 6, 2013 (the "Series 2013E Bonds"). The Series 2013E Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2013E Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State.

2. The principal of and interest on the Series 2013E Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, the full faith and credit of the State are pledged, and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

3. Interest on the Series 2013E Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 3 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2013E Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2013E Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2013E Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2013E Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2013E Bonds. No provision has been made for an increase in the interest payable on the Series 2013E Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2013E Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

__, 2013

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $373,940,000 General Obligation State Various Purpose Refunding Bonds, Series 2013F, dated November 6, 2013 (the "Series 2013F Bonds"). The Series 2013F Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2013F Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Series 2013F Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2013F Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2013F Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2013F Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2013F Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2013F Bonds. No provision has been made for an increase in the interest payable on the Series 2013F Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2013F Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]