

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 Tax-Exempt 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. The interest to be paid on the Taxable Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. For a discussion of tax matters see “TAX MATTERS” herein.

\$462,065,000

STATE OF MINNESOTA

**State General Fund Appropriation Bonds
consisting of**

**\$391,785,000 State General Fund Appropriation Bonds, Tax-Exempt Series 2014A
(the “Series 2014A Bonds” or “Tax-Exempt Bonds”)**

**\$70,280,000 State General Fund Appropriation Bonds, Taxable Series 2014B
(the “Series 2014B Bonds” or “Taxable Bonds”)**

(the Series 2014A Bonds and the Series 2014B Bonds are collectively referred as the “Bonds”)

Dated: Date of delivery

Due: As shown on inside front cover

THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE OF MINNESOTA (THE “STATE”) PURSUANT TO MINNESOTA STATUTES, SECTION 16A.965 (THE “ACT”), AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER OF MANAGEMENT AND BUDGET (THE “ORDER”) FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS. **AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE MINNESOTA LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. SEE “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS” HEREIN.**

The Bonds are subject to optional redemption and mandatory sinking fund redemption, and the Series 2014B Bonds are subject to optional make-whole redemption, by the State as provided herein. See “THE BONDS - Redemption Provisions” herein.

The Bonds will be available 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 (“DTC”), which will act as securities depository for the Bonds. The Bank of New York Mellon Trust Company, N.A. is the Registrar and Paying Agent (the “Paying Agent”) and the Disbursing Agent (the “Disbursing Agent”) for the Bonds.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriters, 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. Certain legal matters will be passed upon by McGrann Shea Carnival Straughn & Lamb, Chartered, as counsel to RBC Capital Markets, LLC, representative on behalf of the Underwriters. Delivery will be made on or about January 31, 2014.

RBC Capital Markets

J.P. Morgan

Citigroup

Cronin & Co., Inc.

Loop Capital Markets

Wells Fargo Securities

Morgan Stanley

Piper Jaffray & Co.

\$462,065,000
STATE OF MINNESOTA
State General Fund Appropriation Bonds

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

**\$391,785,000 State General Fund Appropriation
Bonds, Tax-Exempt Series 2014A
(the “Series 2014A Bonds” or “Tax-Exempt
Bonds”)**

**\$70,280,000 State General Fund Appropriation
Bonds, Taxable Series 2014B
(the “Series 2014B Bonds” or “Taxable Bonds”)**

Serial Bonds

Serial Bonds

<u>Maturity (June 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2015	\$6,810,000	2.00%	0.200%	604146CF5
2016	3,080,000	3.00	0.370	604146BN9
2016	3,865,000	4.00	0.370	604146CJ7
2017	3,900,000	2.00	0.610	604146BP4
2017	3,295,000	5.00	0.610	604146CK4
2018	1,600,000	3.00	1.000	604146BQ2
2018	5,835,000	4.00	1.000	604146CL2
2019	1,160,000	4.00	1.320	604146BR0
2019	6,560,000	5.00	1.320	604146CM0
2020	750,000	4.00	1.760	604146BS8
2020	7,345,000	5.00	1.760	604146CN8
2021	8,490,000	5.00	2.120	604146BT6
2022	1,135,000	4.00	2.440	604146BU3
2022	7,780,000	5.00	2.440	604146CP3
2023	9,350,000	5.00	2.660	604146BV1
2024	9,815,000	5.00	2.850*	604146CQ1
2025	4,500,000	3.00	3.040	604146BW9
2025	5,805,000	5.00	3.020*	604146CT5
2026	10,730,000	5.00	3.160*	604146BX7
2027	11,270,000	5.00	3.290*	604146BY5
2028	11,830,000	5.00	3.390*	604146BZ2
2029	12,425,000	5.00	3.490*	604146CA6
2030	13,045,000	5.00	3.580*	604146CB4
2031	13,695,000	5.00	3.670*	604146CC2
2032	14,380,000	5.00	3.750*	604146CD0
2033	7,500,000	4.00	4.000	604146CE8
2033	7,600,000	5.00	3.810*	604146CR9

<u>Maturity (June 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2015	\$1,485,000	0.480%	0.480%	604146AV2
2016	1,495,000	0.598	0.598	604146AW0
2017	1,505,000	1.053	1.053	604146AX8
2018	1,520,000	1.684	1.684	604146AY6
2019	1,545,000	2.084	2.084	604146AZ3
2020	1,575,000	2.671	2.671	604146BA7
2021	1,620,000	2.971	2.971	604146BB5
2022	1,665,000	3.263	3.263	604146BC3
2023	1,720,000	3.513	3.513	604146BD1
2024	1,780,000	3.713	3.713	604146BE9
2025	1,845,000	3.963	3.963	604146BF6
2026	1,920,000	4.113	4.113	604146BG4
2027	2,000,000	4.263	4.263	604146BH2
2028	2,085,000	4.363	4.363	604146BJ8
2029	2,175,000	4.463	4.463	604146BK5

Term Bonds

Term Bonds

\$3,500,000 4.125% Term Bonds due June 1, 2038 Price:

100.00% to Yield 4.125%; CUSIP**: 604146CG3

\$83,635,000 5.00% Term Bonds due June 1, 2038 Price:

107.558% to Yield 4.020%*; CUSIP**: 604146CS7

\$111,100,000 5.00% Term Bonds due June 1, 2043 Price:

106.755% to Yield 4.120%*; CUSIP**: 604146CH1

\$12,525,000 4.827% Term Bonds due June 1, 2034 Price:

100.00% to Yield: 4.827%; CUSIP**: 604146BL3

\$31,820,000 5.077% Term Bonds due June 1, 2043 Price:

100.00% to Yield: 5.077%; CUSIP**: 604146BM1

*Yield calculated to first optional call date at 100%.

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THE UNDERWRITERS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE OR MAINTAIN THE PRICE OF THE SECURITIES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING OVER-ALLOTMENT AND STABILIZING TRANSACTIONS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON IS AUTHORIZED BY THE STATE OR THE UNDERWRITERS IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE STATE OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE A SALE OF ANY OF THE SECURITIES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER, SOLICITATION OR SALE.

This Official Statement contains information furnished by the State and other sources, all of which are believed to be reliable. The State has not independently verified the information contained in "TAX MATTERS" and cannot and does not warrant the accuracy or completeness of this information.

The information and expressions of opinion contained 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 has been no change in the affairs of the State since the date hereof or that the information contained herein is correct as of any date subsequent to the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party. See "CONTINUING DISCLOSURE."

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all materials in this Official Statement, including its appendices, must be considered in their entirety.

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.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

To ensure compliance with Treasury Circular 230, taxpayers holding the Bonds are hereby notified that: (a) any discussion of U.S. federal tax issues in this Official Statement is not intended or written to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

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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SUMMARY STATEMENT

(This Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.)

- Issuer:** State of Minnesota (the “State”)
- Offering** \$391,785,000 State General Fund Appropriation Bonds, Tax-Exempt Series 2014A (the “Series 2014A Bonds” or the “Tax-Exempt Bonds”)
\$70,280,000 State General Fund Appropriation Bonds, Taxable Series 2014B (the “Series 2014B Bonds” or the “Taxable Bonds”)
(The Series 2014A Bonds and the Series 2014B Bonds are collectively referred to as the “Bonds”)
- Principal Amount:** The principal amounts of the Bonds are set forth on the inside front cover page.
- Interest:** Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date (see below) of the Bonds, payable semiannually on each June 1 and December 1, commencing June 1, 2014.
- Dated Date:** Date of delivery, expected to be January 31, 2014.
- Authorization:** The Bonds are being issued pursuant to an Order of the Commissioner of Management and Budget and Minnesota Statutes, Section 16A.965 (the “Act”). See “THE BONDS – Authorization and Purpose” and “– Recent Supreme Court Decision” herein.
- Security:** The Act provides for annual appropriations from the State General Fund in the amount needed to pay principal of and interest on the Bonds. Such appropriations constitute a continuing appropriation that does not require any further action by the Legislature; however, such appropriations are subject to repeal by the legislature or unallotment under Minnesota Statutes, Section 16A.152. The Bonds shall be cancelled and shall no longer be outstanding upon such repeal or unallotment and otherwise as provided by the Act and the Order.
- THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER OF MANAGEMENT AND BUDGET FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE.

Cancellation:	If the State legislature reduces or repeals the Continuing Appropriations (as defined herein) for payment of principal of and interest on the Bonds pursuant to the Act or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The repeal or unallotment of the appropriations and the cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds.
Denominations:	The Series 2014A Bonds maturing in 2033 bearing interest at 4.00% will be issued in fully registered form without interest coupons in denominations of \$1,000 and integral multiples thereof. All other Series 2014A Bonds and all of the Series 2014B Bonds will be issued in fully registered form without interest coupons in denominations of \$5,000 and integral multiples thereof.
Book-Entry Bonds:	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.
Record Date:	The close of business on the 15 th day (whether or not a business day) of the immediately preceding month.
Redemption Provisions:	<ul style="list-style-type: none"> (i) The Series 2014A Bonds maturing in the years 2038 and 2043 and the Series 2014B Bonds maturing in the years 2034 and 2043, are subject to mandatory sinking fund redemption. (ii) The Bonds maturing on or after June 1, 2024 are subject to prior redemption at the option of the State in whole or in part at par plus accrued interest on any date on or after June 1, 2023. (iii) The Series 2014B Bonds are subject to make-whole redemption at the option of the State on any Business Day prior to June 1, 2023, as provided herein. See “THE BONDS” – “Redemption Provisions” herein.
Continuing Disclosure:	Other than as described under “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:	Standard and Poor’s Rating Group and Fitch Ratings have assigned ratings of “AA” and “AA,” respectively to the Bonds.
Registrar/Paying Agent/Disbursing 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 Series 2014A Bonds.

OFFICIAL STATEMENT

\$462,065,000

STATE OF MINNESOTA

State General Fund Appropriation Bonds

consisting of

**\$391,785,000 State General Fund Appropriation Bonds, Tax-Exempt Series 2014A
(the “Series 2014A Bonds” or “Tax-Exempt Bonds”)**

**\$70,280,000 State General Fund Appropriation Bonds, Taxable Series 2014B
(the “Series 2014B Bonds” or “Taxable 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 \$391,785,000 State General Fund Appropriation Bonds, Tax-Exempt Series 2014A (the “Series 2014A Bonds” or “Tax-Exempt Bonds”), and the \$70,280,000 State General Fund Appropriation Bonds, Taxable Series 2014B (the “Series 2014B Bonds” or “Taxable 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, acting by and through its Commissioner of Management and Budget (the “Commissioner”), pursuant to an Order of the Commissioner, as supplemented (the “Order”), and Minnesota Statutes, Section 16A.965 (the “Act”), which authorizes the State to issue bonds payable from amounts appropriated by the Legislature of the State for the purpose of providing financing of a portion of the costs of acquisition, construction, improving, and equipping of the stadium project of the Minnesota Sports Facilities Authority as provided by Minnesota Statutes, Chapter 473J (the “Stadium Act”), and for the funding of a debt service reserve account, if any, the payment of capitalized interest and the payment of issuance costs related to the Bonds.

Recent Supreme Court Decision

The Act provides that appropriation bonds such as the Bonds may be validated by order of the Minnesota Supreme Court or if comparable appropriation bonds are determined to be valid, no validation is required. On October 31, 2012, the Minnesota Supreme Court issued its opinion in *James D. Schowalter, in his capacity as Commissioner of the Minnesota Department of Management and Budget v. The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota* (Minnesota Supreme Court, filed October 31, 2012, Docket No. A12-0622) (“*the Case*”). In its opinion, the Minnesota Supreme Court concluded that, under the “plain language of Article XI, Section 4 of the Minnesota Constitution, the Appropriation 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 \$656,220,000 State of Minnesota State General Fund Appropriation Refunding Bonds, consisting of \$54,665,000 State General Fund Appropriation Refunding Bonds, Taxable Series 2012A and \$601,555,000 State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B (collectively, the “Series 2012 Bonds”) are not subject to the Minnesota Constitution’s Article XI, Section 5, restrictions on the use of the proceeds of “public debt.”

The complaint giving rise to the Case requested the Minnesota Supreme Court to validate the Series 2012 Bonds. The Minnesota Supreme Court decided the constitutional “public debt” question raised by the complaint. However, the Minnesota Supreme Court declined to address the question of whether the Commissioner had taken all action necessary and sufficient for the valid issuance of the Series 2012 Bonds in accordance with law on the grounds that there was not a justiciable controversy on that question before the Court because the parties to the legal proceeding had agreed that the Commissioner had taken all procedural steps necessary to issue the Series 2012 Bonds. In light of the permissive language of the Act and the Case opinion, it is not necessary for the Bonds to be issued with a Minnesota Supreme Court validation order. See APPENDIX H for the form of legal opinions to be delivered upon issuance of the Bonds.

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 of this Official Statement. 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 June 1 and December 1 to maturity or prior redemption, if any, commencing June 1, 2014, to the registered owner thereof as of the close of business on the fifteenth day of the immediately preceding month, whether or not such day is a business day (the “Record Date”). If principal or interest is due on a date on which commercial banks are not open for commercial business, then payment will be made on the first day thereafter when such banks are open for business.

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.”

Series 2014A Bonds

The Series 2014A Bonds maturing in 2033 bearing interest at 4.00% are issued in book entry form and in denominations of \$1,000 or multiples thereof. All other Series 2014A 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.

Series 2014B Bonds

The Series 2014B 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.

Redemption Provisions

Mandatory Sinking Fund Redemption

The Series 2014A Bonds maturing on June 1, 2038 and bearing interest at 4.125%, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2034	\$640,000
2035	665,000
2036	700,000
2037	735,000
2038 (Final Maturity)	760,000

The Series 2014A Bonds maturing on June 1, 2038 and bearing interest at 5.00%, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2034	\$15,140,000
2035	15,900,000
2036	16,685,000
2037	17,515,000
2038 (Final Maturity)	18,395,000

The Series 2014A Bonds maturing on June 1, 2043, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2039	\$20,105,000
2040	21,110,000
2041	22,170,000
2042	23,275,000
2043 (Final Maturity)	24,440,000

The Series 2014B Bonds maturing on June 1, 2034, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2030	\$2,275,000
2031	2,385,000
2032	2,500,000
2033	2,620,000
2034 (Final Maturity)	2,745,000

The Series 2014B Bonds maturing on June 1, 2043, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2035	\$2,875,000
2036	3,025,000
2037	3,175,000
2038	3,340,000
2039	3,505,000
2040	3,685,000
2041	3,870,000
2042	4,070,000
2043 (Final Maturity)	4,275,000

Optional Redemption

Optional Redemption of the Series 2014A Bonds. The Series 2014A Bonds maturing on or before June 1, 2023 are not subject to optional redemption. The Series 2014A Bonds maturing on or after June 1, 2024 are subject to redemption at the option of the Commissioner prior to their stated maturities in whole or in part on any date on or after June 1, 2023, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption.

Optional Redemption of the Series 2014B Bonds. The Series 2014B Bonds maturing on or after June 1, 2024 are subject to redemption at the option of the Commissioner prior to their stated maturities in whole or in part on any date on or after June 1, 2023, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption.

Make-Whole Optional Redemption of the Series 2014B Bonds. The Series 2014B Bonds are subject to redemption prior to their maturity at the option of the Commissioner, in whole or in part on any Business Day prior to June 1, 2023, at the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of:

- (i) 100% of the principal amount of the Series 2014B Bonds to be redeemed; or
- (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2014B Bonds to be redeemed (taking into account any mandatory sinking fund redemption), not including any portion of those payments of interest accrued and unpaid as of the date on which those Series 2014B Bonds are to be redeemed, discounted on a semi-annual basis to the date on which those Series 2014B Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined below) plus fifteen (15) basis points;

Plus, in each case, accrued and unpaid interest on those Series 2014B Bonds to be redeemed on the redemption date.

"Treasury Rate" means, with respect to any redemption date for any particular Bond, the greater of:

- (i) the yield to maturity as of the redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days, but not more than forty-five (45) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the remaining average life of the Series 2014B Bonds to be redeemed (taking into account any mandatory sinking fund redemptions); provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial adviser retained by the Commissioner at the State's expense, and such determination shall be conclusive and binding on the owners of the Series 2014B Bonds, or
- (ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed. If interpolation is utilized, the straight-line method will be applied to such interpolation.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Commissioner.

"Reference Treasury Dealer" means each of the four firms, specified by the Commissioner from time to time, that are primary United States government securities dealers in The City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Commissioner will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the second Business Day preceding such redemption date.

"Business Day" means any day, other than a Saturday or Sunday, and other than a day on which the Bond Registrar or a Paying Agent (other than the Bond Registrar), as applicable, is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed.

Selection of the Series 2014A Bonds to be Redeemed

The Series 2014A Bonds subject to redemption and prepayment, shall be redeemed in whole or in part, in such order as the State shall determine and within a maturity by lot as selected by the Registrar (of, if applicable, by the bond depository in accordance with its customary procedure) in multiples of \$5,000, in the case of a \$5,000 denomination, or \$1,000 in the case of a \$1,000 denomination.

Selection of the Series 2014B Bonds to be Redeemed

For so long as the Series 2014B Bonds are registered in book entry only form and DTC or its nominee is the sole registered owner of the Series 2014B Bonds, the Bond Registrar will give notice of redemption only to DTC as registered owner with instructions that any redemption of less than all of the outstanding Series 2014B Bonds shall be allocated as nearly as practical among all the owners of book entry interests in those Series 2014B Bonds (in the amounts of \$5,000 denomination or any whole multiple) then outstanding in proportion to the total principal amount of each owner's book entry interests in those Series 2014B Bonds. That allocation and the selection of the book entry interests of the Series 2014B Bonds to be redeemed will be by and is the sole responsibility of DTC and its Participants and those working through those Participants. Any redemption of less than all of the outstanding Series 2014B Bonds processed through DTC will be treated by DTC, in accordance with its rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal," provided that, so long as the Series 2014B Bonds are held in book-entry form, the selection for redemption of such Series 2014B Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the State's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the State nor the Underwriter can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of the Series 2014B Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2014B Bonds on a pro rata pass-through distribution of principal basis, then the Series 2014B Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

If the Series 2014B Bonds are not registered in book entry only form, any redemption of less than all of the outstanding Series 2014B Bonds shall be allocated (in the amounts of \$5,000 denomination or any whole multiple) among the registered owners of those Series 2014B Bonds then outstanding as nearly as practical in proportion to the principal amounts of the then outstanding Series 2014B Bonds owned by each registered owner. This will be calculated based on the following formula:

$$\frac{(\text{principal to be redeemed}) \times (\text{principal amount owned by owner})}{(\text{principal amount outstanding})}$$

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 Registrar and 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, (vi) that after the redemption date interest will cease to accrue or be payable thereon, and (vii) whether the call for redemption on the date specified by such notice is made conditional on the deposit with the Registrar and Paying Agent of moneys in an amount equal to the stated redemption price on or before such date. 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 State'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.

NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS¹

General

Pursuant to the Act, the Bonds are payable in whole or in part from moneys appropriated each fiscal year from the General Fund to the Commissioner, subject to repeal or allotment under Minnesota Statutes, Section 16A.152, or cancellation, for deposit into the Series 2014A (Stadium Project) Bond Account, with respect to the Series 2014A Bonds, and into the Series 2014B (Stadium Project) Bond Account, with respect to the Series 2014B Bonds, established for such purpose in the Special Appropriation Stadium Bond Proceeds Fund of the State.

The General Fund is comprised of numerous revenue sources, including tax revenues, unrestricted grants, certain fees and charges of State agencies and departments and investment income. See "APPENDIX B – STATE FINANCES – GENERAL FUND REVENUE SOURCES" and "STATE OF MINNESOTA GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES" on page B-6. The State has not pledged any particular source of revenue as security for the Bonds. Notwithstanding the availability of any revenue source, continuing appropriations ("Continuing Appropriations") such as those under the Act, are subject to legislative repeal or allotment.

The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, a current Legislature is prohibited by law from acting to bind any future Legislature, and so a continuing appropriation may be reduced or repealed entirely by the Legislature at any time. In addition, appropriations are subject to executive allotment, in whole or in part. The Minnesota Supreme Court has held that such allotment power may be used when a balanced budget for the biennium has been enacted and the Commissioner subsequently determines during such biennium that probable receipts for the General Fund will be less than anticipated. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks" below.

Other continuing appropriations from the General Fund include those authorized for the Department, the University of Minnesota and the Minnesota Housing Finance Agency, and for State lease payments for equipment and real estate. See "APPENDIX C – STATE DEBT – Contingent Liabilities." These continuing appropriations are

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).

distinguishable from State appropriations that require action by the Legislature on an annual or biennial basis. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks – Reduction or Repeal of Appropriation – Appropriations Other Than Continuing Appropriations” below. Continuing appropriations from the General Fund for payment of principal and interest have not previously been reduced or repealed by the Legislature.

THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF THE ORDER FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. *THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE EARLIER OF (I) THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT FOR PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS, OR (II) THE DATE OF FINAL PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE APPROPRIATION BONDS.* AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks.”

Bond Account

The Order establishes a “Series 2014A (Stadium Project) Bond Account” and a “Series 2014B (Stadium Project) Bond Account” in the Special Appropriation Stadium Bond Proceeds Fund of the State created by the Act, to which are appropriated each year moneys from the General Fund, as provided by the Act, and from which shall be paid the principal of and interest on the Bonds and all bonds thereafter issued which are made payable therefrom in accordance with law.

Pursuant to the Continuing Appropriations made by the Act, there shall be credited to the Series 2014A (Stadium Project) Bond Account and the Series 2014B (Stadium Project) Bond Account on December 1 in each year, from the General Fund in the State Treasury, an amount sufficient with the balance then on hand in the Special Appropriation Stadium Bond Proceeds Fund of the State and such account to pay all principal and interest then due and to become due on the next succeeding June 1 and December 1 on all Bonds, provided that such appropriations shall be subject to (a) repeal by the Legislature or (b) unallotment under Minnesota Statutes, Section 16A.152. The Bonds shall be cancelled and shall no longer be outstanding upon such repeal or unallotment provided by subdivision 6 of the Act and by the Order.

On or before each June 1 and December 1, commencing June 1, 2014, and provided that the Continuing Appropriations for the year of payment have not been reduced, repealed or unallotted under Minnesota Statutes, Section 16A.152, and the Bonds have not been cancelled pursuant to the Act and the Order, the Commissioner shall transmit to the Registrar from the Special Appropriation Stadium Bond Proceeds Fund of the State in the General Fund, moneys sufficient to pay all principal and interest due on the Bonds issued pursuant to the Act and the Order on such date.

Certain Risks

Either (i) a legislative repeal of the Continuing Appropriations for payment of principal of and interest on the Bonds established by the Act or (ii) an executive unallotment, in whole or in part, of the Continuing Appropriations could result in the cancellation of the Bonds without recourse by the Bondholder for any additional payments of principal of or interest on the Bonds and without any obligation by the State to make any such additional payments. See “Cancellation of Bonds Prior to Maturity” below.

The State’s obligation to make payments on the Bonds is not a general or moral obligation of the State; rather the State is obligated to make payments only to the extent moneys are appropriated from time to time for such purpose.

Reduction or Repeal of Appropriation

Continuing Appropriations. The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, as provided by the Act and otherwise pursuant to Minnesota law, a continuing appropriation may be reduced or repealed entirely by the Legislature. There can be no assurance by the State that the Legislature will not reduce or repeal the Continuing Appropriations, resulting in cancellation of the Bonds as described below.

Appropriations Other Than Continuing Appropriations. Certain State appropriations (other than the Continuing Appropriations) for limited payment obligations of the State are not continuing appropriations and, thus, require action by the Legislature on an annual or biennial basis. In the past, the Legislature has failed to make appropriations as necessary to pay in full debt service on State or other obligations, including in 1980 and 1981, when an appropriation to the Minnesota State Zoological Board (the “Zoo Board”) of net revenues of a zoo ride facility were insufficient to allow the Zoo Board to make payments pursuant to an installment purchase agreement, which payments had been assigned to holders of certificates of participation in such agreement. In 1989, the Legislature declined to appropriate funds to St. Cloud State University as necessary to make certain payments under an energy services agreement, which payments had been assigned to an indenture trustee as security for the payment of principal of and interest on industrial development revenue bonds issued by the City of St. Cloud, Minnesota. As previously stated, the limited payment obligations of the State described in this paragraph were not continuing appropriations and, unlike the Bonds, required affirmative action by the Legislature on an annual or biennial basis for State payments to be made in respect of said obligations.

Unallotment. The Continuing Appropriations are subject to executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. Article XI, Section 6 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to such requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (such years together, the “biennium”). On July 1 of each odd-numbered year, the Commissioner transfers to the Budget Reserve Account within the General Fund (the “Budget Reserve”) any amounts specifically appropriated by law to such Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner, with the approval of the Governor, to “unallot” funds as follows:

- (a) An additional deficit shall, with the approval of the Governor, and after consulting the Legislative Advisory Commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the Commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
- (b) If the Commissioner determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the Commissioner shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.
- (c) In reducing allotments, the Commissioner may consider other sources of revenue available to recipients of State appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are updated to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but such requests do not relieve the Commissioner of his obligation to reduce allotments to State agencies.

The executive branch has imposed unallotments in prior fiscal years, but not with respect to the payment of debt service. Over the past thirty years, the unallotment procedure has been used as follows: \$195 million of unallotments in 1980; in 1981 local government aid payments were unallotted in November and December but were reallocated and paid by February 26, 1982; \$109 million of unallotments in 1986; \$281 million of unallotments in 2003; \$271 million of unallotments in 2008; and \$2.68 billion of unallotments in 2009. The 2009 unallotment was unique in that it resulted from the passage of appropriation bills for the fiscal biennium, but the then-Governor vetoed a tax bill that would have balanced the biennial budget by raising revenues and shifting payments. In litigation challenging the 2009 unallotments, the Minnesota Supreme Court concluded that unallotment could not be used to balance the budget for an entire biennium when balanced spending and revenue had not been agreed upon by the legislature and the Governor. The legislature and Governor subsequently agreed to a balanced budget for the biennium. While appropriations from the General Fund for payment of debt service have not previously been unallotted, there can be no assurance by the State that unallotment of the Continuing Appropriations will not be imposed in any future year, resulting in cancellation of the Bonds as described below.

Cancellation of Bonds Prior to Maturity. If the Legislature reduces or repeals the Continuing Appropriations, or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding, and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds. Although there can be no assurance by the State that the Legislature or the executive branch will not take action resulting in cancellation of the Bonds as described herein, no bonds issued by the State have ever previously been cancelled by reason of any such action.

Other Risks

There can be no assurance that other events outside the control of the Commissioner, such as a temporary State government shutdown, will not affect the ability of the Commissioner to make timely payments of principal of and interest on the Bonds. However, such events (other than reduction, repeal or unallotment of the Continuing Appropriations as described above) would not result in cancellation of the Bonds as described above.

See FINANCIAL INFORMATION – Stadium General Reserve Account; BIENNIUM BUDGETS, 2013 Legislative Session – Current Biennium – Reserves in Enacted Budget; GENERAL FUND REVENUE SOURCES – Tax Sources – Gambling Tax; and GENERAL FUND REVENUE SOURCES – Other Sources; in APPENDIX B. See generally, APPENDIX B – STATE FINANCES.

PROJECT DESCRIPTION

General

The Bonds in the aggregate principal amount of \$462,065,000 are being issued by the State for the purpose of providing financing for a portion of the capital costs of the stadium project (the “Project”) of the Minnesota Sports Facilities Authority (the “Authority”), and to pay costs of issuance of the Bonds. The Bonds are being issued in

accordance with the Act and the Order. The total cost of the Project is estimated at approximately \$975,000,000. The capital costs of the Project beyond those financed by the Bonds are to be covered by certain matching funds as required by the Stadium Act and more fully described in APPENDIX F.

The Bonds and their payment are not secured by any revenues of the Project or by any mortgage, deed of trust or security interest in the Project or any portion of the Project. The Bonds are payable solely as described under “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS” herein.

The Legislature and the Minneapolis City Council approved funding for the Project to be constructed in the city of Minneapolis to replace the Hubert H. Humphrey Metrodome, which was constructed in 1982.

The new stadium will seat approximately 65,000 people and could expand to accommodate approximately 72,000 fans during major sporting events. The Project will serve as a venue for the playing of NFL home football games of the Minnesota Vikings football team. As mandated by the Stadium Act, the stadium will have a roof which covers the stadium. The stadium will include approximately 150 suites, 7,500 club seats, and space for gift shops, restaurants, an NFL team museum and a Hall of Fame. In addition to the Minnesota Vikings home games and up to ten additional Vikings-related events, the stadium will be available up to 345 days a year for public uses, including high school and amateur sports, cultural celebrations and entertainment events.

Official groundbreaking for the Project occurred on December 3, 2013, and construction is under way. Project completion is scheduled in time for commencement of the 2016 NFL season. The Project is being constructed primarily on the current site of the Metrodome.

The Authority

The Authority was established by the Legislature in 2012 as a public body, corporate and politic, and a political subdivision of the State. Under the Stadium Act, the Authority has been given the authority to develop, construct, equip, improve, operate, manage, maintain, finance and control a professional football stadium and related facilities. The Authority will own the Project and will be responsible for construction and long-term management and operation of the Project.

The Authority consists of five members. The chair and two Authority members are appointed by the governor. The chair serves at the pleasure of the governor. The initial terms of the other two gubernatorial appointees end on December 31 of the third year and fourth years following appointment. Thereafter, the two members appointed by the governor will serve four year terms, beginning January 1. The mayor of the City of Minneapolis appoints two members to the Authority. These members may reside within the city and may be appointed officials of a political subdivision. Each Authority member serves until a successor is appointed and takes office.

As a condition under the Stadium Act for commencement of construction of the Project, the Authority was required to find and determine that written agreements for the required matching funds are in place. The Authority is also required to enter into one or more guaranteed maximum price contracts for construction of the Project. The Authority has provided MMB with copies of executed documents evidencing such matching fund arrangements, as well as one guaranteed maximum price contract covering a majority of the Project cost, and has certified to MMB as to compliance with certain requirements on the part of the Authority. The Authority has advised the State that the Authority intends to enter into another guaranteed maximum price contract for a portion of the public infrastructure for the Project. The State, MMB, the Bond Counsel, the Financial Advisor and the Underwriters have not made any independent investigation as to the matters evidenced by such documents or covered by the Authority’s certification to MMB. The State has no reason to believe the Authority’s determinations or certification are not true or are in error.

Grant of Bond Proceeds

Proceeds of the Bonds will be deposited to the Construction Account established for the Series 2014A Bonds and the Series 2014B Bonds under the Order, and will be granted by the State in one or more advances to the Authority aggregating \$498,000,000 (collectively, the “Appropriation Grant”) for development and construction of the Project.

Grant Agreement

The Appropriation Grant will be made pursuant to a General Fund Appropriation Bond Proceeds Grant Agreement – Construction Grant for the Minnesota Sports Facilities Authority Project, dated November 22, 2013 (the “Grant Agreement”), between MMB and the Authority. MMB and the Authority will enter into a State Disbursing Agreement with The Bank of New York Mellon Trust Company, N.A. (the same entity acting as Registrar and Paying Agent (the “Disbursing Agent”)), pursuant to which the Appropriation Grant will be disbursed for costs of construction of the Project.

In the Grant Agreement, the Authority has agreed, among other things, that the Authority will own the Project, will use the Appropriation Grant only for capital costs of the Project, will serve as stadium developer and be responsible for stewardship of Project funds including the proceeds of the Appropriation Grant, will use and operate the Project for the purposes designated in the Stadium Act and for no other purposes, and will otherwise comply with the Stadium Act and the Act. The Authority has also represented and covenanted in the Grant Agreement that the Authority will comply with, and fully enforce the Development Agreement (the “Development Agreement”) and the Stadium Use Agreement (the “Stadium Use Agreement”) entered into between the Authority and the Minnesota Vikings, and that the Authority has complied with the matching funds requirement of the Act, the Stadium Act and the Development Agreement, as more fully described in APPENDIX F. Should the Authority fail to obtain or otherwise provide and expend the required amount of the matching funds, MMB may refrain from disbursing the Appropriation Grant. The Grant Agreement is to remain in effect until the last day of the useful life of the Project. The Stadium Act provides that the Authority’s title to the stadium must not be transferred or sold prior to the effective date of enactment of any legislation approving such transfer or sale.

The initial and subsequent advances of the Appropriation Grant are subject to certain conditions under the Grant Agreement. The State has determined that such conditions have been satisfied, or that any conditions which may remain unsatisfied upon issuance of the Bonds will be timely satisfied so that advances of the Appropriation Grant can timely occur for the Authority to pay and perform its Project obligations.

State Disbursing Agreement

Under the State Disbursing Agreement, to obtain advances of the Appropriation Grant, the Authority may submit draw requisitions, together with supporting information as specified in the State Disbursing Agreement. MMB may, but is not required to, verify the application of funds to work done and material furnished for the Project. The Disbursing Agent is to disburse advances of the Appropriation Grant from the Construction Fund to the trustee under a construction funds trust established pursuant to the Development Agreement (and described in APPENDIX F). The State Disbursing Agreement imposes certain record-keeping obligations upon the Disbursing Agent and the Authority with respect to advances and disbursements of the Appropriation Grant. In case of an event of default under the State Disbursing Agreement (which includes an event of default under the Grant Agreement), the Disbursing Agent may refrain from making advances.

The foregoing descriptions of the Appropriation Grant, the Grant Agreement and the State Disbursing Agreement are not intended to be a complete description of such grant or such documents, and such descriptions are qualified in their entirety by reference to the Act, the Stadium Act, the Grant Agreement and the State Disbursing Agreement and the matters and documents referred to therein.

Neither the Authority nor the Minnesota Vikings is an obligor with respect to the Bonds. The Bonds are payable solely from the Continuing Appropriations, subject to legislative repeal, unallotment or cancellation as described in “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS” above.

Further information concerning the Project, the sources of the matching funds which will cover the capital costs of the Project beyond those financed by the Appropriation Grant, anticipated sources of funding for on-going operation and capital maintenance of the Project, and a summary of certain agreements between the Authority and the Minnesota Vikings, including the Development Agreement and the Stadium Use Agreement, is contained in APPENDIX F. Neither the State, the Department nor the Commissioner is party to the agreements between the Authority and the Minnesota Vikings summarized in APPENDIX F.

SOURCES AND USES OF FUNDS

The following table presents the estimated sources and uses of funds related to the Bonds.

<u>Sources and Uses of Funds</u>			
	<u>Series 2014A</u> <u>Bonds</u>	<u>Series 2014B</u> <u>Bonds</u>	<u>Total</u>
Sources			
Par Amount of Bonds	\$391,785,000	\$70,280,000	\$462,065,000
Plus Net Premium on Bonds	<u>37,769,072</u>	<u>--</u>	<u>37,769,072</u>
Total Sources	<u>\$429,554,072</u>	<u>\$70,280,000</u>	<u>\$499,834,072</u>
Uses			
Deposit to Construction Account	\$428,000,000	\$70,000,000	\$498,000,000
Costs of Issuance ¹	<u>1,554,072</u>	<u>280,000</u>	<u>1,834,072</u>
Total Uses	<u>\$429,554,072</u>	<u>\$70,280,000</u>	<u>\$499,834,072</u>

¹ Includes Underwriters' discount on the Bonds.

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 Tax-Exempt Bonds

General

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Series 2014A Bonds (the "Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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.

The accrual or receipt of interest on the Tax-Exempt Bonds may otherwise affect the federal income tax liability of the owners of the Tax-Exempt Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Tax-Exempt Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Tax-Exempt Bonds.

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 Tax-Exempt Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds. However, no provision is made for redemption of the Tax-Exempt Bonds or for an increase in the interest rate on the Tax-Exempt Bonds in the event that interest on the Tax-Exempt Bonds becomes subject to federal or Minnesota income taxation.

Discount Bonds

The Tax-Exempt Bonds having a stated maturity in 2025 bearing interest at 3.00% (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 Tax-Exempt Bonds with the following maturities and interest rates are being issued at a premium to the principal amount payable at maturity (the “Premium Bonds”).

Maturity (June 1)	Interest Rate	Maturity (June 1)	Interest Rate
2015	2.00%	2023	5.00%
2016	3.00	2024	5.00
2016	4.00	2025	5.00
2017	2.00	2026	5.00
2017	5.00	2027	5.00
2018	3.00	2028	5.00
2018	4.00	2029	5.00
2019	4.00	2030	5.00
2019	5.00	2031	5.00
2020	4.00	2032	5.00
2020	5.00	2033	5.00
2021	5.00	2038	5.00
2022	4.00	2043	5.00
2022	5.00		

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 Tax-Exempt Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds for this purpose even though not directly traceable to the purchase of the Tax-Exempt Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Tax-Exempt 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 Tax-Exempt Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Tax-Exempt 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 Tax-Exempt 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.

The Taxable Bonds

General

Bond Counsel is of the opinion that interest on the Series 2014B Bonds (the “Taxable Bonds”) is included in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds under the Code and the Regulations, and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the Taxable Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Taxable Bonds.

In general, interest paid on the Taxable Bonds, original issue discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Taxable Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Bond Premium

An investor that acquires a Taxable Bond for a cost greater than its remaining stated redemption price at maturity and holds such bond as a capital asset will be considered to have purchased such bond at a premium and, subject to prior election permitted by Section 171(c) of the Code, may generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section 171 of the Code. Bond premium is generally amortized over the bond’s term using constant yield principles, based on the purchaser’s yield to maturity. Investors of any Taxable Bond purchased with a bond premium should consult their own tax advisors as to the effect of such bond premium with respect to their own tax situation and as to the treatment of bond premium for state tax purposes.

Market Discount

An investor that acquires a Taxable Bond for a price less than the adjusted issue price of such bond (or an investor who purchases a Taxable Bond in the initial offering at a price less than the issue price) may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the Regulations, “market discount” means (a) in the case of a Taxable Bond originally issued at a discount, the amount

by which the issue price of such bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (b) in the case of a Taxable Bond not originally issued at a discount, the amount by which the stated redemption price of such bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Taxable Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income and, upon sale or other disposition of the bond, to recognize the gain on such sale or disposition as ordinary income to the extent of such cumulative amount of accrued market discount as of the date of sale or other disposition of such a bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Taxable Bond with original issue discount, in proportion to the accrual of original issue discount.

An owner of a Taxable Bond that acquired such bond at a market discount also may be required to defer, until the maturity date of such bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Taxable Bond for the days during the taxable year on which the owner held such bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Taxable Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the owner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such owner in that taxable year or thereafter.

Attention is called to the fact that Treasury regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Unearned Income Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (a) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (b) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Taxable Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Taxable Bonds and to gain on the sale of a Taxable Bond.

Sales or Other Dispositions

If an owner of a Taxable Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Taxable Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Taxable Bond should consult its own

tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance

The legal defeasance of the Taxable Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Taxable Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Backup Withholding

An owner of a Taxable Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Taxable Bonds, if such owner, upon issuance of the Taxable Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors

An owner of a Taxable Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Taxable Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Taxable Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Taxable Bonds owned by foreign investors. In those instances in which payments of interest on the Taxable Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Taxable Bonds having original issue discount and held by foreign investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Taxable Bond.

Tax-Exempt Investors

In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Taxable Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Taxable Bond is urged to consult its own tax advisor regarding the application of these provisions.

Treasury Circular 230 Disclosure

Any federal tax advice contained in this Official Statement was written to support the marketing of the Taxable Bonds and is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any penalties that may be imposed under the Code. All taxpayers should seek advice based on such taxpayers' particular circumstances from an independent tax advisor. This disclosure is provided to comply with Treasury Circular 230.

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 again be introduced and 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.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (“ERISA Plans”). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax qualified retirement plans described in Section 401(a) of the Code (“Qualified Retirement Plans”) and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code (“IRAs,” collectively, with Qualified Retirement Plans, “Tax Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) (“Non ERISA Plans”), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non ERISA Plans may be invested in the Bonds without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law (“Similar Laws”). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that an ERISA Plan’s investment of its assets be made in accordance with the documents governing such ERISA Plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax Favored Plans (“Plan” or collectively “Plans”) and entities whose underlying assets include “plan assets” by reason of Plans investing in such entities with persons (“Parties in Interest” or “Disqualified Persons” as such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory, class or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the “DOL”) to assess a civil penalty against a fiduciary who violates any fiduciary responsibility under ERISA or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 408(e) of the Code, the IRA may lose its tax exempt status.

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the State. Certain transactions involving the purchase, holding or transfer of the Bonds may be deemed to constitute prohibited transactions if assets of the State are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

Plan Asset Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3 101 (the “Plan Asset Regulation”) concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the State) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an “equity interest” in such entity. ERISA Section 3(42) defines the term “plan assets.” Depending upon a number of factors set forth in the Plan Asset Regulation, “plan assets” may be deemed to include either a Plan’s interest in the assets of an entity (such as the State) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest. For purposes of this section, the terms “plan assets” (“Plan Assets”) and the “assets of a Plan” have the meaning specified in the Plan Asset Regulation and ERISA Section 3(42) and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan’s investment therein (a “Plan Asset Entity”).

Under the Plan Asset Regulation, the assets of the State would be treated as Plan Assets if a Plan acquires an equity interest in the State and none of the exceptions contained in the Plan Asset Regulation is applicable. The Plan Asset Regulation provides an exemption from “plan asset” treatment for securities issued by an entity if such securities are debt securities under applicable state law with no “substantial equity features.” If the Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases Bonds could be treated as having acquired a direct interest in the State. In that event, the purchase, holding, transfer or resale of the Bonds could result in a transaction that is prohibited under ERISA or the Code. While not free from doubt, on the basis of the Bonds as described herein, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Asset Regulation.

In the event that the Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Asset Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Asset Regulation and ERISA Section 3(42). Because the availability of this exception depends upon the identity of the Bondholders at any time, there can be no assurance that the Bonds will qualify for this exception and that the State’s assets will not constitute a Plan Asset subject to ERISA’s fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold Bonds in reliance upon the availability of this exception under the Plan Asset Regulation.

Prohibited Transactions

The acquisition or holding of Bonds by or on behalf of a Plan, whether or not the underlying assets are treated as Plan Assets, could give rise to a prohibited transaction if the State or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a Bond is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the State or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual exemptions or “class exemptions” issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption (“PTCE”) 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company’s general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in house asset manager).

The Underwriters, the Registrar and Paying Agent or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding Bonds, the purchase of Bonds using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision Title I of ERISA or Section 4975 of the Code. Accordingly, Bonds may not be purchased using the assets of any Plan if any of the Underwriters, the Registrar and Paying Agent or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available and such prohibited transaction exemption covers such purchase.

Purchaser's/Transferee's Representations and Warranties

Each purchaser and each transferee of a Bond (including a Plan's fiduciary, as applicable) shall be deemed to represent and warrant that (a) it is not a Plan and is not acquiring the Bond directly or indirectly for, or on behalf of (i) a Plan or with Plan Assets, (ii) a Plan Asset Entity or (iii) any entity whose underlying assets are deemed to be Plan Assets of such Plan; or (b) the acquisition and holding of the Bonds by or on behalf of, or with Plan Assets of, any (i) Plan, (ii) Plan Asset Entity or (iii) any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Law, and will not subject the State or Underwriters to any obligation not affirmatively undertaken in writing.

Consultation with Counsel

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold Bonds on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold Bonds, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan which is a Tax Favored Plan that proposes to acquire or hold Bonds should consult with counsel with respect to the applicable federal, state and local laws.

LEGAL OPINION

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 Series 2014A Bonds. The forms of legal opinions to be issued by Kutak Rock LLP with respect to the Bonds are set forth in APPENDIX H.

Certain legal matters will be passed upon for the Underwriters by McGrann Shea Carnival Straughn & Lamb, Chartered, as Counsel to RBC Capital Markets, LLC, representative on behalf of the Underwriters.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in Appendices A through E hereto and is a part of this Official Statement. The State's most recent Comprehensive Annual Financial Report is included as APPENDIX E.

The State most recently released certain revenue and expenditure forecasts prepared by MMB in December 2013. Information concerning this forecast is included in APPENDIX B hereto under the caption "STATE FINANCES - BIENNIUM BUDGETS - November 2013 Forecast – Current Biennium." **The next forecast of revenue and**

expenditures is expected to be released by the end of February 2014. Such forecast will be available on the MMB web site (www.mmb.state.mn.us) and from the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (<http://emma.msrb.org>).

LITIGATION

Except as noted below, 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 the Bonds are to be issued and sold or the Project undertaken, or the respective roles of the State, the Authority or the City of Minneapolis in connection with the Project. There can be no assurance that appeals or future litigation relating to such matters may not be commenced, or as to the result of any such litigation.

Paul Johnson v. Mark Dayton and Minnesota State Legislature (Minnesota Court of Appeals, Court File No. A13-2062). This case stems from the Stadium Act passed by the Minnesota Legislature and signed by the Governor in May 2012. A provision of the Stadium Act mandates that the new stadium be constructed in the city of Minneapolis. Johnson filed the instant action against the Governor and the Legislature in July 2013. His Amended Complaint, filed in September, alleges that the Governor and the Legislature “violated the law by not providing equal treatment or equal protection of the law when they discriminated against the people and fans of Ramsey County and Arden Hills, when they eliminated consideration of the Arden Hills [stadium] site[.]” The Complaint and subsequent Amended Complaint assert nothing about Johnson other than his name, address, and telephone number. The Amended Complaint requests an injunction halting stadium construction on the current Metrodome site. The Governor and the Legislature moved to dismiss, noting that (1) both are immune from suit for debating, passing, and signing legislation; (2) Johnson’s pleadings allege no facts to support a contention that he has suffered an injury in fact as the result of the challenged actions of Governor and the Legislature; and (3) Johnson’s pleadings fail to state an equal-protection (or any other) claim upon which relief can be granted. The district court granted the Governor and the Legislature’s motion and dismissed the action. The court based its decision on both Johnson’s lack of standing and Respondents’ legislative immunity. The court did not reach the question of Johnson’s failure to state a claim upon which relief can be granted. On November 1, 2013, Johnson appealed to the Minnesota Court of Appeals. Briefs have been filed with the Minnesota Court of Appeals. A decision on the merits is still pending. On January 8, 2014, Johnson filed a motion in both the district court and the Minnesota Court of Appeals requesting an injunction halting demolition of the Metrodome. The district court denied the motion on that day; the Minnesota Court of Appeals denied it on January 21, 2014. On January 28, Johnson filed another motion in the Court of Appeals, requesting appellate review of the district court’s denial of Johnson’s January 8 motion for injunction.

Doug Mann v. Minneapolis City Council (Fourth Jud. Dist., Court File No. 27-CV-13-13029). On November 12, 2013, the district court issued an order dismissing the petition for writ of mandamus filed by Doug Mann in August, 2013. The petition filed by Mann sought to require the City of Minneapolis to place the City’s financial contribution to the Project, consisting of \$150 million in support of Project construction costs and additional on-going annual City contributions for operating costs and capital reserves, on the City’s November, 2013, ballot to satisfy the 1997 City Charter requirement that stadium spending over \$10 million be put to voters. The district court ruled that in enacting the Stadium Legislation, the Minnesota Legislature preempted the referendum requirement in Section 13 of the City Charter. On January 9, 2014, Mann filed a petition for mandamus with the Minnesota Court of Appeals challenging the order of the district court dismissing his petition for mandamus. Minneapolis moved for expedited review or establishment of a surety bond. On January 21, 2014, the Minnesota Court of Appeals filed an order stating that Mann failed to bring a timely appeal of the district court order, denying the petition for mandamus and denying as moot the motion for expedited consideration or establishment of a surety bond. Mann has thirty days from the date of filing of the order to file a petition for review with the Minnesota Supreme Court.

In re Doug Mann, Linda Mann, David Tilsen v. Jim Schowalter, Commissioner of Minnesota Management and Budget (Minnesota Supreme Court, Court File No. A14-0029). On January 10, 2014, petitioners filed a petition for a writ of prohibition with the Minnesota Supreme Court requesting an order prohibiting the Commissioner from proceeding with the sale and issuance of the Bonds contending that the local sales tax revenues dedicated by

Minneapolis to repay a portion of the Bonds violated Article X, § 1 of the Minnesota Constitution. The Commissioner opposed the petition. The Minnesota Sports Facilities Authority moved to intervene and for an order to require the petitioners to post a surety bond in the amount of \$49.7 million. The Minnesota Sports Facilities Authority's motion to intervene was granted. Pursuant to court order, the parties filed supplemental memoranda on the issue of jurisdiction. On January 21, 2014, the Minnesota Supreme Court dismissed the petition for a writ of prohibition stating that the Court did not have original jurisdiction and that the petitioners did not demonstrate that they do not have an adequate remedy at law. The Court noted in reaching its ruling that: "In using the phrase 'adequate remedy at law,' we do not imply that petitioners have stated, or could state in another proceeding, a claim upon which relief could be granted." The Minnesota Supreme Court denied as moot the motion of the Minnesota Sports Facilities Authority to require the posting of a surety bond. The Court did not address the merits of the constitutional issues raised by the petitioners.

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, 2013, set forth in APPENDIX E and additional actions discussed in the section entitled "Litigation" in the Preliminary Official Statement dated January 6, 2014, 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 E, and a description of additional actions that have been initiated against the State since the date of the financial statements contained in APPENDIX E and are material for purposes of this Official Statement.

Kiminski v. Hunt et al and similar matters. In one of the dismissed cases, the remaining defendant has now asserted claims against the State for indemnity, contribution, negligence and breach of fiduciary duty. The cross claims of the remaining defendant are the subject of a motion to dismiss.

Skaja v. Minnesota Department of Health, Bearder, et al. v. Minnesota, et al., and Anderson v. State of Minnesota (Hennepin County District Court). On December 30, 2013, a Settlement Agreement and Release of Claims ("Settlement Agreement") was fully executed by all the parties in the *Skaja* and *Bearder* cases. The claims of the *Anderson* plaintiffs were voluntarily dismissed on June 12, 2013. Pursuant to the Settlement Agreement, the parties agreed to the compromise of all claims for the purpose of avoiding protracted litigation and that the consideration extended under the Settlement Agreement was not an admission of liability on the part of Defendants. The Minnesota Department of Health agreed to pay \$975,000 for attorney's fees, costs, and disbursements, to transfer the blood specimen cards of the minor plaintiffs that had not been previously destroyed, to permanently eradicate and destroy all newborn screening test results of the minor plaintiffs, and to operate the Newborn Screening Program in compliance with the Genetic Privacy Act, Minn. Stat. § 13.386 (2012), as now in force or subsequently amended. The Order for Dismissal was signed by the Court on January 3, 2014.

Kimberly-Clark Corporation & Subsidiaries v. Commissioner of Revenue (Minnesota Tax Court). The taxpayer filed an appeal in the Minnesota Tax Court challenging the Commissioner's denial of the taxpayer's refund claims. The taxpayer alleges it is entitled to elect a corporate tax apportionment formula set forth in the Multistate Tax Compact, even though the Minnesota legislature repealed that provision of the Compact from the Minnesota Statutes in 1987. Resolution of this case may impact the Commissioner's assessments against other multistate tax filers and may impact refund claims corporate taxpayers have and may file with the Commissioner. Multiple corporate taxpayers have currently filed about \$53 million in refund claims, with estimated potential total refunds of \$700 million.

Steele County v. MnDOT: Waseca County v. MnDOT (Steele County Court File No. 74-CV-12-2638; Court of Appeals File No. A13-0692). On January 6, 2014, the parties executed a settlement agreement which calls for MnDOT to complete specified work on former Trunk Highway 14 in Steele and Waseca counties. The target completion date for the project is 2015, and no later than 2017. The agreement is conditioned upon enactment by the Minnesota legislature of a law, duly signed by the Governor, allowing MnDOT to acquire jurisdiction over

former Trunk Highway 14, fund the project, and release the roadway back to the counties. Oral argument in the Minnesota Court of Appeals action is stayed.

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 Port Authority/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 Port Authority/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 Port Authority/Bemidji Bonds, with respect to all previous rating changes for each series of the St. Paul Port Authority/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 Financial Management, Inc. (the "Financial Advisor") is serving as financial advisor to the State in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is not contingent upon the issuance and delivery of the Bonds. The Financial Advisor does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies on the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the State and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The underwriters listed on the cover page hereof (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds from the State at an Underwriters' discount of \$1,065,113.29 for the Series 2014A Bonds and \$190,083.35 for the Series 2014B Bonds. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

RBC Capital Markets, LLC is acting as representative on behalf of the Underwriters.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement ("Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Loop Capital Markets LLC (“LCM”), one of the Underwriters of the Bonds, has entered into an agreement (the “Distribution Agreement”) with Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, DBS will purchase Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the “Agreement”) which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Offered Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission.

RATINGS

Standard and Poor’s Rating Group and Fitch Ratings have assigned ratings of “AA” and “AA,” respectively to the Bonds.

A credit rating is not a recommendation to buy, sell or hold securities, and such ratings may be subject to revision or withdrawal at any time. The rating by a Rating Agency of the Bonds reflects only the views of such Rating Agency, and any desired explanation of the significance of such rating and any outlooks or other statements given by such Rating Agency with respect thereto should be obtained from the Rating Agency.

Except as may be required by the Undertaking as defined above under the heading “CONTINUING DISCLOSURE,” the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

There is no assurance that the initial ratings assigned to the Bonds will continue for any given period of time or that any of such ratings will not be revised downward, suspended or withdrawn entirely by the Rating Agency. Any such downward revision, suspension or withdrawal of such rating may have an adverse effect on the availability of a market for or 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 2013 basic financial statements are presented in APPENDIX E 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. For additional information related to the Fiscal Year 2012 CAFR filing see "CONTINUING DISCLOSURE" discussion on page 25 in the forepart of this Official Statement.

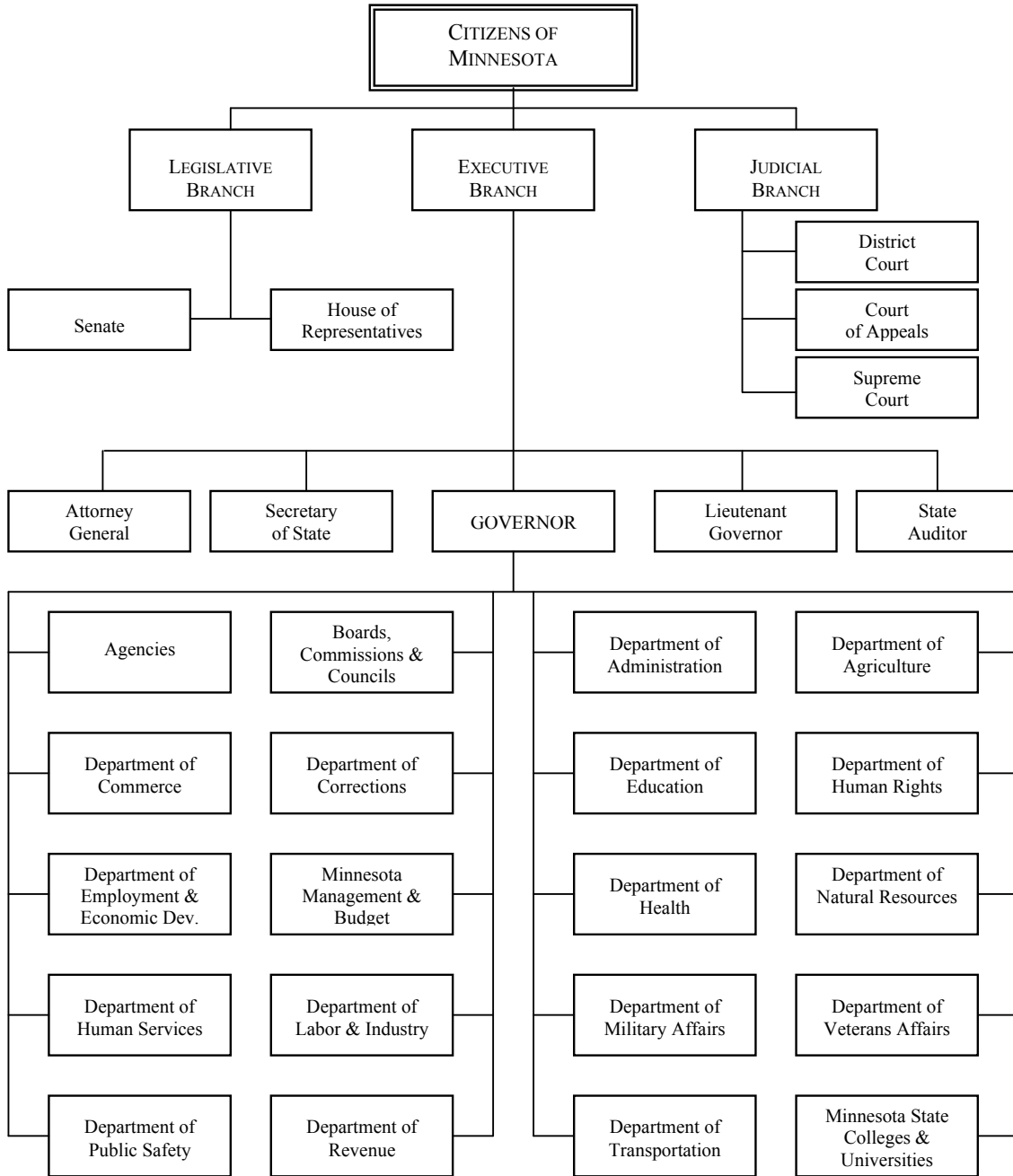
Investments

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 October 2013
American Federation of State, County and Municipal Employees (AFSCME) (7 bargaining units)	17,430
MN Association of Professional Employees (MAPE)	13,040
Middle Management Association (MMA)	2,900
MN Government Engineers Council (MGEC)	990
MN Nurses Association (MNA)	770
MN Law Enforcement Association (MLEA)	710
State Residential Schools Education Association (SRSEA)	200
State College Faculty Association (MSCF)	5,020
State University Interfaculty Organization (IFO)	3,510
State University Admin and Service Faculty (MSUAF)	<u>800</u>
Total Represented Employees	45,370
Total State Employment	52,010
Percent of All Executive Branch Employees Unionized	87%

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. Since that date, the State reached tentative agreements with SRSEA and MGEC, and these are currently being voted on by the membership of those units. The State is currently in the process of negotiating the Current Biennium contracts with MNA, MLEA, 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, 2013 are included herein as APPENDIX E. These financial statements provide financial information for the State's General Fund, as defined by generally accepted accounting principles, as set forth in the audited financial statements included in APPENDIX E and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise funds, which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor, independent auditor for the State to the extent indicated in his report included in APPENDIX E. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in APPENDIX E in reliance upon the report of the Legislative Auditor. The revenues and expenditures presented consistent with Generally Accepted Accounting Principles for Fiscal Years 2011 through 2013 are summarized on page B-6. For additional information related to the Fiscal Year 2012 CAFR filing see "CONTINUING DISCLOSURE" discussion on page 25 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 2013 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 E) 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 "unallotting."

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 November 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 November 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 estimates potential GDP growth to average about 1.7 percent over the 2012 to 2015 period. Real GDP is projected

to exceed potential over the 2011-2015 period as the economy expands. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

**IHS GII NOVEMBER 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	2.8	1.7	2.5	3.1
GDP DEFLATOR (Inflation)	2.0	1.7	1.4	1.6	1.7
NOMINAL GDP Growth Rate	3.8	4.6	3.1	4.1	4.9

A report is published with each forecast and is available at www.mmb.state.mn.us. The November 2013 revenue and expenditure forecast was released December 5, 2013. See "FINANCIAL INFORMATION" in the APPENDIX. The February 2014 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, 2011 through 2013. For the Fiscal Years ended June 30, 2011 through 2013 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⁾		
	2011	2012	2013
NET REVENUES:			
Individual Income Taxes	\$ 7,828,818	\$ 8,267,608	\$ 9,257,352
Corporation Income Taxes	1,135,193	996,524	1,273,112
Sales Taxes	4,425,136	4,574,768	4,737,002
Property Taxes	766,926	813,723	817,895
Motor Vehicle Excise Taxes.....	230,016	220,065	239,735
Other Taxes.....	1,439,017	1,464,448	1,561,621
Tobacco Settlement	172,886	166,861	170,060
Federal Revenues.....	254	546	2,753
Licenses and Fees	258,739	225,681	214,374
Departmental Services	114,545	171,451	191,006
Investment/Interest Income	108,862	38,282	97,283
Securities Lending Income	58	-	-
All Other Revenues.....	356,067	306,889	391,775
NET REVENUES.....	\$ 16,836,517	\$ 17,246,846	\$ 18,953,968
EXPENDITURES:			
Current:			
Agricultural, Environmental and Energy Resources.....	\$ 205,342	\$ 204,553	\$ 246,882
Economic and Workforce Development	130,497	118,676	145,280
General Education ⁽⁵⁾⁽⁶⁾	6,578,615	7,171,507	7,415,750
General Government ⁽⁴⁾	683,314	628,869	722,829
Health and Human Services ⁽³⁾	4,815,804	5,644,629	5,683,366
Higher Education ⁽²⁾	747,617	712,363	745,965
Intergovernment Aid	1,316,886	1,358,142	1,268,609
Public Safety and Corrections	579,977	546,974	583,556
Transportation	286,796	277,690	295,195
Securities Lending Rebates and Fees	37	-	-
Total Current Expenditures	\$ 15,344,885	\$ 16,663,403	\$ 17,107,432
Capital Outlay	25,571	14,476	26,952
Debt Service	40,867	56,876	52,099
TOTAL EXPENDITURES	\$ 15,411,323	\$ 16,734,755	\$ 17,186,483
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,425,194	\$ 512,091	\$ 1,767,485
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	\$ 227	\$ -	\$ -
Transfer-In	470,101	485,353	585,104
Transfer-Out	(1,159,118)	(1,099,056)	(1,001,068)
NET OTHER FINANCING SOURCES (USES)	\$ (688,790)	\$ (613,703)	\$ (415,964)
NET CHANGE IN FUND BALANCES	\$ 736,404	\$ (101,612)	\$ 1,351,521

- (1) For fiscal years 2011, 2012 and 2013, the schedule of revenues and expenditures includes all financial activity for the fiscal year, including revenue and expenditure accruals at June 30.
- (2) During fiscal year 2012, Higher Education function spending decreased due to a reduction in grants to the University of Minnesota and the Office of Higher Education.
- (3) During fiscal year 2012, Health and Human Services function spending increased due to shifts of Federal Fund spending to the General Fund as American Recovery and Reinvestment Act grants expired.
- (4) During fiscal year 2012, General Government function spending decreased due to reductions in most general government agencies.
- (5) During fiscal year 2012, General Education function spending increased due to a \$50 per pupil increase and an increase in total pupils.
- (6) During fiscal year 2013, General Education function spending increased due to a 1% per pupil increase and an increase in total pupils.

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 Medical Assistance (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 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.

January Revenue and Economic Update

The State's revenue collections and outlook remain positive. The State's net general fund receipts totaled \$3.330 billion during the months of November and December, \$172 million (5.4 percent) more than projected in November 2013's Revenue and Expenditure Forecast. Stronger than projected estimated individual income tax

payments provided the largest amount of additional revenue for the period. Net receipts from sales and corporate taxes and all other revenues were also above forecast.

Individual income tax receipts during the last two months of 2013 were \$90 million (6.7 percent) above forecast. Estimated tax payments (declarations) exceed the forecast by \$67 million, but that additional revenue may not be indicative of higher tax liability. Even though fourth quarter individual estimated payments are not due until January 15, many taxpayers make early payments on or about December 31 so that they can deduct them on their federal tax returns. This year it appears more taxpayers made early payments than usual. In addition, average estimated payments in December were higher than projected, which may imply lower final payments on April 15. Finally, forecasting fourth quarter estimated payments is particularly challenging this year, because taxpayers may have responded to the safe harbor provisions related to the new fourth income tax bracket in ways that are difficult to foresee.

Net sales tax receipts for the months of November and December were \$37 million (4.6 percent) more than forecast. That additional revenue appears to be due to stronger than anticipated economic activity and possibly larger than anticipated effects of recent law changes. Also, since most businesses remit sales taxes in the month after a purchase was made, the additional revenue reflects only the November portion of the Christmas shopping season. Taxes on December sales will be remitted in January. Corporate tax receipts were \$22 million (8.5 percent) above forecast in November and December. A shortfall in corporate estimated payments (declarations) was more than made up by lower corporate refunds. Finally, net other revenues exceeded forecast by a combined \$22 million (2.9 percent). Much of that difference appears to be due to the timing of receipts and refunds.

November 2013 Forecast – Current Biennium

When the Current Biennium budget was enacted last May, a \$46 million unspent balance remained. Two subsequent events did not materially alter that balance. A September special session reallocated \$4.5 million for disaster relief and did not impact the bottom line. FY 2013 closing at the end of September produced a \$636 million balance. However, that balance was directed by law to repay a portion of the outstanding school shifts, increasing FY 2014 spending by a like amount. These interim changes, incorporated in mid-October, yielded a \$47 million balance for the current budget, only \$1 million higher than projected at the end of the 2013 legislative session.

Forecast revenues are expected to be \$39.209 billion, \$787 million higher than previous estimates. The November 2013 forecast initially estimated spending to be \$38.807 billion, down \$247 million from October's estimates. Spending and revenue changes, along with a small net decline in reserves, resulted in an initial forecast balance of \$1.086 billion. Current law (M.S. 16A.152) allocates a portion of the forecast balance to completing buy back of the K-12 property tax recognition shift and repaying \$15 million that was borrowed from the state airports fund in 2008. After adjusting for the buybacks, spending is now forecast to be \$39.067 billion, \$13 million more than previous estimates. The forecast completes repayment of accounting shifts from prior budget solutions, reducing the forecast balance to \$825 million.

Revenues: Higher revenues contribute \$787 million to forecast balance. Stronger employment and income growth in 2013 have contributed to forecast revenue. Tax revenues for the Current Biennium are projected to be \$37.451 billion, \$824 million (2.2 percent) more than the February estimate adjusted for tax law changes. Transfers and all other revenues are expected to be \$1.758 billion, \$37 million (2.1 percent) below the prior forecast.

This is the first forecast of the Current Biennium revenues since the biennium began on July 1. After four months of collections, fiscal year-to-date receipts are \$5.686 billion, or about 15 percent of the total expected over the entire biennium. With 19 months left in the two-year budget, 85 percent of the forecast receipts are yet to be collected.

Current Biennium Forecast Revenues

(\$ in millions)

	<u>October</u>	<u>November</u>	<u>\$</u>
	<u>Estimate</u>	<u>Forecast</u>	<u>Change</u>
Individual Income Tax	\$ 18,876	\$ 19,372	\$ 496
Sales Tax	10,130	10,194	64
Corporate	2,422	2,675	254
Statewide Property Tax	1,685	1,670	(16)
Other Taxes	<u>3,514</u>	<u>3,541</u>	<u>27</u>
Total Tax Revenues	36,627	37,451	824
All Other Revenues Transfers	<u>1,785</u>	<u>1,758</u>	<u>(37)</u>
Total Revenues	\$ 38,422	\$ 39,209	\$ 787

Higher income and corporate tax estimates are the source of 95 percent of the increase in tax revenue. The individual income tax showed the largest dollar amount increase over prior estimates, up \$496 million (2.6 percent), followed by the corporate income tax with an increase of \$254 million (10.5 percent). Expected sales tax revenue rose by \$64 million (0.6 percent).

The change in the income tax forecast since February is primarily due to an increase in MMB's estimate of tax liability for 2012, the base year for this forecast, and increased growth projections for some underlying economic variables, including wages and salaries and business income. The increase in projected corporate tax revenues reflects increased expectations for corporate profits growth.

Much of the tax on non-wage income is paid through estimated tax or through discretionary withholding. These payments are more difficult to predict than prescribed withholding on wages and salaries. Because taxpayers affected by Minnesota's new fourth income tax bracket report a higher share of income from non-wage sources, a larger share of total income tax receipts now are being collected through payment streams that are harder to forecast.

Expenditures: Forecast spending declined \$247 million, but was offset by shift buybacks. General fund spending for the Current Biennium was forecast to be \$38.807 billion, down \$247 million (0.6 percent) from previous estimates. After the required shift repayments are reflected, net general fund spending remains largely unchanged, increasing by \$13 million.

Forecast health and human services spending is \$117 million (1.0 percent) below previous estimates, and accounts for nearly one-half of the total change in forecast spending. Health care program enrollment and cost assumptions remained largely unchanged, but for a notable reduction in cost growth in the Community Alternatives for Disabled Individuals waiver. The remaining savings reflects reduced payments to the federal government and the recognition of inter-governmental reimbursements based upon recent federal approval. Previous assumptions regarding the impact of federal and state health care reform remain constant in the general fund forecast.

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Current Biennium Forecast Expenditures

(\$ in millions)

	<u>October</u> <u>Estimate</u>	<u>November</u> <u>Forecast</u>	<u>\$</u> <u>Change</u>
K-12 Education	\$16,419	\$16,409	\$(10)
Property Tax Aids & Credits	3,017	2,946	(70)
Health & Human Services	11,445	11,327	(117)
Debt Service	1,280	1,252	(28)
All Other	<u>6,893</u>	<u>6,872</u>	<u>(21)</u>
Forecast Spending	\$39,054	\$38,806	\$(247)
School Shift Buyback		246	246
Repay Airports Fund		<u>15</u>	<u>15</u>
Total Spending (after buybacks)		\$39,067	\$13

Savings in other spending areas were modest. Forecast K-12 education aids declined \$10 million prior to the shift buyback. A small increase in pupil units was more than offset by minor changes in other general education and categorical aid factors. Reduced property tax refund estimates, due to lower participation and lower average refunds, contributed to a \$70 million decline in property tax aids. Forecast debt service was reduced \$28 million, due to multiple factors affecting the calculation of debt service costs.

Reserves: In October, general fund reserves were \$1.006 billion -- \$350 million in the Cash Flow Account and \$656 million in the Budget Reserve. The Budget Reserve has increased slightly in this forecast. Under current law (M.S. 79.251 Subd. 1) any excess surplus in the workers' compensation assigned risk plan is deposited to the general fund and directed to the Budget Reserve. The total excess surplus was \$14 million; however, \$10 million was incorporated into the Current Biennium budget solution -- adding just under \$5 million to the Budget Reserve.

In October, the Stadium Reserve had a balance of \$27 million. Based on expected stadium expenditures, the reserve is projected to be \$18 million at the end of FY 2015, down \$9 million from previous estimates. Overall the result of November 2013 forecast is a net decline in total general fund reserves of \$5 million for the current biennium.

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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 November 2013 Forecast. Authorized expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes. Actions taken for preliminary FY 2013 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 NOVEMBER 2013 FORECAST (In thousands of dollars)

	Fiscal Year 2014	Fiscal Year 2015	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	1,711,915	1,465,911	1,711,915
Net Non-dedicated Revenues	19,086,748	19,791,881	38,878,629
Dedicated Revenues	189	1	190
Transfers From Other Funds	189,426	90,899	280,325
Prior Year Adjustments	25,000	25,000	50,000
Subtotal Current Resources	19,301,363	19,907,781	39,209,144
Total Revenues Plus Prior Year Ending Balance	21,013,278	21,373,692	40,921,059
Authorized Expenditures & Transfers			
K-12 Education	8,484,577	8,169,591	16,654,168
Higher Education	1,392,346	1,421,415	2,813,761
Property Tax Aids & Credits	1,339,337	1,606,892	2,946,229
Health & Human Services	5,633,486	5,693,972	11,327,458
Public Safety & Judiciary	974,280	974,870	1,949,150
Transportation	150,195	103,890	254,085
Environment & Agriculture	153,928	162,758	316,686
Jobs, Economic Development, Housing & Commerce	214,083	171,549	385,632
State Government & Veterans	500,096	463,446	963,542
Debt Service	619,935	632,143	1,252,078
Capital Projects	90,025	134,173	224,198
Cancellation Adjustment	(5,110)	(15,000)	(20,110)
Subtotal Expenditures & Transfers	19,547,178	19,519,699	39,066,877
Dedicated Revenue Expenditures	189	1	190
Total Expenditures and Transfers	19,547,367	19,519,700	39,067,067
Balance Before Reserves	1,465,911	1,853,992	1,853,992
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	660,992	660,992	660,992
Stadium Reserve	35,991	17,827	17,827
Budgetary Balance	418,928	825,173	825,173

⁽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 forecast amounts of non-dedicated revenues allocable to the General Fund for the Current Biennium.

**CURRENT BIENNIUM
GENERAL FUND- ESTIMATES OF NONDEDICATED REVENUES
NOVEMBER 2013 FORECAST
(In thousands of dollars)**

	Fiscal Year 2014	Fiscal Year 2015	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	9,445,500	9,926,300	19,371,800
Income Tax - Corporate	1,354,712	1,320,679	2,675,391
Sales Tax	5,017,182	5,176,682	10,193,864
Statewide Property Tax	832,057	837,490	1,669,547
Estate Tax	185,400	227,000	412,400
Liquor, Wine & Beer	84,060	85,740	169,800
Cigarette & Tobacco	570,491	589,579	1,160,070
Mining	13,505	14,100	27,605
Mortgage Registry Tax	109,558	104,693	214,251
Deed Transfer Tax	91,021	102,229	193,250
Gross Earnings Taxes	337,716	356,025	693,741
Lawful Gambling Taxes	41,000	42,150	83,150
Medical Assistance Surcharges	289,665	307,303	596,968
Tobacco Settlements	163,042	162,197	325,239
Investment Income	4,000	4,000	8,000
DHS SOS Collections	54,400	55,400	109,800
Lottery Revenue	61,258	60,613	121,871
Departmental Earnings	185,524	183,160	368,684
Fines & Surcharges	87,063	86,729	173,792
All Other Nondedicated Revenue	165,527	155,745	321,272
Tax and Non-Tax Refunds	(5,933)	(5,933)	(11,866)
Total Net Nondedicated Revenues	19,086,748	19,791,881	38,878,629

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 2013 close are not represented in the following tables.

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**HISTORICAL AND PROJECTED REVENUE GROWTH
NOVEMBER 2013 FORECAST (\$ in Millions)**

	<u>Actual FY 2010</u>	<u>Actual FY 2011</u>	<u>Actual FY 2012</u>	<u>Closing FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>	<u>Average Annual</u>
Individual Income Tax	\$6,531	\$7,529	\$7,972	\$9,013	\$9,445	\$9,926	
\$ change		998	443	1,041	432	481	
% change		15.3%	5.9%	13.1%	4.8%	5.1%	8.7%
Sales Tax	4,177	4,403	4,678	4,774	5,017	5,177	
\$ change		226	275	96	243	160	
% change		5.4%	6.2%	2.1%	5.1%	3.2%	4.4%
Corporate Tax	664	925	1,044	1,281	1,355	1,321	
\$ change		261	119	237	74	(34)	
% change		39.3%	12.9%	22.7%	5.8%	-2.5%	14.7%
Statewide Property Tax	767	767	799	811	832	837	
\$ change		0	32	12	21	5	
% change		0.0%	4.2%	1.5%	2.6%	0.6%	1.8%
Other Tax Revenue	1,227	1,231	1,158	1,268	1,718	1,824	
\$ change		4	(73)	110	450	106	
% change		0.3%	-5.9%	9.5%	35.5%	6.2%	8.3%
Total Tax Revenue	\$13,366	\$14,855	\$15,651	\$17,147	\$18,367	\$19,085	
\$ change		1,489	796	1,496	1,220	718	
% change		11.1%	5.4%	9.6%	7.1%	3.9%	7.4%
Non-Tax Revenues	805	808	774	798	720	707	
\$ change		3	(34)	24	(78)	(13)	
% change		0.4%	-4.2%	3.1%	-9.8%	-1.8%	-2.6%
Transfers, All Other	448	521	661	711	214	116	
\$ change		73	140	50	(497)	(98)	
% change		16.3%	26.9%	7.6%	-69.9%	-45.8%	-23.7%
Total Revenue	\$14,619	\$16,184	\$17,086	\$18,656	\$19,301	\$19,908	
\$ change		1,565	902	1,570	645	607	
% change		10.7%	5.6%	9.2%	3.5%	3.1%	6.4%

**HISTORICAL AND PROJECTED SPENDING GROWTH
NOVEMBER 2013 FORECAST
(\$ in Millions)**

	<u>Actual FY 2010</u>	<u>Actual FY 2011</u>	<u>Actual FY 2012</u>	<u>Closing FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>	<u>Average Annual</u>
K-12 Education	\$5,338	\$6,078	\$6,616	\$8,870	\$8,485	\$8,170	
\$ change		740	538	2,254	(385)	(315)	
% change		13.9%	8.9%	34.1%	-4.3%	-3.7%	8.9%
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	1,339	1,607	
\$ change		(213)	56	(137)	19	268	
% change		-13.2%	4.0%	-9.4%	1.4%	20.0%	-0.1%
Health & Human Services	4,104	4,323	5,385	5,208	5,633	5,694	
\$ change		219	1,062	(177)	425	61	
% change		5.3%	24.6%	-3.3%	8.2%	1.1%	6.8%
Public Safety	856	946	883	958	974	975	
\$ change		90	(63)	75	16	1	
% change		10.5%	-6.7%	8.5%	1.7%	0.1%	2.6%
Debt Service	429	401	192	223	620	632	
\$ change		(28)	(209)	31	397	12	
% change		-6.5%	-52.1%	16.1%	178.0%	1.9%	8.1%
All Other	830	829	772	865	1,104	1,021	
\$ change		(1)	(57)	93	239	(83)	
% change		-0.1%	-6.9%	12.0%	27.6%	-7.5%	4.2%
Total Spending	\$14,627	\$15,335	\$16,580	\$18,739	\$19,547	\$19,520	
\$ change		708	1,245	2,159	808	(27)	
% change		4.8%	8.1%	13.0%	4.3%	-0.1%	5.9%

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BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the November 2013 forecast. 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.

General Fund revenues are estimated to be \$42.981 billion, \$3.771 billion (9.6 percent) higher than estimates for the Current Biennium. Over 90 percent of the growth in revenues is attributed to the projected growth in income and sales tax collections that are anticipated to grow by \$2.719 billion (14.0 percent) and \$895 million (8.8 percent) respectively. The revenue planning estimates are not explicit forecasts; they are extrapolations from projected trends in the economy. The projections are based on Global Insight's (GI) baseline forecast, which assumes that U.S. real GDP will grow 3.3 percent in 2016 and 3.1 percent in 2017. Even small deviations from the assumed trend over four years will compound and produce sizeable changes in revenues.

Projected spending is estimated to be \$40.783 billion, \$1.716 billion (4.4 percent) higher than estimates for the Current Biennium. Two areas of the budget, health and human services and property tax aids and credits account for over 90 percent of the growth. Health and human services spending is estimated to be \$1.240 billion (10.9 percent) above Current Biennium levels, while property tax aids and credits is expected to be \$343 million (11.7 percent) higher. 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.

Projected General Fund revenues are now forecast to exceed estimated General Fund expenditures by \$2.197 billion, up \$1.476 billion from previous estimates. The impact of inflation is not reflected in expenditure projections. Based on the November forecast the consumer price index (CPI) is projected to increase by 1.9 percent in FY 2016 and 1.9 percent in FY 2017. Annual expenditure inflation pressures, if recognized, would add approximately \$384 million to FY 2016 spending estimates and more than \$790 million to FY 2017 spending estimates.

Revenue and spending estimates for the Next Biennium will be updated for the February 2014 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 2014 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 \$1,393.04. 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 \$24,680	5.35 percent
on all over \$24,680 but not over \$81,080	7.05 percent
on all over \$81,080 but not over \$152,540	7.85 percent
on all over \$152,540	9.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first \$36,080	5.35 percent
on all over \$36,080 but not over \$143,350	7.05 percent
on all over \$143,350 but not over \$252,240	7.85 percent
on all over \$252,240	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 \$30,390	5.35 percent
on all over \$30,390 but not over \$122,110	7.05 percent
on all over \$122,110 but not over \$203,390	7.85 percent
on all over \$203,390	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 2013 is 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 passed in 2012 substantially changed the State’s gambling tax structure. The Stadium Legislation imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). 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.

Under the Stadium Legislation, proceeds of certain special sales, liquor, lodging and restaurant taxes imposed by the City of Minneapolis under Minnesota Laws 1986, Chapter 396, as amended, are to be deposited in the General Fund each year from 2021 through 2046 in an aggregate present value amount of \$150,000,000, plus certain specified amounts each year for the purpose of paying a portion of annual operating costs and contributions to a capital reserve for the stadium project authorized by the Stadium Legislation.

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.

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.

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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	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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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 and Current Biennium are detailed below:

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

Resources	
Unreserved Balance at June 30, 2011	\$ 23
Revenues	1,212
Total Resources	\$1,235
Expenditures	
Unreserved Balance Before Transfers	\$ 639
Transfers to Other Funds	545
Unrestricted Balance at June 30, 2013	\$ 50

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

Resources	
Unreserved Balance at June 30, 2013	\$ 50
Revenues	1,512
Total Resources	\$1,562
Expenditures	
Projected Unreserved Balance Before Transfers	\$ 1,355
Transfers to Other Funds	207
Projected Unrestricted Balance at June 30, 2015	\$ 181

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 25 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 1.25. 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 (“ACA”) prompted Minnesota to modify its MinnesotaCare[®] program, as MinnesotaCare[®] provides health insurance for individuals who would otherwise 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. In anticipation of the eligibility criteria under the Basic Health Plan that will begin January 1, 2015, 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.

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 been

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)

	<u>Jul-12</u>	<u>Aug-12</u>	<u>Sep-12</u>	<u>Oct-12</u>	<u>Nov-12</u>	<u>Dec-12</u>	<u>Jan-13</u>	<u>Feb-13</u>	<u>Mar-13</u>	<u>Apr-13</u>	<u>May-13</u>	<u>Jun-13</u>	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)**

	<u>Jul-13</u>	<u>Aug-13</u>	<u>Sep-13</u>	<u>Oct-13</u>	<u>Nov-13</u>	<u>Dec-13</u>	<u>Jan-14</u>	<u>Feb-14</u>	<u>Mar-14</u>	<u>Apr-14</u>	<u>May-14</u>	<u>Jun-14</u>	<u>Total</u>
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)**

	<u>Jul-14</u>	<u>Aug-14</u>	<u>Sep-14</u>	<u>Oct-14</u>	<u>Nov-14</u>	<u>Dec-14</u>	<u>Jan-15</u>	<u>Feb-15</u>	<u>Mar-15</u>	<u>Apr-15</u>	<u>May-15</u>	<u>Jun-15</u>	<u>Total</u>
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 retirement and disability benefits to 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 new GASB pension-related statements (Statement 67 - *Financial Reporting for Pension Plans*, Statement 68 - *Accounting and Financial Reporting for Pensions*, and Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*) on or before their effective dates. These comprehensive annual financial reports for the Fiscal Year ended June 30, 2013 are available from the following public web sites:

MSRS: <http://www.msrs.state.mn.us/info/fincl.htmls>

PERA: http://www.mnpera.org/index.asp?Type=B_BASIC&SEC={1DFC84FD-45C5-432A-BBC6-E13D3511250B}

TRA: <https://www.minnesotatra.org/formspub/2013annualrpt.html>

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 employee and employer contribution percentages for each retirement plan are specified in Minnesota statutes. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to Minnesota statutes. See “Actuarial Valuation Requirements” below.

Overview – MSRS

Minnesota State Retirement System (“MSRS”) provides retirement coverage for 54,683 active employees, 37,351 retirees, disabilitants, and beneficiaries, and 23,392 members who no longer contribute, but are eligible for future monthly benefits or a refund of their contributions. 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 99% 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 Retirement Plan member, one elected

Correctional Employees Retirement 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 Minnesota Security Hospital, or the Minnesota Sex Offender Program.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to district, appellate and Minnesota Supreme Court judges. Retirees also include former municipal and county court judges.

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. Effective July 1, 2013, the Elective State Officers Retirement Fund was administratively consolidated with the Legislators Retirement Fund. Benefit provisions for both retirement plan remain unaffected by the merger.

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Membership statistics for each of the MSRS funds, as of June 30, 2013, follows:

	State Employees Retirement Fund	State Patrol Retirement Fund	Correctional Employees Retirement Fund	Judges Retirement Fund	Legislators and Elective State Officers Retirement Funds	<u>Totals</u>
Members:						
Retirees	27,654	748	1,920	210	297	30,829
Beneficiaries	3,830	185	196	98	79	4,388
Disabilitants	1,802	50	258	24	N/A	2,134
Terminated members:						
Vested, no benefits	16,062	41	1,196	16	71	17,386
Non-Vested	5,574	18	413	0	1	6,006
Active members:						
Vested	38,980	744	3,522	194	24	43,464
Non-Vested	<u>10,141</u>	<u>101</u>	<u>862</u>	<u>115</u>	<u>0</u>	<u>11,219</u>
Totals	104,043	1,887	8,367	657	472	115,426
Annualized Payroll	\$2,483,000,000	\$189,531,000	\$204,198,000	\$39,888,000	\$1,233,000	\$2,790,440,000

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 245,000 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, 2013, PERA’s membership included 154,260 current, active employees and 93,261 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 3,909 retirees, 64 active members and 57 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. See "Pension Legislation and Litigation" below.

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, 2013, follows:

	General Employees Retirement Fund	Public Employees Police & Fire Fund	Public Employees Correctional Fund	Minneapolis Employees Retirement Fund	TOTAL
Retirees	69,594	6,729	530	3,134	79,987
Beneficiaries	7,508	1,872	30	766	10,176
Disabilitants	1,981	978	130	9	3,098
Terminated Members:					
Vested, no benefits	45,946	1,388	2,232	57	49,623
Non Vested	119,509	988	1,816	0	122,313
Active Members:					
Vested	104,658	9,940	2,694	64	117,356
Non Vested	<u>35,105</u>	<u>1,000</u>	<u>799</u>	<u>0</u>	<u>36,904</u>
Totals	<u>384,301</u>	<u>22,895</u>	<u>8,231</u>	<u>4,030</u>	<u>419,457</u>
Annualized Payroll	\$5,256,798,000	\$822,003,000	\$174,707,000	\$4,258,000	\$6,257,766,000

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 591 reporting employer units, 76,765 active members and a total of 57,168 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2013.

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, 2013, follows:

Retirees	52,331
Disabilitants	568
Beneficiaries	4,269
Terminated Members:	
Vested, deferred	12,614
Non Vested	28,881
Active Members:	
Vested	61,398
Non Vested	<u>15,367</u>
Total	<u>175,428</u>
Annualized Payroll	\$3,917,310,000

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. On June 30, 2013, the Combined Funds covered approximately 553,000 active and retired employees and had a market value of \$47.5 billion. The Combined Funds Market Value was \$54.2 billion on September 30, 2013.

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, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5% to 0% for all years. 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, 2013 and September 30, 2013.

**Combined Funds Assets
Periods Ending June 30, 2013 and September 30, 2013**

	Policy Targets	Actual Mix 6/30/2013	Market Value** (millions)	Actual Mix 9/30/2013	Market Value** (millions)
Domestic Stocks	45.0%	45.1%	\$23,474	46.4%	\$25,138
International Stocks	15.0	14.9	7,751	15.7	8,502
Bonds	18.0	23.0	11,973	22.3	12,070
Alternative Assets*	20.0	14.5	7,559	13.1	7,081
Unallocated Cash	2.0	<u>2.5</u>	<u>1,328</u>	<u>2.5</u>	<u>1,397</u>
	100.0%	100.0%	\$47,534	100.0%	\$54,188

*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, 2013 and September 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, 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). 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.

	<i>Period Ending June 30, 2013</i>										
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	<u>10 Yr.</u>	<u>20 Yr.</u>	<u>25 Yr.</u>	<u>30 Yr.</u>
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

	<i>Period Ending September 30, 2013</i>										
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	<u>10 Yr.</u>	<u>20 Yr.</u>	<u>25 Yr.</u>	<u>30 Yr.</u>
Combined Funds	-1.4%	11.7%	3.0%	18.1%	14.9%	11.8%	9.0%	8.4%	8.3%	9.2%	9.7%
Composite Index	-2.5%	10.8%	2.8%	17.7%	13.5%	11.2 %	8.2%	8.1%	8.1%	8.9%	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 September 30, 2013, the Combined Funds outperformed its composite index by 1.4 percentage points. For the 20 year period ending September 30, 2013, the Combined Funds outperformed its composite index by 0.2 percentage points. The annualized return for the Combined Funds over the past 25 years was 9.2%; over the past 30 year period since September 30, 1983, the annualized rate is 9.7%

FY 2013 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 2013 contributions to the various plans.

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

Minnesota State Retirement Systems (MSRS)				
Plans Covered	Type	State Employer Participation?	State Provides Other Non-Employer Contributions?	FY 2013 State Pension Contributions⁽¹⁾
State Employees Retirement Fund	Multiple employer, cost-sharing plans	Yes ⁽²⁾	No	\$88,388
Correctional Employees Retirement Fund	Single employer, State plan	Yes	No	\$24,632
Elective State Officers Fund	Single employer, State plan	Yes	No	\$470
Judges Retirement Fund	Single employer, State plan	Yes	No	\$8,177
Legislators Retirement Fund	Single employer, State plan	Yes	No	\$3,399
State Patrol Retirement Fund	Single employer, State plan	Yes	No	\$11,482 ⁽³⁾
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	\$5,867
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 2013 State Pension Contributions⁽¹⁾
General Employees Retirement Fund	Multiple employer, cost-sharing plan	Yes ⁽⁴⁾	No ⁽⁵⁾	\$3,018
Minneapolis Employees Retirement Fund	Multiple employer, cost-sharing plan	No	Yes	\$24,000
Public Employees Police and Fire Fund	Multiple employer, cost-sharing plan	No	Yes ⁽⁵⁾	-
Public Employees Correctional Fund	Multiple employer, cost-sharing plan	No	No	-
Volunteer Firefighter Retirement Fund	Multiple employer, agent plan	N/A	Yes ⁽⁵⁾	\$361
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 2013 State Pension Contributions⁽¹⁾
Teachers Retirement Fund	Multiple employer, cost-sharing plan	Yes ⁽⁶⁾	Yes ⁽⁶⁾	\$27,959 ⁽⁶⁾

(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 2013, the State's General Fund comprised approximately 53% of the MSRS employer contributions.

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

(3) A state contribution of \$1.0 million is paid annually on October 1 beginning in 2013 to the State Patrol Retirement Fund; this contribution will continue until both the MSRS State Patrol Retirement Fund and the PERA Police and Fire Retirement Fund become 90% funded on a market value of assets basis.

(4) 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.

(5) The State contributes to pension aid payment directly to local entities to assist the employers' pension obligation. The State also contributes \$9,000,000 annually directly to the Police & Fire Fund, beginning in 2013.

(6) 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 \$27.959 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 Minnesota 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

*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.

**With the July 1, 2013, merger of the Elective State Officers Retirement Fund into the Legislators Retirement Fund, the General Fund appropriation to finance the Elective State Officers Plan benefit payments will be made to the Legislators Retirement Fund.

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.

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:

<u>Retirement System</u>	<u>Fund</u>	<u>Funding Date</u>
MSRS	State Employees Retirement Fund	2040
	State Patrol Retirement Fund	2037
	Correctional Employees Retirement Fund	2038
	Judges Retirement Fund	2039
	Legislators and Elective State Officers Retirement Funds	Not Applicable
PERA	General Employees Retirement Fund	2031
	Public Employees Police and Fire Fund	2038
	Public Employees Correctional Fund	2031
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 and plan administrative expenses. In order to meet these projected 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. The actuarial value of plan assets is smoothed over the most recent five-year period to reduce volatility of both the funding ratio and required contribution rates. Primarily due to investment returns during the fiscal year 2009 through fiscal year 2013 five-year period being lower than actuarially assumed and due to contribution rates being less than actuarial recommended

rates, the funding ratios declined for each of the Retirement Systems for the Fiscal Year ending June 30, 2013 versus funding levels for the Fiscal Year ending June 30, 2012.

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 next experience study for the State Employees Retirement Fund will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014.

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 next experience study for PERA's General Employees Retirement Fund will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014.

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 next experience study for TRA will begin on July 1, 2014, and cover the period from July 1, 2008 through June 30, 2014.

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, 2013, 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, 2013⁽¹⁾**
(\$'s in Millions)

	Actuarial Accrued Liability ²	Actuarial Value			Market Value			Membership	
		Actuarial Value of Assets (AVA) ³	Unfunded Actuarial 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	\$11,429	\$9,376	\$2,053	82.04%	\$10,033	\$1,396	87.79%	49,121	54,922
— Correctional Employees Retirement Fund	1,026	701	\$325	68.33%	747	\$279	72.82%	4,384	3,983
— State Patrol Retirement Fund	742	552	\$190	74.45%	593	\$149	79.96%	845	1,042
— Judges Retirement Fund	285	145	\$140	50.94%	155	\$130	54.62%	309	348
— Legislators Retirement Fund ⁽⁷⁾	236	11	\$225	4.87%	11	\$225	4.87%	24	433
— Elective State Officers Fund ⁽⁷⁾	9	0	\$9	0.00%	0	\$9	0.00%	0	15
Subtotal	\$13,727	\$10,785	\$2,942		\$11,539	\$2,188		54,683	60,743
Public Employees Retirement Association (PERA):									
— General Employees Fund	19,380	14,113	5,267	72.82%	15,085	4,295	77.84%	139,763	244,538
— PERA Police & Fire Fund	7,304	5,933	1,371	81.23%	6,347	957	86.90%	10,940	11,955
— Minneapolis Employees Retirement Fund	1,167	869	298	74.46%	869	298	74.46%	64	3,966
— Local Correctional Service Fund	381	347	34	91.98%	367	14	96.21%	3,493	4,738
Subtotal	\$28,232	\$21,262	\$6,970		\$22,668	\$5,564		154,260	265,197
Teachers' Retirement Association (TRA):	\$23,419	\$16,775	\$6,644	71.63%	\$18,015	\$5,404	76.93%	76,765	98,663
Custodial Subtotal	\$65,378	\$48,822	\$16,556		\$52,222	\$13,156		285,708	424,603
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	1,467	886	581	60.40%	933	534	63.60%	3,941	6,491
Duluth Teachers' Retirement Fund	352	190	162	53.98%	205	147	58.24%	873	2,470
Other Contribution Subtotal	\$1,943	\$1,199	\$745		\$1,261	\$683		4,933	9,153
TOTAL	\$67,321	\$50,021	\$17,301		\$53,483	\$13,839		290,641	433,756

- (1) The information provided in this table reflects the condition of all funds as of June 30, 2013. For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX E. See Footnote 8 – Pension and Investment Trust Funds (see pages E-89 through E-97) and Required Supplementary Information (see pages E-145 through E-151).
- (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 expectancies 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 example, in 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 substantially 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, 2013, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems’ actuaries, was approximately \$53.483 billion. As of June 30, 2013, the aggregate actuarial value of all assets of the pension systems was \$50.021 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 E of this Official Statement (See page E-95).

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 2013 through Fiscal Year 2017 actuarial valuation reports, and the “ultimate” assumed annualized investment return rate of 8.5% is to be used for the sixth year forward, 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. 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 six-year 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 modifying reduction factors applied to members retiring prior to normal retirement age 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 with a report ready for the 2014 legislature’s review.

Recent Board Actions

In September 2013 DTRFA Board of Trustees voted to pursue full consolidation with TRA and that full consolidation is in the best interest of the membership of the plan. Also on September 18, 2013 the TRA Board of Trustees voted that any consolidating fund come into TRA at a 100 percent funding level. Due to the current funding status of DTRFA, for a consolidation of DTRFA into TRA to occur in the near-term, additional legislative action and funding support would be required.

In December 2013, PERA Board of Trustees recommended a 0.25 percent of pay contribution increase for General Plan members and employers during next year's legislative session. Because the Board proposed the increase not become effective until January 2015, legislative action is required. The increase would result in a 6.5 percent contribution rate for General Plan members, and a 7.5 percent contribution by employers.

Also in December 2013, MSRS Board of Trustees voted to increase general plan contributions by 0.5 percent of pay each for employers and employees and correctional plan contributions 0.5 percent of pay for employees and 0.75 percent of pay for employers, effective July 1, 2014. Because legal authority was previously granted to the MSRS board to increase contributions if a contribution deficiency existed on an actuarial basis, these increases do not require legislative action. At the same meeting, the MSRS board voted to pursue a legislative change for all MSRS plans that would delay a post retirement adjustment increase from 2.0 to 2.5 percent until two consecutive actuarial valuations showed a 90 percent funded status.

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 more detailed information related to MSRS's State Retirement System Fund's actuarial valuations, actuarial methods and assumptions, historical funding, eligibility and benefit formulas, as well as historical funding history for other State employer contribution and General Fund appropriations..

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, 2013.

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 82.04% funded (determined on an actuarial value of assets basis), with the actuarial value of assets totaling \$9.376 billion, and the actuarial accrued liability totaling \$11.429 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 State Employees Retirement Fund's funding status, determined on a market value of assets basis, increased from 82.09% as of the July 1, 2012, actuarial valuation to 87.79% as of the July 1, 2013, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns (the actual rate of return was 14.2% in comparison to an 8.0% expected return).

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 July 1, 2013, actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers are 2.45% below the amount required to fully fund the MSRS funds by 2040. The contribution deficiency rate increased from (2.32)% to (2.45)% of payroll (projected annual payroll for the Fiscal Year beginning on the July 1, 2013 valuation date was \$2.55 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. (See, "MSRS - Historical Funding," below.) Under current law, if MSRS has a contribution

deficiency of 0.5% or more for two consecutive years, 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, 2013, show that the MSRS Correctional Employees Retirement Fund is 68.33% funded (on an actuarial value of assets basis), with the actuarial value of assets totaling \$701.1 million, and the actuarial accrued liability totaling \$1,026.1 million. The contribution deficiency decreased from (4.58)% to (5.41)% of payroll primarily due to the recognition of investment losses from prior years in the actuarial value of assets. Lower than expected salaries resulted in a liability gain, but also increased the payment of the unfunded actuarial accrued liability as a percent of payroll. However, funding status, determined on a market value of assets basis increased from 68.12% as of the July 1, 2012, actuarial valuation to 72.82% as of the July 1, 2013, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns (the actual rate of return was 14.2% in comparison to an 8.0% expected return). To minimize a contribution deficiency that is greater than 4%, current law permits MSRS to increase employee and employer contribution rates up to 0.75% annually until the contribution deficiency is eliminated. MSRS intends to implement employee and employer contribution rate increases of 0.5% and 0.75%, respectively, starting July 1, 2014.

The State Patrol Retirement Fund is 74.45% funded (on an actuarial value of assets basis), with the actuarial value of assets totaling \$552.3 million, and the actuarial accrued liability totaling \$741.8 million based on July 1, 2013 actuarial valuation results. The contribution deficiency decreased from (11.52)% to (8.68)% of payroll. The primary reasons for the decreased contribution deficiency are significant changes in plan provisions, including member and employer contribution rate increases totaling an additional 5% of payroll over the next four fiscal years. The funding status, determined on a market value of assets basis, increased from 72.27% as of the July 1, 2012, actuarial valuation to 79.96% as of the July 1, 2013, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns, as noted in previous paragraphs.

The Judges Retirement Fund, is 50.94% funded (on an actuarial valuation of assets basis), with the actuarial value of assets totaling \$144.92 million and the actuarial accrued liability totaling \$284.51 million based on July 1, 2013 actuarial valuation results. The contribution deficiency for the plan decreased from (13.5)% of payroll as of the July 1, 2012, actuarial valuation to (11.46)% of payroll as of the July 1, 2013, actuarial valuation. The primary reasons for the decreased contribution deficiency are the increase in member and employer contributions and the impact of changes in plan provisions. Also, plan provisions affecting members first hired after June 30, 2013 (e.g., a 2-tiered contribution and benefit structure), are expected to ultimately reduce the cost of the plan, but have not yet impacted the actuarial valuation results. Funding status, determined on a market value of assets basis, increased from 51.17% as of the July 1, 2012, actuarial valuation to 54.62% as of the July 1, 2013, actuarial valuation. This improvement in funding status is attributed to higher than expected investment returns, as noted in previous paragraphs.

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.

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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:

**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, 2013 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 The next experience study is scheduled to begin July 1, 2014, and will cover the period July 1, 2008 through June 30, 2014.
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, 2013	\$657,719,000

⁽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, 2013 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2013.

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, 2013. 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**

<i>As of</i>	<i>Statutory Actual Contribution Rates</i>			<i>Actuarial Recommended Rate</i>	<i>Sufficiency/Deficiency Employee</i>
	<i>Employee</i>	<i>Employer</i>	<i>Total</i>		
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)%
July 1, 2013	5.00%	5.00%	10.00%	12.45%	(2.45)%

Sources: MSRS Comprehensive Annual Financial Reports (2004 – 2013) – 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 higher funding ratio 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)**

Valuation Date (July 1)	Aggregate Accrued Liabilities			Reported Assets	Portion Covered by Reported Assets			Funding Ratio
	Active Member Contributions (1)	Retirees and Beneficiaries (2)	Employer Financed Portion (3)		(1)	(2)	(3)	
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
2013	1,090,373	5,807,381	4,530,887	9,375,780	100	100	54.7	82.0

Source: MSRS Comprehensive Annual Report, June 30, 2013.

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, 2013. 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-instructional 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 an 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 from age 66. Salary includes wages and other periodic compensation. 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	<i>Eligibility for unreduced retirement benefits:</i> Age 65 for employees hired before July 1, 1989, or age 66 for employees hired on or after July 1, 1989 Age eligible for full Social Security retirement benefits (but not higher than age 66) if hired before July 1, 1989; with three or more years of allowable service (five years if hired after June 30, 2010) Rule of 90 for those employees hired before July 1, 1989. <i>Eligibility for reduced retirement benefits:</i> 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 2013 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, 2013. 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 2013, the State's General Fund comprised approximately 48% of the employer contributions. Other major fund categories included approximately 17% for the Trunk Highway Fund, 7% for federal funds and 12% for the special revenue fund. All other State employer contributions, which make up approximately 16% of the total were from 96 other funds of the State.

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

Fiscal Year Ended (June 30 th)	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	
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
2013	121,673	24,632	470	8,177	3,399	11,482	169,833

⁽¹⁾ Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions. Amounts exclude the State's employer contribution to the Unclassified Employees Retirement Fund (Defined Contribution Plans). For FY2013, employer contributions to this fund were \$5,867,000.

⁽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 2013 Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2013 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
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	80,696	2,753	14,316	608	-	-	98,373
*2014	89,270	2,729	14,294	608	2,094	15,500	124,495
*2015	93,743	2,729	14,294	608	2,094	15,500	128,968

⁽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 million to Volunteer Firefighter plan employers and \$1 million to the MSRS State Patrol fund

* Projections for FY 2014 and FY 2015 as of November 2013.

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
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 2014 and FY 2015 as of November 2013 forecast.

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 E. See Footnote 8 – Pension and Investment Trust Funds (see pages E-89 through E-97) and Required Supplementary Information (see pages E-145 through E-151).

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POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Postemployment benefits other than pensions are available to certain employees of the State, 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, 2012, there were approximately 2,600 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, 2012, there were approximately 1,120 correctional and law enforcement retirees receiving an explicit rate subsidy. 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, 2013, the State contributed \$38,348,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed \$24,453,000 through their average required contribution of \$475 per month for retiree-only coverage and \$1,397 for retiree-family coverage. The plan is administered by the MSRS.

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, 2013, the State's ARC is \$65,854,000. 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:

Net OPEB Obligation	
(\$'s In Thousands)	
Annual Required Contributions (ARC) ⁽¹⁾	\$ 65,854
Interest on Net OPEB Obligation (NOO) ⁽¹⁾	9,149
Amortization Adjustment to ARC ⁽¹⁾	<u>(7,703)</u>
Annual OPEB Cost (Expense)	\$ 67,300
Contributions	<u>(38,348)</u>
Increase in NOO	<u>\$ 28,952</u>
NOO, Beginning Balance	<u>\$192,622</u>
NOO, Ending ⁽²⁾	<u>\$221,574</u>

⁽¹⁾ Components of annual OPEB cost.

⁽²⁾ Amount attributable to State's General Fund is \$192,075. See page E-82 through E-85, Note 9 – Termination and Postemployment Benefits and page E-90, Note 12 – Long-Term Liabilities – Primary Government.

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal year Ended June 30, 2013.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012, and 2011 are as follows:

**Net OPEB Obligation
(\$'s In Thousands)**

<u>Fiscal Year Ended, June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$67,300	57%	\$221,574
2012	\$81,528	67%	\$192,622
2011	\$77,250	51%	\$164,311

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal year Ended June 30, 2013.

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was \$651,890,000. 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 \$2,819,463,000 and the ratio of the UAAL to the covered payroll was 23.1 percent.

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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)**

<u>Category Type</u>	<u>Principal Amount</u>	
1 Building	\$ 230	
Transportation	209,735	
Refunding Bonds	1,451,965	
Various Purpose	<u>3,018,785</u>	
Total Category 1		\$ 4,680,715
2 School Loan	\$ 14,215	
Rural Farm Authority	<u>44,615</u>	
Total Category 2		\$ 58,830
3 Trunk Highway	\$ 1,321,065	
Trunk Highway Refunding	<u>191,320</u>	
Total Category 3		<u>\$ 1,512,385</u>
Total Outstanding as of the Date of the Bonds		<u><u>\$ 6,251,930</u></u>

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)

<u>Purpose of Issue</u>	<u>Law Authorizing</u>	<u>Total</u> <u>Authorization</u> ⁽¹⁾⁽²⁾	<u>Previously Issued</u>	<u>Remaining</u> <u>Authorization</u>
Building	1990,Ch.610	\$270,129.1	\$270,126.0	\$3.1
Building	1994,Ch.643	523,873.5	523,849.0	\$24.5
Building	X1997, Ch. 2	37,432.0	37,335.0	\$97.0
Building	1999, Ch. 240	439,425.1	438,865.0	\$560.1
Various Purpose	2000, Ch. 492	527,622.7	519,075.0	\$8,547.7
Various Purpose	2002, Ch. 393	600,594.3	598,615.0	\$1,979.3
Various Purpose	X2002, Ch. 1	15,273.0	15,055.0	\$218.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.5	399,990.0	\$201.5
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	\$326.5
Various Purpose	2005, Ch. 20	917,968.2	912,779.0	\$5,189.2
Various Purpose	2006, Ch. 258	993,856.9	987,303.0	\$6,553.9
Various Purpose	X2007, Ch. 2	41,740.5	39,820.0	\$1,920.5
Trunk Highway	2008, Ch. 152	1,782,745.6	1,142,235.0	\$640,510.6
Transportation	2008, Ch. 152	60,035.0	60,000.0	\$35.0
Various Purpose	2008, Ch. 179	795,014.9	780,947.0	\$14,067.9
Various Purpose	2008, Ch. 365	105,236.4	103,220.0	\$2,016.4
Trunk Highway	2009, Ch. 36	40,000.0	25,500.0	\$14,500.0
Various Purpose	2009, Ch. 93	256,865.0	243,535.0	\$13,330.0
Various Purpose	2010, Ch. 189	715,205.0	672,900.0	\$42,305.0
Trunk Highway	2010, Ch. 189	26,445.0	24,900.0	\$1,545.0
Trunk Highway	2010, Ch. 388	100,100.0	56,640.0	\$43,460.0
Various Purpose	X2010, Ch. 1	34,657.0	18,500.0	\$16,157.0
Various Purpose	X2011, Ch. 12	555,140.0	455,315.0	\$99,825.0
Trunk Highway	2012, Ch. 287	16,120.0	12,065.0	\$4,055.0
Various Purpose	2012, Ch. 293	566,858.0	355,370.0	\$211,488.0
Various Purpose	X2012, Ch. 1	56,695.0	21,000.0	\$35,695.0
Trunk Highway	X2012, Ch. 1	35,040.0	14,995.0	\$20,045.0
Trunk Highway	2013, Ch. 117 ⁽³⁾	300,300.0	0.0	\$300,300.0
Various Purpose	2013, Ch. 136	<u>178,795.0</u>	<u>98,000.0</u>	<u>\$80,795.0</u>
Totals		\$10,499,385.2	\$8,933,634.0	\$1,565,751.2

⁽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.

TOTAL STATE GENERAL OBLIGATION BONDS OUTSTANDING BY SERIES
as of the Date of Issue of These Bonds
(\$ in Thousands)

Bond Issue	Original Principal		Final Maturity	Interest Rate Range	Outstanding Principal 06/30/2013		Outstanding Principal as of Date of Issue	
	Various Purpose	Trunk Highway			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	-	50,500
Series 2009C January 29, 2009 (Taxable)	5,000	-	2013	3.25%	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	\$ 4,739,545	\$ 1,512,385

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 the Date of Issue of these Bonds
(\$ in Thousands)

Fiscal Year	General Fund			Trunk Highway Fund		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ -	\$ 108,762	\$ 108,762	\$ 4,455	\$ 33,222	\$ 37,677
2015	460,590	214,062	674,652	97,855	65,765	163,620
2016	431,425	192,588	624,013	97,755	61,238	158,993
2017	410,765	171,882	582,647	97,290	56,604	153,894
2018	391,410	152,551	543,961	96,830	51,917	148,747
2019	349,485	134,625	484,110	96,485	47,269	143,754
2020	330,025	118,051	448,076	95,935	42,637	138,572
2021	301,400	102,425	403,825	95,430	38,023	133,453
2022	289,325	87,672	376,997	93,870	33,516	127,386
2023	266,615	73,784	340,399	91,010	29,127	120,137
2024	246,745	61,017	307,762	90,405	24,986	115,391
2025	233,085	49,509	282,594	83,285	21,238	104,523
2026	208,485	39,622	248,107	75,970	17,817	93,787
2027	182,425	31,128	213,553	67,985	14,621	82,606
2028	171,650	23,118	194,768	64,790	11,833	76,623
2029	130,430	16,122	146,552	62,735	9,209	71,944
2030	114,890	11,014	125,904	59,550	6,714	66,264
2031	92,155	6,819	98,974	54,550	4,389	58,939
2032	60,630	3,818	64,448	43,300	2,463	45,763
2033	40,380	1,900	42,280	27,300	1,149	28,449
2034	27,630	571	28,201	15,600	325	15,925
	<u>\$ 4,739,545</u>	<u>\$ 1,601,040</u>	<u>\$ 6,340,585</u>	<u>\$ 1,512,385</u>	<u>\$ 574,062</u>	<u>\$ 2,086,447</u>

* 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 E.

Footnote 10 – Long-Term Commitments (see pages E-87 through E-88)

Footnote 11 – Operating Lease Agreements (see page E-89)

Footnote 12 – Long-term Liabilities (see pages E-90 through E-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 Service¹
(\$ 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	222,584	120,305	69,133	\$412,022 ⁽³⁾
2014 (est)	619,935	136,488	53,685	\$810,108 ⁽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⁾

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 2013 valuation, was estimated by the Commissioner of Revenue to be \$546,307,102,000. 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	509,008,895	7,294,854	516,303,749	(1.16)
2013	538,667,874	7,639,228	546,307,102	5.81

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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 and an additional \$48,155,000 in bonds in November 2013 of which \$35,395,000 is secured appropriation bonds. As of the date of this Official Statement, \$191,835,000 of these State secured bonds are still outstanding.

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. MHFA intends to issue the remaining authorization, \$14,540,000 in bonds, in February of 2014.

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, \$25,433,854 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 \$763,225 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, \$4,345,000 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 \$111,240,000 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 issued \$37,830,000 of 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 December 1, 2013**

	Number of Series	Final Maturity	Original Principal Amount (in thousands)	Outstanding Principal Amount (in thousands)
Rental Housing.....	13	2048	\$ 133,000	\$ 69,395
Residential Housing Finance.....	59	2048	2,096,385	1,210,775
Multifamily Housing	1	2051	15,000	14,790
	<u>73</u>		<u>\$2,244,385</u>	<u>\$1,294,960</u>

The MHFA has also issued and there were outstanding as of December 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 \$551,360,000 of bonds outstanding payable from the Student Educational Loan Fund, of which \$551,360,000 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 guaranties have been issued to date with outstanding balances of \$3,119,710 and the other for \$9,415,000. The guaranties 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 \$212.6 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

**SELECTED ECONOMIC AND DEMOGRAPHIC
INFORMATION**

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APPENDIX D

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)**

Category	Minnesota					United States				
	1990	2000	2010	%Change		1990	2000	2010	%Change	
				90-00	00-10				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	\$33,321	\$31,524	105.7
2002	\$33,876	\$31,798	106.5
2003	\$35,218	\$32,676	107.8
2004	\$36,878	\$34,300	107.5
2005	\$37,742	\$35,888	105.2
2006	\$39,582	\$38,127	103.8
2007	\$41,588	\$39,804	104.5
2008	\$43,068	\$40,873	105.4
2009	\$41,202	\$39,357	104.7
2010	\$42,616	\$40,163	106.1
2011	\$45.135	\$42.298	106.7
2012p	\$46.925	\$43.735	107.3

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	\$540,223	2.9	10	12,419	\$32,685	2	12,831	\$42,104	3
Indiana	\$97,005	\$167,276	5.6	6	\$223,158	2.9	9	6,080	\$27,510	9	6,484	\$34,418	12
Iowa	\$48,250	\$79,920	5.2	10	\$119,080	4.1	4	2,926	\$27,311	10	3,046	\$39,089	6
Kansas	\$44,750	\$76,684	5.5	7	\$110,885	3.8	5	2,688	\$28,524	7	2,853	\$38,864	7
Michigan	\$174,296	\$292,606	5.3	9	\$346,818	1.7	12	9,938	\$29,442	3	9,884	\$35,090	11
Minnesota	\$86,524	\$160,833	6.4	1	\$226,320	3.5	7	4,919	\$32,693	1	5,304	\$42,670	2
Missouri	\$90,177	\$156,359	5.7	4	\$219,484	3.4	8	5,595	\$27,945	8	5,989	\$36,648	9
Nebraska	\$28,388	\$48,998	5.6	5	\$73,069	4.1	3	1,711	\$28,633	6	1,826	\$40,008	5
North Dakota	\$10,117	\$16,430	5.0	11	\$29,154	5.9	1	642	\$25,584	12	673	\$43,345	1
Ohio	\$202,486	\$326,075	4.9	12	\$418,535	2.5	11	11,353	\$28,721	5	11,537	\$36,279	10
South Dakota	\$11,206	\$19,970	5.9	2	\$33,136	5.2	2	755	\$26,456	11	814	\$40,698	4
Wisconsin	\$88,213	\$156,603	5.9	3	\$220,502	3.5	6	5,364	\$29,197	4	5,687	\$38,773	8

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 December 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	\$32,332	\$38,390	18.7
2	Minnesota	\$236,815	\$249,198	5.2
3	Ohio	\$241,352	\$252,413	4.6
4	Indiana	\$567,197	\$590,094	4.0
5	Michigan	\$232,094	\$241,201	3.9
6	Missouri	\$80,420	\$83,521	3.9
7	Kansas	\$130,131	\$135,063	3.8
8	Iowa	\$446,136	\$462,424	3.7
9	Wisconsin	\$365,753	\$378,443	3.5
10	Illinois	\$228,270	\$235,661	3.2
11	Nebraska	\$120,783	\$124,137	2.8
12	South Dakota	\$36,932	\$37,819	2.4
	Region	\$2,718,214	\$2,828,363	4.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi
Data extracted by MMB staff December 2013.

Note: Columns may not add due to rounding

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 - 2010 Percent 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	

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
September	5.0	7.2
October	4.8	7.3
November	4.6	7.0

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 January 2014.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

<u>Rank</u>		<u>Company</u>	<u>Revenues</u>	<u>Assets</u>	<u>Profits</u>	<u>Industry</u>	<u>Rank</u>
<u>2012</u>	<u>2011</u>		<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>Category</u>	
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 E
STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2013

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APPENDIX E
SELECTED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. James Schowalter, Commissioner, Minnesota Management and Budget

Report on the Financial Statements

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, 2013, which collectively comprise the state's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The State of Minnesota's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 67 percent, 62 percent, and 25 percent, respectively, of the total assets, net position, 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, 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 position, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State of Minnesota's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Minnesota's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The financial statements of the National Sports Center Foundation and the Workers' Compensation Assigned Risk Plan, which are discretely presented nonmajor component units, were not audited in accordance with *Government Auditing Standards*.

We believe that the audit evidence we have obtained and the reports of other auditors is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the fiscal year 2012 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

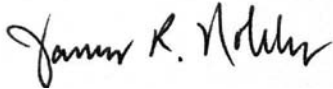
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the State of Minnesota's basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards

Members of the Minnesota State Legislature
The Honorable Mark Dayton, Governor
Mr. James Schowalter, Commissioner, Minnesota Management and Budget
Page 3

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 18, 2013



2013 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, 2013, and identifies changes in the financial position of the state that 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 position 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.

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The government-wide financial statements are located immediately following this discussion and analysis.

The statement of net position 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 position 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 position 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 position 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 position 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. 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 ten 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 seven discretely presented 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
- Minnesota Sports Facilities Authority

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 assist 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 position and in the proprietary funds statement of revenues, expenses, and changes in net position. Information from the eight nonmajor enterprise funds and the six 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 position. Also, some information on the statement of changes in net position is aggregated for component units. The discretely presented component units' statements of net position and statements of changes in net position 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, 2013, by \$15.6 billion (presented as net position). Of this amount, a deficit of \$2.0 billion was reported as unrestricted net position. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.
- The state's total net position increased by \$2.4 billion (17.7 percent) during fiscal year 2013. Net position of governmental activities increased by \$1.6 billion (15.5 percent), while net position of the business-type activities showed an increase of \$708 million (26.8 percent). For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of \$5.7 billion, an increase of \$1.5 billion compared to the prior year. Included in the ending fund balance is a General Fund unassigned balance of \$210 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 \$338 million (3.7 percent) during the current fiscal year. The increase is primarily a result of the state issuing general obligation bonds for trunk highway projects and other various state purposes. In addition, the state issued state General Fund appropriation refunding bonds to refund the tobacco settlement revenue bonds issued by the Tobacco Securitization Authority (blended component unit) in the prior year.

Government-wide Financial Analysis

As noted earlier, net position serves as a useful indicator of a government's financial position over time. The state's combined net position (governmental and business-type activities) totaled \$15.6 billion at the end of fiscal year 2013, compared to \$13.3 billion at the end of the previous year.

Net Position June 30, 2013 and 2012 (In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current Assets ⁽¹⁾	\$ 12,114,119	\$ 11,302,014	\$ 2,380,675	\$ 1,735,427	\$ 14,494,794	\$ 13,037,441
Noncurrent Assets:						
Capital Assets ⁽¹⁾	13,379,535	12,908,015	2,121,568	2,015,065	15,501,103	14,923,080
Other Assets	796,531	853,032	142,144	123,406	938,675	976,438
Total Assets	<u>\$ 26,290,185</u>	<u>\$ 25,063,061</u>	<u>\$ 4,644,387</u>	<u>\$ 3,873,898</u>	<u>\$ 30,934,572</u>	<u>\$ 28,936,959</u>
Current Liabilities	\$ 6,080,079	\$ 6,709,396	\$ 395,035	\$ 368,881	\$ 6,475,114	\$ 7,078,277
Noncurrent Liabilities	7,911,758	7,702,030	901,420	865,048	8,813,178	8,567,078
Total Liabilities	<u>\$ 13,991,837</u>	<u>\$ 14,411,426</u>	<u>\$ 1,296,455</u>	<u>\$ 1,233,929</u>	<u>\$ 15,288,292</u>	<u>\$ 15,645,355</u>
Net Position:						
Net Investment in Capital						
Assets ⁽¹⁾	\$ 10,250,660	\$ 9,889,953	\$ 1,456,939	\$ 1,394,303	\$ 11,707,599	\$ 11,284,256
Restricted	4,050,489	3,546,397	1,899,250	1,252,075	5,949,739	4,798,472
Unrestricted ⁽¹⁾	(2,002,801)	(2,784,715)	(8,257)	(6,409)	(2,011,058)	(2,791,124)
Total Net Position	<u>\$ 12,298,348</u>	<u>\$ 10,651,635</u>	<u>\$ 3,347,932</u>	<u>\$ 2,639,969</u>	<u>\$ 15,646,280</u>	<u>\$ 13,291,604</u>

⁽¹⁾ 2012 has been restated to be consistent with 2013 presentation.

The largest portion, \$11.7 billion of \$15.6 billion, of the state's net position 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 \$5.9 billion of the state's net position 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 position restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net position balance represents a deficit in unrestricted net position of \$2.0 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 position; 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 position for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net position for governmental and business-type activities increased \$2.4 billion (17.7 percent) over the course of this fiscal year. This resulted from a \$1.6 billion (15.5 percent) increase in net position of governmental activities, and a \$708 million (26.8 percent) increase in net position of business-type activities.

Changes in Net Position						
Fiscal Years Ended June 30, 2013 and 2012						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services ⁽¹⁾	\$ 1,507,737	\$ 1,317,943	\$ 3,154,583	\$ 3,088,037	\$ 4,662,320	\$ 4,405,980
Operating Grants and Contributions	9,153,096	8,410,311	710,153	1,113,581	9,863,249	9,523,892
Capital Grants	167,097	135,113	-	-	167,097	135,113
General Revenues:						
Individual Income Taxes	9,209,954	8,409,530	-	-	9,209,954	8,409,530
Corporate Income Taxes	1,242,912	953,428	-	-	1,242,912	953,428
Sales Taxes	5,004,330	4,849,514	-	-	5,004,330	4,849,514
Property Taxes	831,316	809,044	-	-	831,316	809,044
Motor Vehicle Taxes	1,241,242	1,150,343	-	-	1,241,242	1,150,343
Fuel Taxes	860,837	849,955	-	-	860,837	849,955
Other Taxes	2,436,828	2,253,625	-	-	2,436,828	2,253,625
Tobacco Settlement	171,338	166,154	-	-	171,338	166,154
Investment/Interest Income	23,129	12,873	17,545	6,567	40,674	19,440
Other Revenues ⁽¹⁾	128,115	135,707	2,215	12,134	130,330	147,841
Total Revenues	\$ 31,977,931	\$ 29,453,540	\$ 3,884,496	\$ 4,220,319	\$ 35,862,427	\$ 33,673,859
Expenses:						
Agricultural, Environmental and Energy Resources	\$ 954,721	\$ 916,001	\$ -	\$ -	\$ 954,721	\$ 916,001
Economic and Workforce Development	571,265	543,680	-	-	571,265	543,680
General Education	8,207,311	7,890,863	-	-	8,207,311	7,890,863
General Government ⁽¹⁾	971,198	885,328	-	-	971,198	885,328
Health and Human Services ⁽¹⁾	13,146,913	12,488,172	-	-	13,146,913	12,488,172
Higher Education ⁽¹⁾	849,510	795,389	-	-	849,510	795,389
Intergovernmental Aid	1,269,078	1,358,521	-	-	1,269,078	1,358,521
Public Safety and Corrections	970,095	952,585	-	-	970,095	952,585
Transportation ⁽¹⁾	2,683,545	2,280,481	-	-	2,683,545	2,280,481
Interest	218,218	506,909	-	-	218,218	506,909
State Colleges and Universities	-	-	1,891,779	1,816,268	1,891,779	1,816,268
Unemployment Insurance	-	-	1,060,431	1,490,943	1,060,431	1,490,943
Lottery	-	-	425,541	396,590	425,541	396,590
Other ⁽¹⁾	-	-	288,146	270,276	288,146	270,276
Total Expenses	\$ 29,841,854	\$ 28,617,929	\$ 3,665,897	\$ 3,974,077	\$ 33,507,751	\$ 32,592,006
Excess (Deficiency) Before						
Transfers	\$ 2,136,077	\$ 835,611	\$ 218,599	\$ 246,242	\$ 2,354,676	\$ 1,081,853
Transfers	(489,364)	(480,195)	489,364	480,195	-	-
Change in Net Position	\$ 1,646,713	\$ 355,416	\$ 707,963	\$ 726,437	\$ 2,354,676	\$ 1,081,853
Net Position, Beginning ⁽¹⁾	\$ 10,651,635	\$ 10,296,219	\$ 2,639,969	\$ 1,913,532	\$ 13,291,604	\$ 12,209,751
Net Position, Ending	\$ 12,298,348	\$ 10,651,635	\$ 3,347,932	\$ 2,639,969	\$ 15,646,280	\$ 13,291,604

⁽¹⁾ 2012 has been restated to be consistent with 2013 presentation.

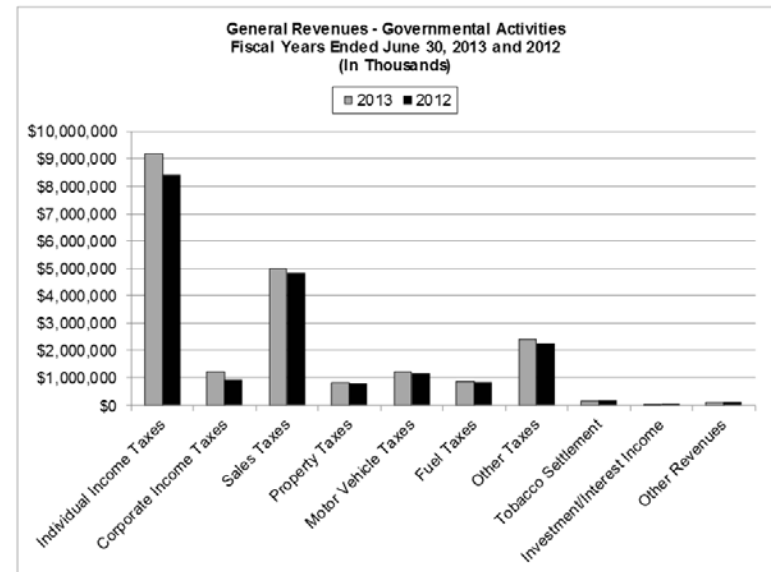
Approximately 58 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 28 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 1 percent came from other general revenues.

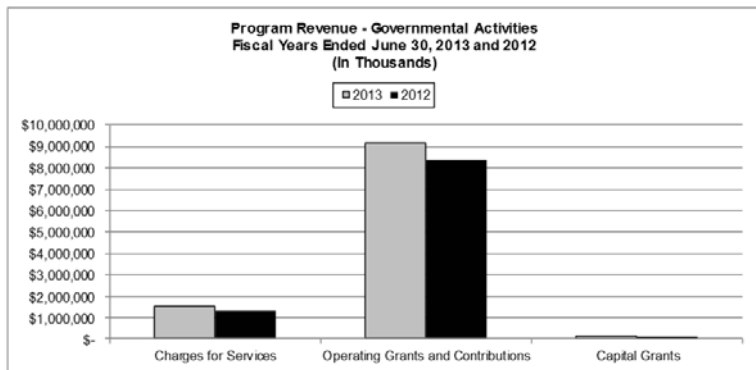
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

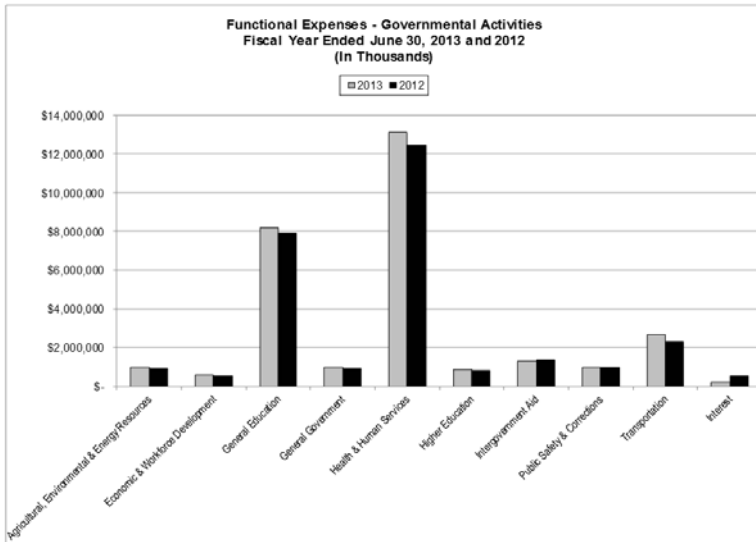
Governmental activities increased the state's net position by \$1.6 billion compared to an increase of \$355 million in the prior year.

There was a net increase in revenues compared to the prior year. The increase in revenue was primarily attributable to the increase in income and sales taxes as a result of the strengthening economy. Operating grants and contributions increased due to revenue from the federal government for their participation primarily in medical assistance programs. Charges for services increased across most state agencies with the largest increases due to one-time caps placed on HMO profits, which required remittance back to the state in health and human services expenses as well as increased intergovernmental grants from the state of Wisconsin on transportation projects in transportation expenses.



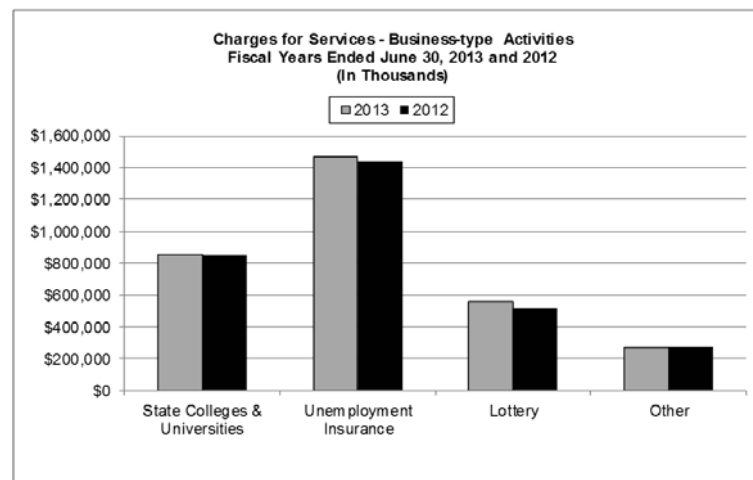


There was an increase in functional expenses compared to the prior year. The increase in health and human services was attributable to an increase in several medical assistance programs, which was offset by the receipt of federal revenue. The largest factor for the increase was due to a significant increase in enrollment in managed care along with increased rates to providers for eligible individuals. The increase in general education was primarily due to a 1 percent per pupil formula increase as well as a slight increase in the number of pupils. Transportation expenses increased due to increased construction projects for trunk highways and bridges as well as increased aid to counties.



Business-type Activities

Net position for the state's proprietary funds increased by \$708 million during the current year. This resulted primarily from a \$91 million increase in net position in the State Colleges and Universities Fund and a \$625 million increase in net position in the Unemployment Insurance Fund. The increase in net position in the State Colleges and Universities Fund is slightly lower than the increase in net position in the prior year. Tuition and fee revenue increased due to a tuition rate increase that was partially offset by a slight reduction in enrollment. Operating expenses increased primarily due to bargaining unit negotiated salary increases that included retroactive pay. 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 or found employment. In addition, insurance premiums increased due to a higher tax base. These increases in net position were partially offset by decreases in grants and subsidies as the state no longer qualified for certain federal 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 \$5.7 billion, an increase of \$1.5 billion 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 \$210 million, an increase in the unassigned fund balance of \$1.1 billion 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. As previously noted, the increase in revenue was primarily attributable to the increase in income and sales taxes as a result of the strengthening economy. This revenue increase was partially offset by an increase in general education expenditures primarily due to a 1 percent per pupil formula increase as well as a slight increase in the number of 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 position increased by \$708 million during the current year. This primarily resulted from a \$91 million increase in net position of the State Colleges and Universities Fund and an increase of \$625 million in net position 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 2013. These are material to understanding changes in General Fund balances that occurred in fiscal year 2013. 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 highlights material actions taken by the Minnesota legislature and the governor affecting fiscal year 2013.

Actions Establishing the Fiscal Year 2013 Budget

The budget for state fiscal year 2013 was initially adopted in July 2011 in a special session that ended a 21-day partial state government shutdown. Prior to the 2012 legislative session, two successive budget forecasts directed \$1.2 billion of additional forecast budgetary balances to fully restore the state's reserves and begin to repay the K-12 school aid payment shifts.

Supplemental budget changes enacted in the 2012 session were limited, including: reversing selective human services reductions made in 2011, new initiatives related to veterans, public safety and job growth, and a bonding bill totaling \$550 million. Total net changes to revenues and expenditures totaled \$61 million for the biennium. The 2012 session also authorized construction of a new Vikings football stadium with a projected \$975 million cost. The state will issue debt on behalf of the City of Minneapolis to finance this construction up to \$498 million. The state share of the project was \$348 million, expected to be funded by new tax revenues on expanded charitable gambling, electronic pull tabs, and bingo.

After the 2012 legislative session, the enacted budget for fiscal year 2013 included \$17.256 billion in General Fund resources, \$17.286 billion in General Fund spending, \$1.007 billion in cash and budget reserves, \$34 million in a stadium reserve account, and a forecast \$26.5 million budgetary balance.

Budget and Forecast Actions Impacting Fiscal Year 2013

A one-day special legislative session in August 2012 addressed the costs of damages caused by a torrential rain fall in June 2012. The natural disaster resulted in major infrastructure damage to roads and bridges in several counties. The legislature appropriated \$74.5 million from the General Fund and offset it by \$2.6 million in General Fund transfers, reductions, and cancellations. To pay for the net cost, the

legislature used the forecast budgetary balance of \$26.5 million and reduced the budget reserve by \$45.4 million, which left a zero projected balance for fiscal year 2013.

The November 2012 forecast improved the budget outlook for the 2012-13 biennium by \$1.330 billion. Contributing to that change, forecast revenues were increased \$1.076 billion, primarily from an \$810 million increase in the income, corporate and sales tax forecasts. Spending was reduced \$262 million, primarily due to savings in health and human services spending resulting from lower average cost of care in MA Families with Children, a downward trend in nursing facility caseloads, and lower than anticipated caseload growth in the MA Long-term Waiver programs. But, from the forecast balance, \$1.324 billion was automatically allocated by state law to buying back outstanding K-12 school aid payment shifts, thereby increasing education aid spending in fiscal year 2013. A residual of \$6 million was added to the budget reserve due to a rounding of the K-12 school aid payment percentages. After the buyback, \$1.1 billion in K-12 school aid payment shifts remained and the budgetary balance for fiscal year 2013 was forecast to be zero.

In the February 2013 forecast, General Fund revenues increased slightly (\$217 million) and spending was reduced by \$63 million. Those changes, coupled with a \$15 million reduction in the projected stadium reserve, improved the budget outlook for fiscal year 2013 by \$295 million. Similar to actions taken in November, the balance was used to further reduce the outstanding K-12 school aid payment shifts. This increased education aid spending in fiscal year 2013 by \$282 million. A residual of \$4 million was added to the budget reserve and \$9 million was used to restore reserves. After the K-12 school aid payment shift buyback, approximately \$800 million in K-12 school aid payment shifts remained outstanding and the forecast balance for fiscal year 2013 was zero. The February forecast for fiscal year 2013 reflected \$18.075 billion in General Fund revenue, \$18.862 billion in General Fund spending, \$1.006 billion in cash and budget reserves, \$1 million in the stadium reserve, and a zero budgetary balance.

Actual revenues for fiscal year 2013 were \$18.657 billion, \$582 million higher than forecast, including \$364 million in income taxes and \$116 million in sales taxes. Spending for fiscal year 2013 was \$18.740 billion, \$122 million below previous estimates; however, \$69 million of unspent appropriations in fiscal year 2013 were authorized to carryforward into fiscal year 2014. Human services' spending was \$62 million (1.2 percent) lower than previously forecast. The entire ending balance of \$636 million carried forward into fiscal year 2014 and was used to repay a portion of the estimated \$874 million remaining obligation from the K-12 school aid payment and property tax recognition shifts. Final numbers for fiscal year 2013 reflected \$18.657 billion in General Fund revenue, \$18.740 billion in General Fund spending, \$1.006 billion in cash and budget reserves.

Since the budget was initially adopted, total General Fund resources for fiscal year 2013 increased by \$2.097 billion. Of that total change, \$697 million (33 percent) was a gain in revenues and net spending during the close period of fiscal year 2012 and nearly 60 percent, \$1.196 billion, was the result of higher tax revenues in fiscal year 2013. Total spending in fiscal year 2013 increased \$1.454 billion since the budget was initially adopted. Lower spending in health and human services (\$201 million), property tax aids and credits (\$48 million), and debt service (\$40 million) were offset by increased K-12 school aid spending associated with school aid payment shift buybacks. In total, K-12 school aid spending was \$1.589 billion higher than originally enacted. With the successive shift buybacks, K-12 school aid payment percentages were modified from 64.3 percent in the current year and a 35.7 percent settle-up payment in the following year to a 86.5 percent, 13.5 percent payment basis for fiscal year 2013.

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 measurable 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 2013 with a balance of \$651 million. On a GAAP basis, the General Fund reported a balance of \$1.285 billion for fiscal year 2013, a difference of \$634 million from the budgetary General Fund balance. The difference between the General Fund budgetary and GAAP fund balance results from two 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. Second, several funds are included in the GAAP fund balance which are not included in the budgetary fund balance. These additional funds reported a fund balance of \$1.0 billion. The difference between the GAAP basis and budgetary basis General Fund fund balance, excluding these additional funds not reported in the budgetary fund balance, was \$411 million. 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.

In the November 2013 forecast, changes in the General Fund revenue and expenditure forecast for the 2014-15 biennium increased the forecasted balance from \$47 million to \$1.086 billion. Forecast revenues increased \$787 million (2.0 percent), while forecasted spending was \$247 million (0.6 percent) lower. A net reduction in General Fund reserves added an additional \$5 million to the bottom line. As in recent forecasts, the law requires the forecast balance to be used to repay K-12 school aid payment shifts. The first \$246 million of the balance was used to complete repayment of the K-12 school property tax recognition shift. Additionally, \$15 million was transferred to the State Airports Fund (special revenue), restoring money originally borrowed in 2008. The forecast completed repayment of accounting shifts from prior budget solutions and reduced the forecast balance to \$825 million for the 2014-15 biennium.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2013, was \$18.6 billion, less accumulated depreciation of \$3.1 billion, resulting in a net book value of \$15.5 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, 2013 and 2012 (In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Capital Assets not Depreciated:						
Land	\$ 2,168,036	\$ 2,114,604	\$ 89,618	\$ 88,420	\$ 2,257,654	\$ 2,203,024
Buildings, Structures, Improvements	38,870	30,768	-	-	38,870	30,768
Construction in Progress	255,595	265,193	181,115	192,153	436,710	457,346
Development in Progress	69,146	29,947	-	-	69,146	29,947
Infrastructure ⁽¹⁾	8,480,170	8,184,515	-	-	8,480,170	8,184,515
Easements	334,733	324,203	-	-	334,733	324,203
Art and Historical Treasures	4,599	3,731	-	-	4,599	3,731
Total Capital Assets not Depreciated	\$ 11,351,149	\$ 10,952,961	\$ 270,733	\$ 280,573	\$ 11,621,882	\$ 11,233,534
Capital Assets Depreciated:						
Buildings, Structures, Improvements ⁽¹⁾	\$ 2,627,335	\$ 2,551,589	\$ 3,044,383	\$ 2,845,802	\$ 5,671,718	\$ 5,397,391
Infrastructure	199,099	167,869	-	-	199,099	167,869
Internally Generated Computer Software	74,108	67,010	14,819	15,695	88,927	82,705
Easements	4,211	4,090	-	-	4,211	4,090
Library Collections	-	-	45,038	46,124	45,038	46,124
Equipment, Furniture, Fixtures	641,212	619,178	348,246	333,557	989,458	952,735
Total Capital Assets Depreciated	\$ 3,545,965	\$ 3,409,736	\$ 3,452,486	\$ 3,241,178	\$ 6,998,451	\$ 6,650,914
Less: Accumulated Depreciation ⁽¹⁾	1,517,579	1,454,682	1,601,651	1,506,686	3,119,230	2,961,368
Capital Assets Net of Depreciation	\$ 2,028,386	\$ 1,955,054	\$ 1,850,835	\$ 1,734,492	\$ 3,879,221	\$ 3,689,546
Total	\$ 13,379,535	\$ 12,908,015	\$ 2,121,568	\$ 2,015,065	\$ 15,501,103	\$ 14,923,080

⁽¹⁾ 2012 has been restated to be consistent with 2013 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 2012, indicated that the average PQI for principal arterial pavement was 3.4 and 3.2 for all other pavements. The state has maintained a stable condition of pavement over the past 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 2012, indicated that 95 percent of principal arterial system bridges and 93 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

Prior Period Adjustment Governmental Activities: During fiscal year 2013, building accumulated depreciation increased by \$29.9 million. This increase was attributable to a change in the method of depreciation to align with internal reporting on buildings at MnDOT. In addition, nondepreciable infrastructure increased by \$86.9 million. This increase was attributable to the capitalization of bridge and pavement previously expensed as system preservation at MnDOT.

Prior Period Adjustment Business-type Activities: During fiscal year 2013, buildings increased by \$10.5 million. This increase was attributable to the capitalization of miscellaneous towers by MnDOT.

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 due to bad weather in May and June 2013.

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, 2013, 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. During fiscal year 2013, the state sold state General Fund appropriation refunding bonds. The bonds were issued for the purpose of refunding these tobacco settlement revenue bonds.

Outstanding Bonded Debt and Unamortized Premium June 30, 2013 and 2012 (In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General Obligation	\$ 5,510,530	\$ 5,772,034	\$ 232,645	\$ 249,636	\$ 5,743,175	\$ 6,021,670
Revenue	10,260	794,574	447,950	431,952	458,210	1,226,526
State General Fund						
Appropriation Bonds	656,220	-	-	-	656,220	-
Certificate of Participation	45,815	70,742	-	-	45,815	70,742
Total	<u>\$ 6,222,825</u>	<u>\$ 6,637,350</u>	<u>\$ 680,595</u>	<u>\$ 681,588</u>	<u>\$ 6,903,420</u>	<u>\$ 7,318,938</u>

During fiscal year 2013, the state issued the following bonds:

- \$422.0 million in general obligation state various purpose bonds
- \$234.0 million in general obligation state trunk highway bonds
- \$2.5 million in general obligation Rural Finance Authority bonds
- \$81.2 million in revenue bonds for capital assets for Minnesota Colleges and Universities
- \$656.2 million in General Fund appropriation bonds to refunding the 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.

STATE OF MINNESOTA

STATEMENT OF NET POSITION
JUNE 30, 2013
(IN THOUSANDS)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 6,256,003	\$ 1,710,171	\$ 7,966,174	\$ 1,036,511
Investments.....	1,609,174	26,165	1,635,339	1,310,884
Accounts Receivable.....	2,839,364	590,724	3,430,088	486,020
Due from Component Units.....	24,049	-	24,049	-
Due from Primary Government.....	-	-	-	64,410
Accrued Investment/Interest Income.....	17,755	-	17,755	38,000
Federal Aid Receivable.....	1,302,101	30,113	1,332,214	3,402
Inventories.....	27,021	22,948	49,969	53,973
Loans and Notes Receivable.....	21,951	6,063	28,014	219,779
Internal Balances.....	8,228	(8,228)	-	-
Other Assets.....	8,473	2,719	11,192	47,966
Total Current Assets.....	\$ 12,114,119	\$ 2,380,675	\$ 14,494,794	\$ 3,260,945
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted.....	\$ -	\$ 115,721	\$ 115,721	\$ 814,010
Investments-Restricted.....	-	-	-	1,416,184
Accounts Receivable-Restricted.....	-	-	-	108,421
Due from Primary Government-Restricted.....	-	-	-	7,952
Other Assets-Restricted.....	-	293	293	-
Due from Primary Government.....	-	-	-	12,791
Due from Component Units.....	67,000	-	67,000	-
Investments.....	-	-	-	3,624,086
Accounts Receivable.....	529,383	-	529,383	438,732
Loans and Notes Receivable.....	192,363	26,130	218,493	4,039,960
Depreciable Capital Assets (Net).....	2,028,386	1,850,835	3,879,221	5,096,560
Nondepreciable Capital Assets.....	2,870,979	270,733	3,141,712	1,477,475
Infrastructure (Not depreciated).....	8,460,170	-	8,460,170	-
Other Assets.....	7,785	-	7,785	14,268
Total Noncurrent Assets.....	\$ 14,176,066	\$ 2,263,712	\$ 16,439,778	\$ 17,052,993
Total Assets.....	\$ 26,290,185	\$ 4,644,387	\$ 30,934,572	\$ 20,313,908
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Interest Rate Swap Agreements.....	\$ -	\$ -	\$ -	\$ 27,429
Total Deferred Outflows of Resources.....	\$ -	\$ -	\$ -	\$ 27,429
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	\$ 4,926,782	\$ 242,978	\$ 5,169,760	\$ 301,970
Due to Component Units.....	10,287	17	10,304	-
Due to Primary Government.....	-	-	-	40,537
Unearned Revenue.....	504,307	67,733	572,040	108,483
Accrued Interest Payable.....	95,263	537	95,800	69,890
Bonds and Notes Payable.....	383,059	44,482	427,541	543,559
Capital Leases Payable.....	8,479	4,781	13,260	5,734
Certificates of Participation Payable.....	6,855	-	6,855	-
Claims Payable.....	108,759	2,389	111,148	74,541
Compensated Absences Payable.....	36,288	17,055	53,353	150,190
Other Liabilities.....	-	15,073	15,073	57,461
Total Current Liabilities.....	\$ 6,080,079	\$ 395,035	\$ 6,475,114	\$ 1,352,365
Noncurrent Liabilities:				
Accounts Payable-Restricted.....	\$ -	\$ -	\$ -	\$ 129,170
Unearned Revenue-Restricted.....	-	-	-	72,298
Accrued Interest Payable-Restricted.....	-	-	-	12,199
Due to Primary Government.....	-	-	-	67,000
Unearned Revenue.....	-	-	-	20,581
Bonds and Notes Payable.....	6,595,489	680,751	7,276,240	6,300,684
Due to Component Units.....	12,791	-	12,791	-
Capital Leases Payable.....	106,621	30,520	137,141	50,769
Certificates of Participation Payable.....	42,585	-	42,585	-
Claims Payable.....	599,945	2,589	602,534	519,118
Compensated Absences Payable.....	247,282	127,207	374,489	124,552
Other Postemployment Benefits.....	192,601	28,913	221,514	157,134
Net Pension Obligation.....	114,244	-	114,244	-
Funds Held in Trust.....	-	-	-	291,078
Other Liabilities.....	-	31,440	31,440	20,266
Total Noncurrent Liabilities.....	\$ 7,911,758	\$ 901,420	\$ 8,813,178	\$ 7,764,849
Total Liabilities.....	\$ 13,991,837	\$ 1,296,455	\$ 15,288,292	\$ 9,117,214
DEFERRED INFLOWS OF RESOURCES				
Interest Rate Swap Agreements.....	\$ -	\$ -	\$ -	\$ 27,429
Total Deferred Inflows of Resources.....	\$ -	\$ -	\$ -	\$ 27,429

STATE OF MINNESOTA

STATEMENT OF NET POSITION
JUNE 30, 2013
(IN THOUSANDS)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net Investment in Capital Assets.....	\$ 10,250,660	\$ 1,456,939	\$ 11,707,599	\$ 4,196,533
Restricted for:				
Agricultural, Environmental and Energy Resources.....	\$ 1,216,740	\$ -	\$ 1,216,740	\$ -
Arts and Cultural Heritage.....	24,010	-	24,010	-
Capital Projects.....	-	4,536	4,536	-
Debt Service.....	256,890	119,012	375,902	-
Economic and Workforce Development.....	124,796	350	125,106	-
General Education.....	45,979	-	45,979	-
General Government.....	7,613	-	7,613	-
Health and Human Services.....	2,898	4,901	7,799	-
Higher Education.....	-	530,341	530,341	-
Public Safety and Corrections.....	22,611	63,636	86,247	-
School Aid-Expendable.....	5,947	-	5,947	-
School Aid-Nonexpendable.....	965,954	-	965,954	-
Transportation.....	1,377,091	-	1,377,091	-
Unemployment Benefits.....	-	1,143,319	1,143,319	-
Other Purposes.....	-	33,155	33,155	-
Component Units.....	-	-	-	6,245,901
Total Restricted.....	\$ 4,050,489	\$ 1,899,250	\$ 5,949,739	\$ 6,245,901
Unrestricted.....	\$ (2,002,801)	\$ (8,257)	\$ (2,011,058)	\$ 754,260
Total Net Position.....	\$ 12,298,348	\$ 3,347,932	\$ 15,646,280	\$ 11,196,694

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
Agricultural, Environmental and Energy Resources..	\$ 954,721	\$ 326,696	\$ 347,893	\$ 18,142
Economic and Workforce Development.....	571,265	40,093	254,258	-
General Education.....	8,207,311	24,120	806,098	-
General Government.....	971,198	381,788	15,574	3,635
Health and Human Services.....	13,146,913	547,216	6,834,186	-
Higher Education.....	849,510	346	87	-
Intergovernment Aid.....	1,269,078	-	-	-
Public Safety and Corrections.....	970,095	157,198	221,333	-
Transportation.....	2,683,545	30,280	673,667	145,320
Interest.....	218,218	-	-	-
Total Governmental Activities.....	\$ 29,841,854	\$ 1,507,737	\$ 9,153,096	\$ 167,097
Business-type Activities:				
State Colleges and Universities.....	\$ 1,891,779	\$ 851,377	\$ 483,898	\$ -
Unemployment Insurance.....	1,060,431	1,469,936	225,889	-
Lottery.....	425,541	560,448	-	-
Other.....	288,146	272,822	366	-
Total Business-type Activities.....	\$ 3,665,897	\$ 3,154,583	\$ 710,153	\$ -
Total Primary Government.....	\$ 33,507,751	\$ 4,662,320	\$ 9,863,249	\$ 167,097
Component Units:				
University of Minnesota.....	\$ 3,477,679	\$ 1,430,009	\$ 969,907	\$ 128,665
Metropolitan Council.....	865,323	315,241	163,607	442,867
Housing Finance.....	380,262	107,436	191,979	-
Others.....	423,961	164,296	58,343	2,547
Total Component Units.....	\$ 5,147,225	\$ 2,016,982	\$ 1,383,836	\$ 574,079

General Revenues:

Taxes:				
Individual Income Taxes.....	\$ 9,209,954	\$ -	\$ 9,209,954	\$ -
Corporate Income Taxes.....	1,242,912	-	1,242,912	-
Sales Taxes.....	5,004,330	-	5,004,330	-
Property Taxes.....	831,316	-	831,316	-
Motor Vehicle Taxes.....	1,241,242	-	1,241,242	-
Fuel Taxes.....	860,837	-	860,837	-
Other Taxes.....	2,436,828	-	2,436,828	280,993
Tobacco Settlement.....	171,338	-	171,338	-
Unallocated Investment/Interest Income.....	23,129	17,545	40,674	315,851
Other Revenues.....	128,115	2,215	130,330	398,967
State Grants Not Restricted.....	-	-	-	864,425
Special Item.....	-	-	-	459,827
Transfers.....	(489,364)	489,364	-	-
Total General Revenues and Transfers.....	\$ 20,660,637	\$ 509,124	\$ 21,169,761	\$ 2,320,063
Change in Net Position.....	\$ 1,646,713	\$ 707,963	\$ 2,354,676	\$ 1,147,735
Net Position, Beginning, as Reported.....	\$ 10,488,695	\$ 2,629,428	\$ 13,118,123	\$ 10,552,906
Prior Period Adjustments.....	162,940	10,541	173,481	-
Change in Accounting Principle.....	-	-	-	(503,947)
Net Position, Beginning, as Restated.....	\$ 10,651,635	\$ 2,639,969	\$ 13,291,604	\$ 10,048,959
Net Position, Ending.....	\$ 12,298,348	\$ 3,347,932	\$ 15,646,280	\$ 11,196,694

The notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (261,990)		\$ (261,990)	
(276,914)		(276,914)	
(7,377,093)		(7,377,093)	
(570,201)		(570,201)	
(5,765,511)		(5,765,511)	
(849,077)		(849,077)	
(1,269,078)		(1,269,078)	
(591,564)		(591,564)	
(1,834,278)		(1,834,278)	
(218,218)		(218,218)	
\$ (19,013,924)		\$ (19,013,924)	
	\$ (556,504)	\$ (556,504)	
	635,394	635,394	
	134,907	134,907	
	(14,958)	(14,958)	
	\$ 198,839	\$ 198,839	
\$ (19,013,924)	\$ 198,839	\$ (18,815,085)	
			\$ (949,098)
			56,392
			(80,847)
			(198,775)
			\$ (1,172,328)

STATE OF MINNESOTA

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013
(IN THOUSANDS)**

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents.....	\$ 2,529,063	\$ 11,075	\$ 3,415,553	\$ 5,955,691
Investments.....	615,957	-	975,848	1,591,805
Accounts Receivable.....	2,694,496	272,513	395,730	3,362,739
Interfund Receivables.....	115,550	12,310	203,978	331,838
Due from Component Unit.....	2,385	-	88,664	91,049
Accrued Investment/Interest Income.....	12,180	-	5,465	17,645
Federal Aid Receivable.....	516	1,244,698	56,897	1,302,101
Inventories.....	-	-	26,784	26,784
Loans and Notes Receivable.....	84,892	1,936	127,486	214,314
Investment in Land.....	-	-	16,008	16,008
Total Assets and Deferred Outflows of Resources.....	\$ 6,055,039	\$ 1,542,532	\$ 5,312,403	\$ 12,909,974
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable.....	\$ 2,937,073	\$ 1,425,022	\$ 511,679	\$ 4,873,774
Interfund Payables.....	54,526	71,925	195,546	321,997
Due to Component Unit.....	2,047	1,787	4,064	7,898
Deferred Revenue.....	1,776,628	43,675	139,996	1,960,299
Total Liabilities.....	\$ 4,770,274	\$ 1,542,409	\$ 851,285	\$ 7,163,968
Fund Balances:				
Nonspendable.....	\$ 750,071	\$ -	\$ 992,738	\$ 1,742,809
Restricted.....	105,581	123	2,754,099	2,859,803
Committed.....	-	-	713,129	713,129
Assigned.....	219,562	-	1,152	220,714
Unassigned.....	209,551	-	-	209,551
Total Fund Balances.....	\$ 1,284,765	\$ 123	\$ 4,461,118	\$ 5,746,006
Total Liabilities, Deferred Inflows of Resources, and Fund Balances.....	\$ 6,055,039	\$ 1,542,532	\$ 5,312,403	\$ 12,909,974

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(IN THOUSANDS)**

Total Fund Balance for Governmental Funds..... \$ 5,746,006

Amounts reported for governmental activities in the Statement of Net Position 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.....	\$ 8,480,170
Nondepreciable Capital Assets.....	2,854,971
Depreciable Capital Assets.....	3,440,210
Accumulated Depreciation.....	(1,455,194)

Total Capital Assets..... 13,320,157

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..... 1,469,787

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..... 6,735

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 Position..... 263,482

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.....	\$ (95,232)
General Obligation Bonds Payable.....	(5,510,530)
State General Fund Appropriation Bonds Payable.....	(656,220)
Revenue Bonds Payable.....	(10,260)
Loans and Notes Payable.....	(7,300)
Bond Premium Payable.....	(765,556)
Due to Component Units.....	(15,180)
Capital Leases Payable.....	(115,300)
Certificate of Participation Payable.....	(45,815)
Certificate of Participation Premium Payable.....	(3,625)
Claims Payable.....	(699,035)
Compensated Absences Payable.....	(277,447)
Net Other Post-Employment Benefits Obligation.....	(192,075)
Net Pension Obligation.....	(114,244)

Total Liabilities..... (8,507,819)

Net Position of Governmental Activities..... \$ 12,298,348

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes.....	\$ 9,257,352	\$ -	\$ -	\$ 9,257,352
Corporate Income Taxes.....	1,273,112	-	-	1,273,112
Sales Taxes.....	4,737,002	-	291,614	5,028,616
Property Taxes.....	817,895	-	-	817,895
Motor Vehicle Taxes.....	239,735	-	1,001,507	1,241,242
Fuel Taxes.....	-	-	861,780	861,780
Other Taxes.....	1,561,621	-	796,855	2,358,476
Tobacco Settlement.....	170,060	-	-	170,060
Federal Revenues.....	2,753	8,423,946	483,775	8,910,474
Licenses and Fees.....	214,374	4,825	345,716	564,915
Departmental Services.....	191,006	27,745	210,436	429,187
Investment/Interest Income.....	97,283	89	136,979	234,351
Other Revenues.....	391,775	112,627	289,318	793,720
Net Revenues.....	\$ 18,953,968	\$ 8,569,232	\$ 4,417,980	\$ 31,941,180
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources.....	\$ 246,882	\$ 184,249	\$ 530,862	\$ 961,993
Economic and Workforce Development.....	145,280	248,697	229,833	623,810
General Education.....	7,415,750	715,003	71,099	8,201,852
General Government.....	722,829	21,244	81,455	825,528
Health and Human Services.....	5,683,366	6,868,298	578,574	13,130,238
Higher Education.....	745,965	45	103,496	849,506
Intergovernmental Aid.....	1,268,609	-	469	1,269,078
Public Safety and Corrections.....	583,556	130,995	194,875	909,426
Transportation.....	295,195	286,181	2,029,256	2,610,632
Total Current Expenditures.....	\$ 17,107,432	\$ 8,454,712	\$ 3,819,919	\$ 29,382,063
Capital Outlay.....	26,952	80,128	539,006	646,086
Debt Service.....	52,099	-	570,121	622,220
Total Expenditures.....	\$ 17,186,483	\$ 8,534,840	\$ 4,929,046	\$ 30,650,369
Excess of Revenues Over (Under) Expenditures	\$ 1,767,485	\$ 34,392	\$ (511,066)	\$ 1,290,811
Other Financing Sources (Uses):				
Bond Issuance.....	\$ -	\$ -	\$ 1,296,087	\$ 1,296,087
Loan Proceeds.....	-	-	1,597	1,597
Payment to Refunded Bonds Escrow Agent.....	-	-	(768,450)	(768,450)
Bond Issue Premium.....	-	-	200,932	200,932
Transfers-In.....	585,104	1,944	786,821	1,373,869
Transfers-Out.....	(1,001,068)	(36,336)	(843,583)	(1,880,987)
Net Other Financing Sources (Uses).....	\$ (415,964)	\$ (34,392)	\$ 673,404	\$ 223,048
Net Change in Fund Balances.....	\$ 1,351,521	\$ -	\$ 162,338	\$ 1,513,859
Fund Balances, Beginning, as Reported.....	\$ (112,865)	\$ 123	\$ 4,298,780	\$ 4,186,038
Prior Period Adjustment.....	46,109	-	-	46,109
Fund Balances, Beginning, as Restated.....	\$ (66,756)	\$ 123	\$ 4,298,780	\$ 4,232,147
Fund Balances, Ending.....	\$ 1,284,765	\$ 123	\$ 4,461,118	\$ 5,746,006

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds.....	\$ 1,513,859
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 \$115,672 in the current period.....	530,414
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.....	(69,037)
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.....	(13,240)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.....	(23,668)
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 Position.....	(1,498,616)
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 Position.....	1,177,343
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.....	29,658
Change in Net Position of Governmental Activities.....	\$ 1,646,713

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUDGETARY BASIS
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes.....	\$ 8,384,995	\$ 8,648,500	\$ 9,012,499
Corporate Income Taxes.....	852,500	1,165,100	1,280,743
Sales Taxes.....	4,743,285	4,802,169	4,757,249
Property Taxes.....	801,156	816,701	811,388
Motor Vehicle Taxes.....	237,087	239,959	239,738
Other Taxes.....	1,204,169	1,234,583	1,298,967
Tobacco Settlements.....	160,487	165,144	170,060
Licenses and Fees.....	201,773	203,599	210,598
Departmental Services.....	83,564	84,320	88,854
Investment/Interest Income.....	2,840	3,648	3,755
Other Revenues.....	296,701	388,871	374,535
Net Revenues.....	\$ 16,968,557	\$ 17,752,594	\$ 18,248,386
Expenditures:			
Agricultural Environmental and Energy Resources.....	\$ 162,100	\$ 175,548	\$ 172,305
Economic and Workforce Development.....	114,656	133,345	131,382
General Education.....	7,854,456	8,956,128	8,954,013
General Government.....	801,990	816,209	790,848
Health and Human Services.....	5,753,620	5,394,251	5,180,519
Higher Education.....	729,243	730,404	730,404
Intergovernment Aid.....	1,235,538	1,235,538	1,235,538
Public Safety and Corrections.....	577,893	595,870	590,395
Transportation.....	297,175	297,199	292,844
Total Expenditures.....	\$ 17,526,671	\$ 18,334,492	\$ 18,078,248
Excess of Revenues Over (Under) Expenditures.....	\$ (558,114)	\$ (581,898)	\$ 170,138
Other Financing Sources (Uses):			
Transfers-In.....	\$ 572,720	\$ 615,185	\$ 619,987
Transfers-Out.....	(995,740)	(995,740)	(995,740)
Net Other Financing Sources (Uses).....	\$ (423,020)	\$ (380,555)	\$ (375,753)
Net Change in Fund Balances.....	\$ (981,134)	\$ (962,453)	\$ (205,615)
Fund Balances, Beginning, as Reported.....	\$ 1,890,586	\$ 1,890,586	\$ 1,890,586
Prior Period Adjustments.....	-	-	86,522
Fund Balances, Beginning, as Restated.....	\$ 1,890,586	\$ 1,890,586	\$ 1,977,108
Budgetary Fund Balances, Ending.....	\$ 909,452	\$ 928,133	\$ 1,771,493
Less: Appropriation Carryover.....	-	-	105,248
Less: Reserved for Long-Term Receivables.....	-	-	8,588
Less: Budgetary Reserve.....	-	-	1,006,571
Unassigned Fund Balance, Ending.....	\$ 909,452	\$ 928,133	\$ 651,086

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013
(IN THOUSANDS)**

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	
ASSETS					
Current Assets:					
Cash and Cash Equivalents.....	\$ 856,943	\$ 703,746	\$ 149,482	\$ 1,710,171	\$ 300,312
Investments.....	26,165	-	-	26,165	17,369
Accounts Receivable.....	57,657	501,839	31,228	590,724	43,949
Interfund Receivables.....	30,199	-	2,259	32,458	-
Accrued Investment Interest Income.....	-	-	-	-	110
Federal Aid Receivable.....	22,970	7,143	-	30,113	-
Inventories.....	14,650	-	8,298	22,948	237
Loans and Notes Receivable.....	6,063	-	-	6,063	-
Prepaid Expenses.....	1,741	-	799	2,540	8,473
Other Assets.....	-	-	179	179	-
Total Current Assets.....	\$ 1,016,388	\$ 1,212,728	\$ 192,245	\$ 2,421,361	\$ 370,450
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted.....	\$ 115,721	\$ -	\$ -	\$ 115,721	\$ -
Other Assets-Restricted.....	-	-	-	-	293
Loans and Notes Receivable.....	26,130	-	-	26,130	-
Depreciable Capital Assets (Net).....	1,712,674	-	138,161	1,850,835	43,370
Nondepreciable Capital Assets.....	254,126	-	18,607	272,733	-
Prepaid Expenses.....	-	-	-	-	1,050
Total Noncurrent Assets.....	\$ 2,108,944	\$ -	\$ 154,768	\$ 2,263,712	\$ 44,420
Total Assets.....	\$ 3,125,332	\$ 1,212,728	\$ 347,013	\$ 4,685,073	\$ 414,870
LIABILITIES					
Current Liabilities:					
Accounts Payable.....	\$ 176,410	\$ 25,546	\$ 41,022	\$ 242,978	\$ 92,562
Interfund Payables.....	5,300	19,639	15,747	40,686	-
Due to Component Unit.....	-	-	17	17	-
Unearned Revenue.....	40,531	24,224	2,978	67,733	13,795
Accrued Interest Payable.....	-	-	537	537	31
Bonds and Notes Payable.....	32,327	-	12,155	44,482	10,392
Capital Leases Payable.....	4,563	-	198	4,761	-
Claims Payable.....	2,389	-	-	2,389	9,669
Compensated Absences Payable.....	15,513	-	1,552	17,065	628
Other Liabilities.....	15,073	-	-	15,073	-
Total Current Liabilities.....	\$ 292,106	\$ 69,409	\$ 74,206	\$ 435,721	\$ 127,077
Noncurrent Liabilities:					
Bonds and Notes Payable.....	\$ 540,857	\$ -	\$ 139,894	\$ 680,751	\$ 18,290
Capital Leases Payable.....	30,326	-	194	30,520	-
Claims Payable.....	2,589	-	-	2,589	-
Compensated Absences Payable.....	117,566	-	9,641	127,207	5,495
Other Postemployment Benefits.....	27,770	-	1,143	28,913	526
Other Liabilities.....	31,440	-	-	31,440	-
Total Noncurrent Liabilities.....	\$ 750,548	\$ -	\$ 150,872	\$ 901,420	\$ 24,311
Total Liabilities.....	\$ 1,042,654	\$ 69,409	\$ 225,078	\$ 1,337,141	\$ 151,388
NET POSITION					
Net Investment in Capital Assets.....	\$ 1,428,789	\$ -	\$ 28,150	\$ 1,456,939	\$ 15,029
Restricted for:					
Bond Covenants.....	\$ 70,852	\$ -	\$ -	\$ 70,852	\$ -
Capital Projects.....	4,536	-	-	4,536	-
Debt Service.....	48,160	-	-	48,160	-
Economic and Workforce Development.....	-	-	350	350	-
Health and Human Services.....	-	-	4,901	4,901	-
Higher Education.....	530,341	-	-	530,341	-
Public Safety and Corrections.....	-	-	63,636	63,636	-
Unemployment Benefits.....	-	1,143,319	-	1,143,319	-
Other Purposes.....	-	-	33,155	33,155	-
Total Restricted.....	\$ 653,889	\$ 1,143,319	\$ 102,042	\$ 1,899,250	\$ -
Unrestricted.....	\$ -	\$ -	\$ (8,257)	\$ (8,257)	\$ 248,453
Total Net Position.....	\$ 2,082,678	\$ 1,143,319	\$ 121,935	\$ 3,347,932	\$ 263,482

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	
Operating Revenues:					
Tuition and Fees.....	\$ 732,447	\$ -	\$ -	\$ 732,447	\$ -
Restricted Student Payments, Net.....	104,706	-	-	104,706	-
Net Sales.....	-	-	781,906	781,906	186,523
Insurance Premiums.....	-	1,444,653	48,248	1,492,901	726,672
Other Income.....	14,224	25,283	3,116	42,623	9,374
Total Operating Revenues.....	\$ 851,377	\$ 1,469,936	\$ 833,270	\$ 3,154,583	\$ 922,569
Less: Cost of Goods Sold.....	-	-	418,772	418,772	-
Gross Margin.....	\$ 851,377	\$ 1,469,936	\$ 414,498	\$ 2,735,811	\$ 922,569
Operating Expenses:					
Purchased Services.....	\$ 225,056	\$ -	\$ 59,541	\$ 284,507	\$ 156,553
Salaries and Fringe Benefits.....	1,251,635	-	122,829	1,374,464	53,498
Student Financial Aid.....	43,782	-	-	43,782	-
Unemployment Benefits.....	-	1,049,759	-	1,049,759	-
Claims.....	-	-	37,289	37,289	668,902
Depreciation and Amortization.....	107,890	-	120,807	120,897	10,087
Supplies and Materials.....	145,557	-	8,496	154,053	9,671
Repairs and Maintenance.....	33,608	-	2,029	35,637	7,468
Indirect Costs.....	-	-	4,654	4,654	1,927
Other Expenses.....	49,489	-	6,946	56,435	716
Total Operating Expenses.....	\$ 1,857,017	\$ 1,049,759	\$ 254,501	\$ 3,161,277	\$ 908,822
Operating Income (Loss).....	\$ (1,005,640)	\$ 420,177	\$ 159,997	\$ (425,466)	\$ 13,747
Nonoperating Revenues (Expenses):					
Investment Income.....	\$ 5,836	\$ 11,287	\$ 422	\$ 17,545	\$ 1,588
Federal Grants.....	367,862	-	366	368,228	3,635
Private Grants.....	19,833	-	-	19,833	-
Grants and Subsidies.....	96,203	225,889	-	322,092	-
Other Nonoperating Revenues.....	-	1,795	553	2,348	284
Interest and Financing Costs.....	(22,758)	-	(5,962)	(28,720)	(323)
Grants, Aids and Subsidies.....	(12,004)	(10,672)	(26,691)	(49,367)	-
Other Nonoperating Expenses.....	-	-	(7,761)	(7,761)	(7,039)
Gain (Loss) on Disposal of Capital Assets.....	(7)	-	(126)	(133)	798
Total Nonoperating Revenues (Expenses).....	\$ 454,965	\$ 228,299	\$ (39,199)	\$ 644,065	\$ (1,057)
Income (Loss) Before Transfers and Contributions.....	\$ (550,675)	\$ 648,476	\$ 120,798	\$ 218,599	\$ 12,690
Capital Contributions.....	88,497	-	-	88,497	-
Transfers-In.....	553,246	-	8,347	561,593	1,678
Transfers-Out.....	-	(23,823)	(136,903)	(160,726)	(27,608)
Total Income (Loss).....	\$ 91,068	\$ 624,653	\$ (7,758)	\$ 707,963	\$ (13,240)
Change in Net Position.....	\$ 91,068	\$ 624,653	\$ (7,758)	\$ 707,963	\$ (13,240)
Net Position, Beginning, as Reported.....	\$ 1,991,610	\$ 518,666	\$ 119,152	\$ 2,629,428	\$ 276,722
Prior Period Adjustment.....	-	-	10,541	10,541	-
Net Position, Beginning, as Restated.....	\$ 1,991,610	\$ 518,666	\$ 129,693	\$ 2,639,969	\$ 276,722
Net Position, Ending.....	\$ 2,082,678	\$ 1,143,319	\$ 121,935	\$ 3,347,932	\$ 263,482

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	
Cash Flows from Operating Activities:					
Receipts from Customers.....	\$ 852,672	\$ 1,456,360	\$ 833,267	\$ 3,142,299	\$ 908,959
Receipts from Other Revenues.....	-	-	3,687	3,687	8,212
Receipts from Repayment of Program Loans.....	4,098	-	-	4,098	-
Financial Aid Disbursements.....	(43,949)	-	-	(43,949)	-
Payments to Claimants.....	-	(1,065,438)	(387,979)	(1,453,417)	(664,742)
Payments to Suppliers.....	(443,477)	-	(116,712)	(560,189)	(175,526)
Payments to Employees.....	(1,225,007)	-	(122,630)	(1,347,637)	(50,847)
Payments to Others.....	-	-	(43,321)	(43,321)	(8,391)
Payments of Program Loans.....	(4,758)	-	-	(4,758)	-
Net Cash Flows from Operating Activities.....	\$ (860,421)	\$ 390,922	\$ 166,312	\$ (303,187)	\$ 17,665
Cash Flows from Noncapital Financing Activities:					
Grant Receipts.....	\$ 467,940	\$ 228,678	\$ -	\$ 696,618	\$ -
Grant Disbursements.....	(12,004)	(10,641)	(24,350)	(46,995)	-
Transfers-In.....	553,246	-	8,499	561,745	200
Transfers-Out.....	-	(18,691)	(141,978)	(160,669)	(26,058)
Advances from Other Funds.....	-	-	-	-	39
Repayment of Bond Principal.....	-	-	(11,380)	(11,380)	-
Interest Paid.....	-	(3,273)	(6,918)	(10,191)	-
Net Cash Flows from Noncapital Financing Activities.....	\$ 1,009,182	\$ 196,073	\$ (176,127)	\$ 1,029,128	\$ (25,819)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions.....	\$ 86,309	\$ -	\$ -	\$ 86,309	\$ -
Investment in Capital Assets.....	(200,937)	-	(27,212)	(228,149)	(22,153)
Proceeds from Disposal of Capital Assets.....	1,563	-	218	1,781	2,650
Proceeds from Capital Debt.....	111,302	-	-	111,302	-
Proceeds from Loans.....	92	-	-	92	18,817
Capital Lease Payments.....	(4,671)	-	(185)	(4,856)	-
Repayment of Loan Principal.....	(693)	-	-	(693)	(8,587)
Repayment of Bond Principal.....	(57,579)	-	(320)	(57,899)	-
Interest Paid.....	(22,272)	-	(131)	(22,403)	(322)
Net Cash Flows from Capital and Related Financing Activities.....	\$ (86,886)	\$ -	\$ (27,630)	\$ (114,516)	\$ (9,595)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments.....	\$ 6,664	\$ -	\$ -	\$ 6,664	\$ 8,204
Purchase of Investments.....	(6,518)	-	-	(6,518)	(5,000)
Investment Earnings.....	3,306	11,287	434	15,027	1,752
Net Cash Flows from Investing Activities.....	\$ 3,452	\$ 11,287	\$ 434	\$ 15,173	\$ 4,956
Net Increase (Decrease) in Cash and Cash Equivalents.....	\$ 65,327	\$ 598,282	\$ (37,011)	\$ 626,598	\$ (12,793)
Cash and Cash Equivalents, Beginning, as Reported.....	\$ 907,337	\$ 105,464	\$ 186,493	\$ 1,199,294	\$ 313,105
Cash and Cash Equivalents, Ending.....	\$ 972,664	\$ 703,746	\$ 149,482	\$ 1,825,892	\$ 300,312

STATE OF MINNESOTA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss).....	\$ (1,005,640)	\$ 420,177	\$ 159,997	\$ (425,466)	\$ 13,747
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization.....	\$ 107,890	\$ -	\$ 12,807	\$ 120,697	\$ 10,087
Miscellaneous Nonoperating Revenues.....	-	3,779	364	4,143	3,636
Miscellaneous Nonoperating Expenses.....	(1,003)	-	(9,162)	(10,165)	(6,245)
Loan Principal Repayments.....	4,098	-	-	4,098	-
Loans Issued.....	(4,758)	-	-	(4,758)	-
Provision for Loan Defaults.....	38	-	-	38	-
Loans Forgiven.....	448	-	-	448	-
Change in Valuation of Assets.....	4,630	-	-	4,630	-
Change in Assets and Liabilities:					
Accounts Receivable.....	321	(33,602)	22	(33,259)	(992)
Inventories.....	(87)	-	(1,307)	(1,394)	(26)
Other Assets.....	-	-	1,281	1,281	(1,808)
Accounts Payable.....	28,206	(3,836)	2,490	26,860	2,189
Compensated Absences Payable.....	5,900	-	(387)	5,513	244
Unearned Revenues.....	975	4,391	868	6,234	(3,028)
Other Liabilities.....	(1,439)	13	(661)	(2,087)	(139)
Net Reconciling Items to be Added to (Deducted from) Operating Income.....	\$ 145,219	\$ (29,255)	\$ 6,315	\$ 122,279	\$ 3,918
Net Cash Flows from Operating Activities.....	\$ (860,421)	\$ 390,922	\$ 166,312	\$ (303,187)	\$ 17,665
Noncash Investing, Capital and Financing Activities:					
Capital Assets Purchased on Account.....	\$ 28,684	\$ -	\$ -	\$ 28,684	\$ -
Accrual of Computer Equipment as an Investment in Capital Assets.....	-	-	-	-	632
Bond Premium Amortization.....	1,865	-	927	2,792	-

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013
(IN THOUSANDS)**

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalent Investments.....	\$ 51,636	\$ -	\$ 160,163
Investment Pools, at fair value:			
Cash Equivalent Investments.....	\$ 4,008,011	\$ 104,486	\$ -
Investments.....	56,491,983	375,099	-
Accrued Interest and Dividends.....	119,665	1,070	-
Securities Trades Receivables (Payables).....	(1,234,737)	(5,475)	-
Total Investment Pool Participation.....	\$ 59,384,922	\$ 475,180	\$ -
Receivables:			
Accounts Receivable.....	\$ -	\$ -	\$ 30,689
Interfund Receivables.....	6,396	-	-
Other Receivables.....	131,452	-	-
Accrued Interest and Dividends.....	7	-	-
Total Receivables.....	\$ 137,855	\$ -	\$ 30,689
Securities Lending Collateral.....	\$ 5,156,905	\$ 26,822	\$ -
Depreciable Capital Assets (Net).....	30,911	-	-
Nondepreciable Capital Assets.....	429	-	-
Total Assets.....	\$ 64,762,658	\$ 502,002	\$ 190,852
LIABILITIES			
Accounts Payable.....	\$ 18,906	\$ -	\$ 190,852
Interfund Payables.....	8,009	-	-
Accrued Expense.....	90	-	-
Revenue Bonds Payable.....	21,714	-	-
Bond Interest.....	15	-	-
Compensated Absences Payable.....	2,446	-	-
Securities Lending Liabilities.....	5,156,905	26,822	-
Other Liabilities.....	60	-	-
Total Liabilities.....	\$ 5,208,145	\$ 26,822	\$ 190,852
Net Position Held in Trust for Pension Benefits and Pool Participants.....	\$ 59,554,513	\$ 475,180	\$ -

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET POSITION
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)**

	PENSION TRUST	INVESTMENT TRUST
Contributions:		
Employer.....	\$ 1,031,954	\$ -
Member.....	1,216,543	-
Contributions From Other Sources.....	8,106	-
Participating Plans.....	-	67,339
Total Contributions.....	\$ 2,256,603	\$ 67,339
Net Investment Income:		
Investment Income.....	\$ 7,568,929	\$ 50,827
Less: Investment Expense.....	(79,514)	-
Net Investment Income.....	\$ 7,489,415	\$ 50,827
Securities Lending Revenues (Expenses):		
Securities Lending Income.....	\$ 38,836	\$ 191
Securities Lending Rebates and Fees.....	(15,114)	(74)
Net Securities Lending Revenue.....	\$ 23,722	\$ 117
Total Investment Income.....	\$ 7,513,137	\$ 50,944
Transfers From Other Funds.....	\$ 64,854	\$ -
Other Additions.....	11,413	-
Total Additions.....	\$ 9,846,007	\$ 118,283
Deductions:		
Benefits.....	\$ 4,010,707	\$ -
Refunds and Withdrawals.....	269,722	43,926
Administrative Expenses.....	39,018	235
Transfers To Other Funds.....	21,170	-
Total Deductions.....	\$ 4,340,617	\$ 44,161
Net Increase (Decrease).....	\$ 5,505,390	\$ 74,122
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported.....	\$ 54,041,817	\$ 403,225
Change in Reporting Entity.....	5,139	-
Change in Fund Structure.....	2,167	(2,167)
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated.....	\$ 54,049,123	\$ 401,058
Net Position Held in Trust for Pension Benefits and Pool Participants, Ending.....	\$ 59,554,513	\$ 475,180

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012 and JUNE 30, 2013
(IN THOUSANDS)**

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents.....	\$ 66,385	\$ 12,728	\$ 267,029	\$ 690,369	\$ 1,036,511
Investments.....	56,066	45,384	931,362	278,072	1,310,884
Accounts Receivable.....	10,268	48,703	388,098	38,951	486,020
Due from Primary Government.....	-	57,453	4,568	2,389	64,410
Accrued Investment/Interest Income.....	15,805	2,091	2,283	17,821	38,000
Federal Aid Receivable.....	2,051	-	-	1,351	3,402
Inventories.....	-	31,361	22,554	58	53,973
Loans and Notes Receivable.....	-	-	15,157	204,622	219,779
Prepaid Expenses.....	14,110	-	-	4,942	19,052
Other Assets.....	9,282	3,702	15,924	6	28,914
Total Current Assets.....	\$ 173,967	\$ 201,422	\$ 1,646,975	\$ 1,238,581	\$ 3,260,945
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted.....	\$ 313,285	\$ 251,124	\$ 87,464	\$ 162,137	\$ 814,010
Investments-Restricted.....	1,017,487	241,684	138,175	18,838	1,416,184
Accounts Receivable-Restricted.....	-	108,421	-	-	108,421
Due from Primary Government-Restricted.....	-	7,952	-	-	7,952
Other Assets-Restricted.....	-	2,524	-	-	2,524
Due from Primary Government.....	-	-	-	12,791	12,791
Investments.....	-	515,878	3,068,924	39,284	3,624,086
Accounts Receivable.....	-	-	123,802	314,930	438,732
Loans and Notes Receivable.....	1,638,515	49,377	58,224	2,293,844	4,039,960
Depreciable Capital Assets (Net).....	2,930	2,555,875	2,524,024	13,731	5,996,560
Nondepreciable Capital Assets.....	-	1,043,633	423,890	9,952	1,477,475
Other Assets.....	-	-	7,206	7,062	14,268
Total Noncurrent Assets.....	\$ 2,972,217	\$ 4,776,468	\$ 6,431,709	\$ 2,872,589	\$ 17,052,983
Total Assets.....	\$ 3,146,184	\$ 4,977,890	\$ 8,078,684	\$ 4,111,150	\$ 20,313,908
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Interest Swap Agreements.....	\$ 27,429	\$ -	\$ -	\$ -	\$ 27,429
Total Deferred Outflows of Resources.....	\$ 27,429	\$ -	\$ -	\$ -	\$ 27,429
LIABILITIES					
Current Liabilities:					
Accounts Payable.....	\$ 9,210	\$ 81,108	\$ 193,512	\$ 18,140	\$ 301,970
Due to Primary Government.....	-	-	5,159	35,378	40,537
Unearned Revenue.....	-	12,582	68,745	27,156	108,483
Accrued Interest Payable.....	37,112	3,725	11,552	17,501	69,890
Bonds and Notes Payable.....	52,040	139,115	275,991	76,413	543,559
Capital Leases Payable.....	-	615	5,119	-	5,734
Claims Payable.....	-	3,663	32,445	38,433	74,541
Compensated Absences Payable.....	219	19,060	130,661	250	150,190
Other Liabilities.....	-	-	57,461	-	57,461
Total Current Liabilities.....	\$ 98,581	\$ 259,868	\$ 780,645	\$ 213,271	\$ 1,352,365
Noncurrent Liabilities:					
Accounts Payable-Restricted.....	\$ -	\$ 75,840	\$ 53,330	\$ -	\$ 129,170
Unearned Revenue-Restricted.....	-	72,298	-	-	72,298
Accrued Interest Payable-Restricted.....	-	12,199	-	-	12,199
Due to Primary Government.....	-	-	21,511	45,489	67,000
Unearned Revenue.....	6,863	-	13,718	-	20,581
Bonds and Notes Payable.....	2,084,143	1,648,967	952,644	1,614,930	6,300,684
Capital Leases Payable.....	-	9,610	41,159	-	50,769
Claims Payable.....	-	13,016	10,535	495,567	519,118
Compensated Absences Payable.....	1,729	7,373	114,534	916	124,552
Other Postemployment Benefits.....	140	74,516	82,433	45	157,134
Funds Held in Trust.....	69,179	-	221,899	-	291,078
Other Liabilities.....	-	-	13,211	7,055	20,266
Total Noncurrent Liabilities.....	\$ 2,162,054	\$ 1,913,819	\$ 1,524,974	\$ 2,164,002	\$ 7,764,849
Total Liabilities.....	\$ 2,260,635	\$ 2,173,687	\$ 3,305,619	\$ 2,377,273	\$ 9,117,214
DEFERRED INFLOWS OF RESOURCES					
Interest Rate Swap Agreements.....	\$ 27,429	\$ -	\$ -	\$ -	\$ 27,429
Total Deferred Inflows of Resources.....	\$ 27,429	\$ -	\$ -	\$ -	\$ 27,429
NET POSITION					
Net Investment in Capital Assets.....	\$ 2,930	\$ 2,477,641	\$ 1,692,380	\$ 23,582	\$ 4,196,533
Restricted-Expendable.....	882,619	545,579	1,966,728	1,642,955	5,037,881
Restricted-Nonexpendable.....	-	-	1,208,020	-	1,208,020
Unrestricted.....	-	(219,017)	905,937	67,340	754,260
Total Net Position.....	\$ 885,549	\$ 2,804,203	\$ 5,773,065	\$ 1,733,877	\$ 11,196,694

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 and JUNE 30, 2013
(IN THOUSANDS)**

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses.....	\$ 380,262	\$ 865,323	\$ 3,477,679	\$ 423,961	\$ 5,147,225
Program Revenues:					
Charges for Services.....	\$ 107,436	\$ 315,241	\$ 1,430,009	\$ 164,296	\$ 2,016,982
Operating Grants and Contributions.....	191,979	163,607	969,907	58,343	1,383,836
Capital Grants and Contributions.....	-	442,867	128,665	2,547	574,079
Net (Expense) Revenue.....	\$ (80,847)	\$ 56,392	\$ (949,098)	\$ (198,775)	\$ (1,172,328)
General Revenues:					
Taxes.....	\$ -	\$ 280,993	\$ -	\$ -	\$ 280,993
Investment Income.....	-	24,619	286,131	5,101	315,851
Other Revenues.....	727	-	396,688	1,552	398,967
Total General Revenues before Grants.....	\$ 727	\$ 305,612	\$ 682,819	\$ 6,653	\$ 995,811
State Grants Not Restricted.....	52,789	-	575,491	236,145	864,425
Total General Revenues.....	\$ 53,516	\$ 305,612	\$ 1,258,310	\$ 242,798	\$ 1,860,236
Special Item.....	\$ -	\$ -	\$ 459,827	\$ -	\$ 459,827
Change in Net Position.....	\$ (27,331)	\$ 362,004	\$ 789,039	\$ 44,023	\$ 1,147,735
Net Position, Beginning, as Reported.....	\$ 912,880	\$ 2,483,345	\$ 5,507,973	\$ 1,648,708	\$ 10,552,906
Change in Accounting Principle.....	-	-	(503,947)	-	(503,947)
Change in Fund Structure.....	-	(41,146)	-	41,146	-
Net Position, Beginning, as Restated.....	\$ 912,880	\$ 2,442,199	\$ 5,004,026	\$ 1,689,854	\$ 10,048,959
Net Position, Ending.....	\$ 885,549	\$ 2,804,203	\$ 5,773,065	\$ 1,733,877	\$ 11,196,694

The notes are an integral part of the financial statements.



State of Minnesota

**2013 Comprehensive Annual Financial Report
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2013 Comprehensive Annual Financial Report
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 statements for the fiscal year ended June 30, 2013:

GASB Statement No. 60 "Accounting and Financial Reporting for Service Concession Arrangements" was issued in November 2010. The statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for service concession arrangements (SCA) for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This statement had no impact on the state.

GASB Statement No. 61 "The Financial Reporting Entity: Omnibus" was issued in November 2010. The statement results in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement did not change the composition of the state's component units.

GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" was issued in December 2010. The statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement had no material impact on the state.

GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" was issued in June 2011. The statement improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. This statement renames the residual equity amount as Net Position rather than Net Assets, and uses Net Investment in Capital Assets rather than Invested in Capital Assets Net of Related Debt. In addition, this statement requires deferred outflows in resources to be reported in a separate section following assets and deferred inflows in resources to be reported in a separate section following liabilities in the statement of financial position. The primary government did not have any activity to report under these categories. The statements and disclosures have been renamed as required.

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. 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 and the refunding of the revenue bonds 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. 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. PFA 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.
- Minnesota Sports Facilities Authority ("Authority") – The Authority's mission is to provide for the construction, financing, and long-term use of a new multi-purpose stadium and related stadium infrastructure as a venue for professional football and a broad range of other civic, community, athletic, educational, cultural, and commercial activities. The Authority has five members, including a chair and two members who are appointed by the governor. The state will provide administrative funding to the Authority. The fiscal year for the Authority ends December 31. See Note 20 – Prior Period Adjustment, Change in Accounting Principle, Change in Reporting Entity and Change in Fund Structure for additional information on this new component unit.

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 Position 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 55454	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite W820 St. Paul, Minnesota 55101-1378
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 83 rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	Minnesota Sports Facilities Authority 900 South 5 th Street Minneapolis, Minnesota 55415

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

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

In the government-wide Statement of Net Position, 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 position, 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.

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 Position 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 Position; or the Statement of Changes in Net Position, as appropriate for the particular fund type.

Restricted Net Position

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted net position. 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 Position. 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 Position/Fund Balances and Fund Balance Classification Policies and Procedures

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

Net Investment in Capital Assets 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 Position represent the portion of net position that are constrained either externally by parties such as creditors or grantors, or legally through constitution provisions or enabling legislation. Restricted net position is determined at the fund level. For a fund with more than one revenue stream, restricted net position is determined by the materiality of any restricted revenues in the fund. When both restricted and unrestricted net position 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 Position, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

Newly created Agency

During fiscal year 2013, the Department of Commerce received federal funds to establish a Health Insurance Exchange that facilitates the purchase of qualified health plans. Activities of the Department of Commerce are reported under the Agriculture, Environment, and Energy function. The 2013 Laws of Minnesota created the Minnesota Insurance Marketplace (MNsure), a separate state agency. In fiscal year 2014, activities of MNsure will be accounted for in a separate enterprise fund and reported under the Health and Human Services function.

Special Item

University of Minnesota (discretely-presented component unit) merged the operations of two component units into an existing component unit to create one consolidated entity. The merger is considered an acquisition, and the \$460 million impact is reported as a special item.

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, 2013, fair value of investment derivatives is 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, 2013, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of \$1,271,060,000 that is \$27,937,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool with a fair value of \$303,133,000.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2013:

Primary Government Derivative Activity for the Year Ended June 30, 2013 By Derivative Type (In Thousands)			
	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	\$ 20,862	\$ 130,029	\$ -
Fiduciary Activities:			
Futures	\$ 66,172	\$ 323,366	\$ -
Futures Options Bought	(318)	4,470	353
Futures Options Written	1,556	(8,595)	(1,391)
Fixed Income Options Written	75	-	-
FX Forwards	4,313	372,593	(641)
Warrants/Stock Rights	(43)	971	407
	<u>\$ 71,755</u>	<u>\$ 692,805</u>	<u>\$ (1,272)</u>

Credit Risk: Minnesota is exposed to credit risk through ten 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 \$2,955,000 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 U.S. 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, 2013 (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
Debt Securities:					
U.S. Treasury	\$ 805,023	1.88	100%	-	-
U.S. Agencies	687,768	1.52	100%	-	-
Mortgage-backed Securities	174,978	4.05	95%	3%	2%
State or Local Government Bonds	148,693	4.36	96%	3%	-
Corporate Bonds	1,791,661	2.43	33%	63%	2%
Yankee Bonds	170,146	2.21	60%	38%	2%
Short Term Notes	<u>4,826,070</u>	0.19	10%	1%	-
Total Debt Securities	<u>\$ 8,604,339</u>				
Equity Investments:					
Corporate Stock	\$ 973,475				
Other Investments:					
Escheat Property	\$ 13,806				
Money Market Accounts	10,401				
Total Other Investments	<u>\$ 24,207</u>				
Total Investments	<u>\$ 9,602,021</u> ⁽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, 2013
(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	\$ 3,011,392	7.99	100%	-	-	-
U.S. Agencies	735,273	5.16	99%	1%	-	-
Mortgage-backed Securities	4,197,236	5.00	84%	4%	3%	9%
Yankee Bonds	701,176	6.96	24%	66%	6%	4%
State or Local Government Bonds	157,482	18.80	29%	71%	-	-
Corporate Bonds	2,913,768	8.25	7%	78%	13%	2%
Foreign Country Bonds	33,635	6.05	31%	33%	36%	-
Asset-backed Securities	433,828	2.82	44%	14%	8%	34%
Short Term Notes	3,239,110	0.23	8%	-	-	92%
FX Forwards	(641)	N/A	-	-	-	100%
Total Debt Securities	\$ 15,422,259					
Other Investments:						
Guaranteed Investment Account						
Synthetic Guaranteed Investment Contract (GIC)	\$ 1,243,123					
Short Term Investments Pool	303,133					
Total Guaranteed Investment Account	\$ 1,546,256					
Futures Options	(1,038)					
Mutual Funds	5,107,030					
Total Other Investments	\$ 6,652,248					
Equity Investments:						
Corporate Stock	\$ 31,365,710					
Alternative Equities	7,346,775					
Stock Rights/Warrants	407					
Total Equity Investments	\$ 38,712,892					
Total Investments	\$ 60,787,399					(1)

(1) Total investments do not include \$192,180 of cash that is included in the cash and cash equivalent investments line on the pension and investment trust funds statements.

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, 2013.

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, 2013.

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2013
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	\$ 4,802	\$ -	\$ 384,237
Brazilian Real	203	-	101,828
Canadian Dollar	5,316	12,373	501,877
Danish Krone	79	-	81,304
Euro Currency	18,957	30,036	1,612,349
Hong Kong Dollar	3,706	-	478,550
Indian Rupee	279	-	149,268
Indonesian Rupiah	120	-	55,722
Japanese Yen	16,073	-	1,301,228
New Taiwan Dollar	157	-	96,589
Norwegian Krone	201	-	55,132
Pound Sterling	10,390	19,713	1,246,794
Singapore Dollar	1,412	-	86,407
South African Rand	131	-	57,410
South Korean Won	237	-	208,836
Swedish Krona	1,711	-	160,758
Swiss Franc	205	-	504,083
Other	854	-	361,692
Total	\$ 64,833	\$ 62,122	\$ 7,444,064

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, 2013, such investment had an average duration of 13.73 days and an average weighted maturity of 32.84 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, 2013, 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, 2013, were \$9,139,033,000 and \$8,757,232,000, respectively. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

Housing Finance Agency

As of June 30, 2013, Housing Finance Agency (HFA) had \$379,670,000 of cash and cash equivalents and \$1,073,553,000 of investments. As of June 30, 2013, \$368,027,000 of deposits and \$1,013,502,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 3.6 – 28.1 years.

HFA cash equivalents included \$11,643,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2013, all the investment agreement providers had a Standard & Poor's long-term credit rating of 'AA-' and a Moody's long-term credit rating of 'A1.' The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

HFA investments had an estimated fair market value of \$1,073,553,000 as of June 30, 2013. Included in these investments were \$10,493,000 in U.S. Treasuries (not rated), and \$925,340,000 in U.S. Agencies having a Standard & Poor's rating of 'AA+' and Moody's Investors Services rating of 'Aaa.' An additional \$49,565,000 in municipal debt investments had a Standard & Poor's rating of 'AA' and Moody's Investors Services rating of 'Aa2.'

HFA had investments in single issuers as of June 30, 2013, excluding investments issued or explicitly guaranteed by the U.S. Government that exceeded five percent or more of total investments. These investments of \$96,693,000 were issued by 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, 2013, as Interest Rate Swap Agreements deferred inflows of resources. The change in fair value for fiscal year 2013 is reported in "Deferred Loss on Interest Swap Agreements" deferred outflows of resources.

As of June 30, 2013, 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 \$185,015,000 and \$157,800,000 having fair values of (\$11,143,000) and (\$16,286,000), respectively. For these counterparties, respectively, the increase in fair values for fiscal year ended June 30, 2013, were \$6,703,000 and \$5,503,000.

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/receive variable 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 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, 2012, Metropolitan Council (MC), had \$263,852,000 in cash and cash equivalents and \$802,946,000 in investments. Of this amount, \$796,227,000 was subject to rating. Using the Moody's Investors Services rating scale, \$662,423,000 of these investments were rated 'Aaa' while \$133,804,000 were not rated. U.S. Treasury State and Local Government Securities (SLGS) of \$273,036,000 and net outstanding checks of \$2,465,000 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 \$198,829,000 U.S. agency investments, MC has a custodial credit risk exposure of \$2,007,000 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, 2012. The investment portfolio has an average yield of 1.32 percent, modified duration of 4.2 years, effective duration of 2.5 years, and convexity of -0.79.

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

Major Component Unit Metropolitan Council Fair Value of Investments As of December 31, 2012 (In Thousands)	
	Estimated Fair Value
Fair Value of Portfolio Before Basis	
Point Increase	\$ 1,068,113
Fair Value of Portfolio After Basis	
Point Increase of:	
50 Points	\$ 1,073,464
100 Points	\$ 1,063,932
150 Points	\$ 1,054,549
200 Points	\$ 1,044,555

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 but discontinued its fuel hedging for one fund and natural gas hedging for all funds in 2012. The hedging transactions are separate from fuel purchase transactions. For 2012, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2012, MC had 273 New York Mercantile Exchange (NYMEX) heating oil futures contracts (11.5 million gallons) acquired from August 26, 2011, through December 11, 2012, to terminate on dates from January 31, 2013, through November 28, 2014. As of December 31, 2012, the heating oil futures contracts had a fair value of \$34,230,000.

MC is using NYMEX heating oil futures to hedge diesel fuel consumption. MC will be exposed to basis 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, 2013, University of Minnesota (U of M), including its discretely presented component units, had \$354,493,000 of cash and cash equivalents and \$4,138,461,000 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 \$281,011,000 and investments of \$1,978,690,000.

Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts were fully insured, regardless of balance, at qualified FDIC-insured institutions. As of June 30, 2013, U of M's bank balance of \$203,130,000 was uninsured and 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, 2013, \$1,283,980,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- \$1,024,315,000 was rated AA or better
- \$259,665,000 was not rated

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

- \$725,299,000 in government agencies with weighted average maturities of 3.1 to 3.5 years
- \$93,636,000 in mortgage-backed securities with a weighted average maturity of 20.6 years
- \$205,380,000 in cash and cash equivalents with a weighted average maturity of 0.0 years
- \$224,655,000 in mutual funds with a weighted average maturity of 5.7 years

As of June 30, 2013, U of M had \$167,250,000 of equity investments subject to foreign currency risk. The two largest components of this amount are \$53,281,000 in Euro Currency and \$32,336,000 in British Pound Sterling.

As of June 30, 2013, the U of M has one pay-fixed, receive-variable swap that is considered ineffective. At June 30, 2013, the total fair value was (\$11,899,000), 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, 2012, or June 30, 2013, as applicable (In Thousands)		
Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	\$ 3,313	\$ 18,838
National Sports Center Foundation	1,015	-
Office of Higher Education	369,602	-
Public Facilities Authority	446,343	39,284
Rural Finance Authority	19,490	-
Workers' Compensation Assigned Risk Plan	9,769	269,371
Minnesota Sports Facilities Authority	2,974	8,701
Total	<u>\$ 852,506</u>	<u>\$ 336,194</u>

Note 3 – Disaggregation of Receivables

Primary Government Components of Net Receivables Government-wide As of June 30, 2013 (In Thousands)				
	Governmental Activities			
	General Fund ⁽²⁾	Federal Fund	Nonmajor Governmental Funds ⁽¹⁾	Total
Taxes:				
Corporate and Individual	\$ 937,539	\$ -	\$ -	\$ 937,539
Sales and Use	403,972	-	23,852	427,824
Property	425,191	-	-	425,191
Health Care Provider	299,123	-	90,534	389,657
Motor Vehicle/Fuel	-	-	72,448	72,448
Child Support	61,990	63,130	234	125,354
Workers' Compensation	-	-	109,668	109,668
Other	568,295	209,383	103,388	881,066
Net Receivables	<u>\$ 2,696,110</u>	<u>\$ 272,513</u>	<u>\$ 400,124</u>	<u>\$ 3,368,747</u>
Business-type Activities				
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	\$ -	\$ 501,839	\$ -	\$ 501,839
Tuition and Fees	57,657	-	-	57,657
Other	-	-	31,228	31,228
Net Receivables	<u>\$ 57,657</u>	<u>\$ 501,839</u>	<u>\$ 31,228</u>	<u>\$ 590,724</u>
Total Government-wide Net Receivables				<u>\$ 3,959,471</u>
⁽¹⁾ Includes \$4,394 Internal Service Funds.				
⁽²⁾ Includes \$1,614 Interfund Receivables from Fiduciary Funds reclassified to Accounts Receivable on the Government-wide Statement of Net Position.				

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

- Corporate and Individual Taxes \$178,599,000
- Sales and Use Taxes \$55,297,000
- Child Support \$271,083,000

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

- Corporate and Individual Taxes \$128,882,000
- Sales and Use Taxes \$61,818,000
- Child Support \$121,301,000
- Health Care Provider \$134,224,000
- Other Receivables \$83,158,000

Note 4 – Loans and Notes Receivable

Primary Government Loans and Notes Receivable, Net of Allowance As of June 30, 2013 (In Thousands)					
	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	\$ -	\$ -	\$ -	\$ -	\$ 32,193
Economic Development	35,594	1,936	43,107	-	-
School Districts	45,111	-	-	-	-
Agricultural, Environmental and Energy Resources	-	-	65,178	-	-
Transportation	-	-	16,359	131	-
Other	4,187	-	2,711	-	-
Total	<u>\$ 84,892</u>	<u>\$ 1,936</u>	<u>\$ 127,355</u>	<u>\$ 131</u>	<u>\$ 32,193</u>

Component Units Loans and Notes Receivable As of December 31, 2012, or June 30, 2013, as applicable (In Thousands)	
Housing Finance Authority	\$ 1,638,515
Metropolitan Council	49,377
University of Minnesota	73,381
Agricultural and Economic Development Board	1,048
Office of Higher Education	659,968
Public Facilities Authority	1,785,526
Rural Finance Authority	51,924
Total	<u>\$ 4,259,739</u>

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, 2013 (In Thousands)	
Due to the General Fund From:	
Federal Fund	\$ 71,925
Nonmajor Governmental Funds	28,337
Nonmajor Enterprise Funds	13,674
Fiduciary Funds	<u>1,614</u>
Total Due to General Fund From Other Funds	<u>\$ 115,550</u>
Due to the Federal Fund From:	
Nonmajor Governmental Funds	\$ 6,122
State Colleges and Universities Fund	5,300
Unemployment Insurance Fund	888
Total Due to Federal Fund From Other Funds	<u>\$ 12,310</u>
Due to the State Colleges and Universities Fund From:	
General Fund	\$ 457
Nonmajor Governmental Funds	<u>29,742</u>
Total Due to State Colleges and Universities Fund From Other Funds	<u>\$ 30,199</u>
Due to the Nonmajor Enterprise Funds From:	
General Fund	\$ 186
Nonmajor Enterprise Funds	2,073
Total Due to Nonmajor Enterprise Funds From Other Funds	<u>\$ 2,259</u>
Due to Fiduciary Funds From:	
General Fund	\$ 1
Fiduciary Funds	<u>6,395</u>
Total Due to Fiduciary Funds From Other Funds	<u>\$ 6,396</u>
Due to the Nonmajor Governmental Funds From:	
General Fund	\$ 53,882
Unemployment Insurance Fund	18,751
Nonmajor Governmental Funds	131,345
Total Due to Nonmajor Governmental Funds From Other Funds	<u>\$ 203,978</u>

Primary Government Interfund Transfers Year Ended June 30, 2013 (In Thousands)	
Transfers to the General Fund From:	
Federal Fund	\$ 36,289
Nonmajor Governmental Funds	411,991
Nonmajor Enterprise Funds	110,520
Internal Service Funds	<u>26,304</u>
Total Transfers to General Fund From Other Funds	<u>\$ 585,104</u>
Transfers to the Federal Fund From:	
General Fund	\$ 4
Unemployment Insurance Fund	123
Nonmajor Governmental Funds	<u>1,817</u>
Total Transfers to Federal Fund From Other Funds	<u>\$ 1,944</u>
Transfers and Capital Contributions to the State Colleges and Universities Fund From:	
General Fund	\$ 553,246
Nonmajor Governmental Funds – Capital Contributions	<u>88,497</u>
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	<u>\$ 641,743</u>
Transfers to Fiduciary Funds From:	
General Fund	\$ 43,684
Fiduciary Funds	<u>21,170</u>
Total Transfers to Fiduciary Funds From Other Funds	<u>\$ 64,854</u>
Transfers to the Nonmajor Governmental Funds From:	
General Fund	\$ 397,309
Federal Fund	47
Unemployment Insurance Fund	23,700
Nonmajor Governmental Funds	338,078
Nonmajor Enterprise Funds	26,383
Internal Service Funds	<u>1,304</u>
Total Transfers to Nonmajor Governmental Funds From Other Funds	<u>\$ 786,821</u>
Transfers and Capital Contributions to the Nonmajor Enterprise Funds From:	
General Fund	\$ 5,147
Nonmajor Governmental Funds	<u>3,200</u>
Total Transfers and Capital Contributions to Nonmajor Enterprise Funds From Other Funds	<u>\$ 8,347</u>
Transfers and Capital Contributions to Internal Service Funds From:	
General Fund	\$ 1,678
Total Transfers and Capital Contributions to Internal Service Funds From Other Funds	<u>\$ 1,678</u>

Component Units

Primary Government and Component Units Receivables and Payables As of June 30, 2013 (In Thousands)			
	Due From Primary Government	Due To Primary Government	
Component Units			
Major Component Units:			
Metropolitan Council	\$ 65,405	\$ -	
University of Minnesota	4,568	26,670	
Total Major Component Units	<u>\$ 69,973</u>	<u>\$ 26,670</u>	
Nonmajor Component Units	\$ 15,180	\$ 80,867	
Total Component Units	<u>\$ 85,153</u>	<u>\$ 107,537</u>	
	Due From Component Units	Due To Component Units	
Primary Government			
Major Governmental Funds:			
General Fund	\$ 2,385	\$ 2,047	
Federal Fund	-	1,787	
Total Major Governmental Funds	<u>\$ 2,385</u>	<u>\$ 3,834</u>	
Nonmajor Governmental Funds	\$ 88,664	\$ 4,064	
Nonmajor Enterprise Funds	-	17	
Total Primary Government	<u>\$ 91,049</u>	<u>\$ 7,915</u> ⁽¹⁾	

⁽¹⁾ Due to component units on the Government-wide Statement of Net Position totals \$23,095 and includes \$15,180 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 \$16,488,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The \$77,238,000 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 \$15,180,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government Capital Asset Activity Government-wide Governmental Activities Year Ended June 30, 2013 (In Thousands)				
	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land	\$ 2,114,604	\$ 66,044	\$ (12,612)	\$ 2,168,036
Buildings, Structures, Improvements	30,768	8,102	-	38,870
Construction in Progress	265,193	113,500	(123,098)	255,595
Development in Progress	29,947	41,349	(2,150)	69,146
Infrastructure ⁽¹⁾	8,184,515	328,125	(32,470)	8,480,170
Easements	324,203	18,068	(7,538)	334,733
Art and Historical Treasures	3,731	1,262	(394)	4,599
Total Capital Assets not Depreciated	<u>\$ 10,952,961</u>	<u>\$ 576,450</u>	<u>\$ (178,262)</u>	<u>\$ 11,351,149</u>
Capital Assets Depreciated:				
Buildings, Structures, Improvements	\$ 2,551,589	\$ 120,320	\$ (44,574)	\$ 2,627,335
Infrastructure	167,869	35,105	(3,875)	199,099
Internally Generated Computer	67,010	8,849	(1,751)	74,108
Easements	4,090	121	-	4,211
Equipment, Furniture, Fixtures	619,178	65,127	(43,093)	641,212
Total Capital Assets Depreciated	<u>\$ 3,409,736</u>	<u>\$ 229,522</u>	<u>\$ (93,293)</u>	<u>\$ 3,545,965</u>
Accumulated Depreciation for:				
Buildings, Structures, Improvements ⁽¹⁾	\$ (990,231)	\$ (65,748)	\$ 27,455	\$ (1,028,524)
Infrastructure	(50,528)	(3,504)	540	(53,492)
Easements	(663)	(117)	-	(780)
Internally Generated Computer	(5,630)	(11,635)	-	(17,265)
Equipment, Furniture, Fixtures	(407,630)	(44,755)	34,867	(417,518)
Total Accumulated Depreciation	<u>\$ (1,454,682)</u>	<u>\$ (125,759)</u>	<u>\$ 62,862</u>	<u>\$ (1,517,579)</u>
Total Capital Assets Depreciated, Net	<u>\$ 1,955,054</u>	<u>\$ 103,763</u>	<u>\$ (30,431)</u>	<u>\$ 2,028,386</u>
Governmental Act. Capital Assets, Net	<u>\$ 12,908,015</u>	<u>\$ 680,213</u>	<u>\$ (208,693)</u>	<u>\$ 13,379,535</u>

⁽¹⁾ Prior year amount has been restated for the prior period adjustment.

Prior Period Adjustment Governmental Activities: During fiscal year 2013, nondepreciable infrastructure increased by \$86,908,000 resulting in a prior period adjustment. This increase was attributable to the capitalization of bridge and pavement costs that were previously expensed as system preservation at the Minnesota Department of Transportation. Additionally during fiscal year 2013, building accumulated depreciation decreased by \$29,923,000 resulting in a prior period adjustment. This decrease was attributable to a change in the method of depreciation to align internal rate development with depreciation in the accounting system at the Minnesota Department of Transportation. These changes have been reflected as an adjustment to the beginning balances.

Capital outlay expenditures in the governmental funds totaled \$646,086,000 for fiscal year 2013. Donations of general capital assets received during fiscal year 2013 were valued at \$18,246,000. Transfers of \$119,545,000 were primarily from construction in progress for completed projects. Additions in internal service funds were \$22,095,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2013, consisted of equipment with a cost of \$3,706,000 and buildings with a cost of \$180,050,000.

Primary Government Capital Asset Activity Government-wide Business-type Activities and Fiduciary Funds Year Ended June 30, 2013 (In Thousands)				
	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	\$ 88,420	\$ 1,312	\$ (114)	\$ 89,618
Construction in Progress	192,153	184,375	(195,413)	181,115
Total Capital Assets not Depreciated	\$ 280,573	\$ 185,687	\$ (195,527)	\$ 270,733
Capital Assets Depreciated:				
Buildings, Structures, Improvements ⁽¹⁾	\$ 2,845,802	\$ 204,807	\$ (6,226)	\$ 3,044,383
Library Collections	46,124	5,935	(7,021)	45,038
Internally Generated Computer	15,695	1,233	(2,109)	14,819
Equipment, Furniture, Fixtures	333,557	25,995	(11,306)	348,246
Total Capital Assets Depreciated	\$ 3,241,178	\$ 237,970	\$ (26,662)	\$ 3,452,486
Accumulated Depreciation for:				
Buildings, Structures, Improvements	\$ (1,250,527)	\$ (88,736)	\$ 5,093	\$ (1,334,170)
Library Collections	(27,206)	(6,435)	7,021	(26,620)
Internally Generated Computer	(8,128)	(2,332)	2,109	(8,351)
Equipment, Furniture, Fixtures	(220,825)	(23,245)	11,560	(232,510)
Total Accumulated Depreciation	\$ (1,506,686)	\$ (120,748)	\$ 25,783	\$ (1,601,651)
Total Capital Assets Depreciated, Net	\$ 1,734,492	\$ 117,222	\$ (879)	\$ 1,850,835
Business-type Act. Capital Assets, Net	\$ 2,015,065	\$ 302,909	\$ (196,406)	\$ 2,121,568
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	\$ 429	\$ -	\$ -	\$ 429
Total Capital Assets not Depreciated	\$ 429	\$ -	\$ -	\$ 429
Capital Assets Depreciated:				
Buildings	\$ 29,764	\$ 650	\$ (649)	\$ 29,765
Equipment, Furniture, Fixtures	9,721	5,459	(1,371)	13,809
Total Capital Assets Depreciated	\$ 39,485	\$ 6,109	\$ (2,020)	\$ 43,574
Accumulated Depreciation for:				
Buildings	\$ (8,200)	\$ (764)	\$ -	\$ (8,964)
Equipment, Furniture, Fixtures ⁽²⁾	(4,244)	(615)	1,160	(3,699)
Total Accumulated Depreciation	\$ (12,444)	\$ (1,379)	\$ 1,160	\$ (12,663)
Total Capital Assets Depreciated, Net	\$ 27,041	\$ 4,730	\$ (860)	\$ 30,911
Fiduciary Funds, Capital Assets, Net	\$ 27,470	\$ 4,730	\$ (860)	\$ 31,340

⁽¹⁾ Prior year amount has been restated for the prior period adjustment.

⁽²⁾ Additions include \$51 in accumulated depreciation on a transfer.

Prior Period Adjustment Business-type Activities: During fiscal year 2013, Buildings, Structures, Improvements increased by \$10,541,000 resulting in a prior period adjustment. This increase was attributable to the capitalization of miscellaneous towers related to the 911 Services Fund (Enterprise Fund) by the Minnesota Department of Transportation. These changes have been reflected as an adjustment to the beginning balances.

Primary Government Depreciation Expense Government-wide Year Ended June 30, 2013 (In Thousands)	
Governmental Activities:	
Agricultural, Environmental & Energy Resources	\$ 10,758
Economic and Workforce Development	1,427
General Education	5,526
General Government	20,088
Health and Human Services	21,460
Public Safety and Corrections	25,757
Transportation	30,656
Internal Service Funds	10,087
Total Governmental Activities	\$ 125,759
Business-type Activities:	
State Colleges and Universities	\$ 107,890
Lottery	836
Other	11,971
Total Business-type Activities	\$ 120,697

Primary Government Significant Project Authorizations and Commitments As of June 30, 2013 (In Thousands)		
	Administration	Transportation
Authorization	\$ 191,633	\$ 751,613
Less: Expended through June 30, 2013	(74,615)	(418,530)
Less: Unexpended Commitment	(66,405)	(92,879)
Remaining Available Authorization	\$ 50,613	\$ 240,204

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. Total acres on June 30, 2013, were 2,520,986.

Component Units

Component Units Capital Assets As of December 31, 2012, or June 30, 2013, as applicable (In Thousands)					
	Major Component Units				Totals
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	
Land and Improvements	\$ -	\$ 221,705	\$ 91,090	\$ 9,952	\$ 322,747
Construction in Progress	-	821,928	278,103	-	1,100,031
Museums and Collections	-	-	54,695	-	54,695
Permanent Easement	-	-	2	-	2
Buildings and Improvements	-	3,222,297	3,505,467	122,346	6,850,110
Equipment	2,431	1,025,590	885,837	15,046	1,928,904
Capitalized Software	7,358	-	117,935	-	125,293
Other Intangible Assets	-	-	5,052	-	5,052
Infrastructure	-	-	461,525	-	461,525
Total	\$ 9,789	\$ 5,291,520	\$ 5,399,706	\$ 147,344	\$ 10,848,359
Less: Accumulated Depreciation	\$ 6,859	\$ 1,692,012	\$ 2,522,792	\$ 123,661	\$ 4,345,324
Net Total	\$ 2,930	\$ 3,599,508	\$ 2,876,914⁽¹⁾	\$ 23,683	\$ 6,503,035

⁽¹⁾ In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of \$71,000 as of June 30, 2013.

Note 7 – Disaggregation of Payables

Primary Government Components of Accounts Payable Government-wide As of June 30, 2013 (In Thousands)				
	Governmental Activities			
	General Fund ⁽²⁾	Federal Fund	Nonmajor Governmental Funds ⁽¹⁾	Total
School Aid Programs	\$ 1,122,695	\$ 168,692	\$ 2,794	\$ 1,294,181
Tax Refunds	588,618	-	-	588,618
Medical Care Programs	787,879	971,475	62,927	1,822,281
Grants	195,460	217,077	189,569	602,106
Salaries and Benefits	53,658	9,984	31,518	95,160
Vendors/Service Providers	188,764	57,794	277,878	524,436
Net Payables	\$ 2,937,074	\$ 1,425,022	\$ 564,686	\$ 4,926,782
	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	\$ 109,089	\$ -	\$ 697	\$ 109,786
Vendors/Service Providers	67,321	25,546	40,325	133,192
Net Payables	\$ 176,410	\$ 25,546	\$ 41,022	\$ 242,978
Total Government-wide Net Payables				\$ 5,169,760

⁽¹⁾ Includes \$53,007 Internal Service Funds.

⁽²⁾ Includes \$1 Interfund Payable to Fiduciary Funds reclassified to Accounts Payable on the Government-wide Statement of Net Position.

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.

<u>Plan Administrator</u>	<u>Plans Covered</u>
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 Position of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2013, 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 69 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 590 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 post-retirement benefit increases occur annually on January 1. The increases are 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 63 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 at least 90 percent determined on a market value of assets basis. Effective July 1, 2013, this fund merged with the Legislators Retirement Fund for administrative cost saving purposes. Benefit provisions for both retirement funds remain unaffected by the merger.

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. During the 2013 legislative session, several financial solvency measures for this fund were enacted on July 1, 2013, including a tiered contribution and benefit structure, and reduction of the annual post-retirement increase to 1.75 percent until the funding ratio is 70 percent determined on a market value of asset 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. Also, during the 2013 legislative session, several financial solvency measures for this fund were enacted; most become effective on July 1, 2013, including increasing the employee and employer contribution rates, reducing the annual benefit increase to 1.0 percent until the funding ratio is 85 percent determined on a market value of assets basis, increasing the vesting period to 10 years for employees first hired on or after July 1, 2013, increasing early retirement reduction factor from 1.2 percent to 4 percent per year, and implementing an allowable service cap of 33 years for calculating retirement benefits (with exception for individuals with 28 years of service before July 1, 2013).

	Statutory Contribution Rates Year Ended June 30, 2013						
	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352.90	352C	490	3A	352B	352.04	354
Required Contribution Rate							
Active Members	8.60%	N/A	8.00%	9.00%	12.40%	5.00%	6.50%
Employer(s)	12.10%	N/A	20.50%	N/A	18.60%	5.00%	6.50%

**Multiple Employer Plan
Required Contributions
(In Thousands)**

		SERF	TRF
Required Contributions⁽¹⁾			
Employee	2013	\$ 124,150	\$ 265,809
	2012	\$ 118,358	\$ 239,834
	2011	\$ 122,029	\$ 218,024
Employers ⁽²⁾	2013	\$ 121,673	\$ 270,708
	2012	\$ 115,159	\$ 244,935
	2011	\$ 118,563	\$ 222,723
Primary Government ⁽³⁾	2013	\$ 89,077	\$ 27,959
	2012	\$ 86,273	\$ 27,994
	2011	\$ 86,698	\$ 28,287

⁽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, 2013
(In Thousands)**

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC) ⁽¹⁾	\$ 49,822	\$ 15,262	\$ 12,556	\$ 25,557
Interest on Net Pension Obligation (NPO) ⁽¹⁾	6,828	(553)	-	(892)
Amortization Adjustment to ARC ⁽¹⁾	(5,232)	448	(1,770)	848
Annual Pension Cost (APC)	\$ 51,418	\$ 15,157	\$ 10,786	\$ 25,513
Contributions	(42,193)	(11,214)	(3,510)	(19,185)
Increase (Decrease) in NPO	\$ 9,225	\$ 3,943	\$ 7,276	\$ 6,328
NPO, Beginning Balance	\$ 80,332	\$ (6,512)	\$ 17,411	\$ (10,494)
NPO, Ending (Asset)	\$ 89,557	\$ (2,569)	\$ 24,687	\$ (4,166)

⁽¹⁾ Components of annual pension cost.

**Single Employer Plan Disclosures
(In Thousands)**

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2013	\$ 51,418	\$ 15,157	\$ 10,786	\$ 25,513
	2012	\$ 53,851	\$ 12,038	\$ 17,043	\$ 22,669
	2011	\$ 50,077	\$ 11,467	\$ 6,750	\$ 20,406
Percentage of APC Contributed	2013	82%	74%	33%	75%
	2012	77%	90%	24%	85%
	2011	82%	99%	44%	81%
Net Pension Obligation (NPO) (End of Year)	2013	\$ 89,557	\$ (2,569)	\$ 24,687	\$ (4,166)
	2012	\$ 80,332	\$ (6,512)	\$ 17,411	\$ (10,494)
	2011	\$ 67,872	\$ (7,697)	\$ 4,427	\$ (13,790)

**Schedule of Funding Status
(In Thousands)**

	CERF	JRF	LRF	SPRF
Actual Valuation Date	7/1/2012	7/1/2012	7/1/2012	7/1/2012
Actuarial Value of Plan Assets	\$ 663,713	\$ 144,898	\$ 15,523	\$ 554,244
Actuarial Accrued Liability	\$ 968,166	\$ 281,576	\$ 247,657	\$ 760,955
Total Unfunded Actuarial Liability	\$ 304,453	\$ 136,678	\$ 232,134	\$ 206,711
Funded Ratio	69%	51%	6%	73%
Annual Covered Payroll	\$ 200,035	\$ 38,644	\$ 1,378	\$ 62,524
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	152%	354%	16,846%	331%

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, 2012.
- The calculation of the actuarial valuation of assets is the sum of the market asset value at July 1, 2012, 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 are 8 percent and 6 percent, respectively, except for the SPRF whose post-retirement return is 6.5 percent and LRF whose pre-retirement and post-retirement are 0.0 percent through 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 except SPRF whose post-retirement return is 7.0 percent and LRF whose pre-retirement and post-retirement continues to be 0.0 percent.
- 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 3.75 percent except for JRF, which is a level 3.0 percent.
- The statutory amortization periods for SERF, CERF, ESORF, JRF, LRF, and SPRF are through June 30, of 2040, 2038, 2021, 2039, 2026, and 2037, respectively.
- The amortization period is closed.
- Additional actuarial assumptions are detailed in the July 1, 2012, actuarial valuation reports for the MSRS defined benefit retirement funds. These reports are located online at <http://www.msrs.state.mn.us/info/fincl.html>.

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 \$15,000. 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, 2013 (In Thousands)				
	HCSRF	PHCBF	UERF	DCF	CURF
Employee Contributions	\$ 227	\$ 112,359	\$ 5,096	\$ 1,612	\$ 35,289
Employer Contributions	\$ 228	N/A	\$ 5,867	\$ 1,734	\$ 41,965

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
- Minnesota Sports Facilities 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 130 former faculty members and staff currently receive this benefit. The cost of the benefits was \$1,727,000 during fiscal year ended June 30, 2013, with a remaining liability as of June 30, 2013, of \$3,530,000.

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, 2012, there were approximately 2,600 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, 2012, there were approximately 1,120 correctional and law enforcement retirees receiving an explicit rate subsidy.

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, 2013, the state contributed \$38,348,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed \$24,453,000 through their average required contribution of \$475 per month for retiree-only coverage and \$1,397 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, 2013, the state's ARC is \$65,854,000.

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, 2013 (In Thousands)	
Annual Required Contributions (ARC) ⁽¹⁾	\$ 65,854
Interest on Net OPEB Obligation (NOO) ⁽¹⁾	9,149
Amortization Adjustment to ARC ⁽¹⁾	<u>(7,703)</u>
Annual OPEB Cost (Expense)	\$ 67,300
Contributions	<u>(38,348)</u>
Increase in NOO	\$ 28,952
NOO, Beginning Balance	\$ 192,622
NOO, Ending ⁽²⁾	<u>\$ 221,574</u>

⁽¹⁾Components of annual OPEB cost.

⁽²⁾Governmental Activities, Business-type Activities, and Fiduciary Funds include \$192,601; \$28,913; and \$60, 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 2013, 2012, and 2011 are as follows:

OPEB Disclosures (In Thousands)			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 67,300	57%	\$ 221,574
June 30, 2012	\$ 81,528	65%	\$ 192,622
June 30, 2011	\$ 77,250	51%	\$ 164,311

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was \$651,890,000. 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 \$2,819,463,000 and the ratio of the UAAL to the covered payroll was 23.1 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, 2012.
- 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 3.75 percent.

- The annual health care cost trend rate is 6.80 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 \$130,808,000 as of December 31, 2012, for this purpose. The annual required contribution for 2012 was \$22,341,000 or 8.5 percent of annual covered payroll. As of December 31, 2012, 2011, and 2010, the net OPEB obligation was \$74,516,000, \$70,628,000, and \$57,948,000 respectively. The actuarial accrued liability (AAL) for benefits was \$261,699,000 as of December 31, 2012, all of which was unfunded. The covered payroll was \$263,063,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 99.48 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, 2013, was \$28,128,000 or 2.3 percent of annual covered payroll. As of June 30, 2013, 2012, and 2011, the net OPEB obligation was \$82,433,000, 62,987,000 and \$44,131,000. The actuarial accrued liability (AAL) for benefits was \$94,555,000 as of June 30, 2013, all of which was unfunded. The covered payroll was \$1,203,994,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 7.9 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, 2013, were as follows:

Primary Government Encumbrances As of June 30, 2013 (In Thousands)	
Major Fund: General Fund	\$ 218,163
Non-Major Governmental Funds	<u>1,794,088</u>
Total Encumbrances	<u>\$ 2,012,251</u>

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 2013, the Petrofund has reimbursed eligible applicants approximately \$427,000,000 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 \$122,606,000 for construction and renovation of college and university facilities as of June 30, 2013.

Component Units

As of June 30, 2013, the Housing Finance Agency (HFA) had committed approximately \$308,179,000 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, 2012, unpaid commitments for Metro Transit Bus services were approximately \$63,211,000. Future commitments for Metro Transit Light Rail were approximately \$290,875,000, while future commitments for Metro Transit Commuter Rail were approximately \$4,577,000. Finally, future commitments for Regional Transit and Environmental Services were approximately \$246,966,000 and \$74,876,000, respectively.

University of Minnesota (U of M) had construction projects in progress with an estimated completion cost of \$251,810,000 as of June 30, 2013. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2013, Public Facilities Authority (PFA) had committed approximately \$99,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed \$16,000,000 for grants.

As of December 31, 2012, Minnesota Sports Facilities Authority had committed approximately \$40,434,000 for stadium and stadium infrastructure construction projects.

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, 2013, totaled approximately \$84,939,000 and \$19,850,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2012, totaled approximately \$1,387,000 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
2014	\$ 77,954	2014	\$ 12,171	2013	\$ 1,159
2015	66,072	2015	7,342	2014	971
2016	55,753	2016	5,073	2015	408
2017	48,198	2017	4,928	2016	570
2018	38,468	2018	3,837	2017	476
2019-2023	88,445	2019-2023	12,916	2018-2022	846
2024-2028	5,880	2024-2028	9,935	2023-2027	102
2029-2033	2,755	2029-2033	10,171	2028-2032	100
2034-2038	-	2034-2038	<u>2,603</u>	2033-2037	<u>86</u>
Total	<u>\$ 383,525</u>	Total	<u>\$ 68,976</u>	Total	<u>\$ 4,718</u>

Note 12 – Long-Term Liabilities – Primary Government

Primary Government Long-Term Liabilities Year Ended June 30, 2013 (In Thousands)					
	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	\$ 5,772,034	\$ 718,656	\$ 333,154	\$ 6,157,536	\$ 330,482
Revenue Bonds	794,574	-	784,314	10,260	955
State General Fund Appropriation Bonds	-	778,363	3,593	774,770	33,930
Loans	28,612	18,817	11,447	35,982	17,692
Due to Component Unit	16,684	1,597	3,101	15,180	2,389
Capital Leases	144,319	-	29,019	115,300	8,479
Certificates of Participation	70,742	-	21,302	49,440	6,855
Claims	789,203	38,010	118,509	708,704	108,759
Compensated Absences	279,444	247,370	243,244	283,570	36,288
Net Other Postemployment Obligation	166,156	59,018	32,573	192,601	-
Net Pension Obligation	97,743	62,204	45,703	114,244	-
Total	\$ 8,159,511	\$ 1,924,035	\$ 1,625,959	\$ 8,457,587	\$ 545,829
Business-type Activities					
Liabilities For:					
General Obligation Bonds	\$ 249,636	\$ 21,347	\$ 20,662	\$ 250,321	\$ 19,328
Revenue Bonds	431,952	89,955	51,409	470,498	24,375
Loans	5,015	92	693	4,414	779
Capital Leases	40,137	-	4,856	35,281	4,761
Claims	6,937	2,443	4,402	4,978	2,389
Compensated Absences	139,225	29,853	24,806	144,272	17,065
Net Other Postemployment Obligation	26,303	8,213	5,603	28,913	-
Total	\$ 899,205	\$ 151,903	\$ 112,431	\$ 938,677	\$ 68,697

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	\$4,879,081	\$ 1,278,455	\$ -	\$ 250,321	\$ 6,407,857
Revenue Bonds	5,131	5,129	-	470,498	480,758
State General Fund Appropriation Bonds	774,770	-	-	-	774,770
Loans	-	7,300	28,682	4,414	40,396
Due to Component Unit	-	15,180	-	-	15,180
Capital Leases	114,469	831	-	35,281	150,581
Certificates of Participation	49,440	-	-	-	49,440
Claims	90,037	608,998	9,669	4,978	713,682
Compensated Absences	146,280	131,167	6,123	144,272	427,842
Net Other Postemployment Benefit Obligation	192,075	-	526	28,913	221,514
Net Pension Obligation	114,244	-	-	-	114,244
Total	\$6,365,527	\$ 2,047,060	\$ 45,000	\$ 938,677	\$ 9,396,264

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, state General Fund appropriation 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		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 330,482	\$ 251,288	\$ 19,328	\$ 11,164	\$ 349,810	\$ 262,452
2015	496,280	233,069	18,925	9,849	515,205	242,918
2016	467,470	210,040	18,470	8,927	485,940	218,967
2017	448,444	188,014	17,636	8,019	466,080	196,033
2018	428,819	166,957	17,511	7,156	446,330	174,113
2019-2023	1,714,517	564,493	77,118	23,768	1,791,635	588,261
2024-2028	1,168,248	215,319	50,157	7,966	1,218,405	223,285
2029-2033	456,270	31,837	13,500	868	469,770	32,705
Total	\$ 5,510,530	\$ 1,861,017	\$ 232,645	\$ 77,717	\$ 5,743,175	\$ 1,938,734
Bond Premium	647,006	-	17,676	-	664,682	-
Total	\$ 6,157,536	\$ 1,861,017	\$ 250,321	\$ 77,717	\$ 6,407,857	\$ 1,938,734

Primary Government Revenue Bonds Principal and Interest Payments (In Thousands)						
Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 955	\$ 437	\$ 24,375	\$ 18,931	\$ 25,330	\$ 19,368
2015	995	396	26,490	17,819	27,485	18,215
2016	1,040	351	27,375	16,819	28,415	17,170
2017	1,085	303	29,005	15,721	30,090	16,024
2018	1,130	253	30,000	14,561	31,130	14,814
2019-2023	5,055	468	139,975	54,472	145,030	54,940
2024-2028	-	-	107,885	25,304	107,885	25,304
2029-2033	-	-	58,960	6,273	58,960	6,273
2034-2038	-	-	3,885	58	3,885	58
Total	\$ 10,260	\$ 2,208	\$ 447,950	\$ 169,958	\$ 458,210	\$ 172,166
Bond Premium	-	-	22,548	-	22,548	-
Total	\$ 10,260	\$ 2,208	\$ 470,498	\$ 169,958	\$ 480,758	\$ 172,166

Primary Government State General Fund Appropriation Bonds Principal and Interest Payments (In Thousands)		
Year Ended June 30	Governmental Activities	
	Principal	Interest
2014	\$ 33,930	\$ 28,502
2015	37,425	28,356
2016	29,520	27,558
2017	30,720	26,377
2018	31,430	24,841
2019 - 2023	173,470	99,834
2024 - 2028	221,695	53,234
2029 - 2033	98,030	5,354
Total	\$ 656,220	\$ 294,056
Bond Premium	118,550	-
Total	\$ 774,770	\$ 294,056

Primary Government Loans Payable and Due to Component Unit Principal and Interest Payments (In Thousands)						
Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 20,081	\$ 925	\$ 779	\$ 180	\$ 20,860	\$ 1,105
2015	11,182	400	429	157	11,611	557
2016	9,102	310	410	139	9,512	449
2017	5,285	218	366	123	5,651	341
2018	648	133	390	106	1,038	239
2019-2023	2,928	467	1,330	307	4,258	774
2024-2028	1,603	188	628	51	2,231	239
2029-2033	333	9	82	-	415	9
Total	\$ 51,162	\$ 2,650	\$ 4,414	\$ 1,063	\$ 55,576	\$ 3,713

Primary Government Capital Leases Principal and Interest Payments (In Thousands)						
Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 8,479	\$ 5,295	\$ 4,761	\$ 1,025	\$ 13,240	\$ 6,320
2015	8,309	5,139	4,533	1,112	12,842	6,251
2016	8,658	4,764	4,353	1,205	13,011	5,969
2017	8,973	4,374	4,275	1,295	13,248	5,669
2018	9,305	3,968	4,264	1,252	13,569	5,220
2019-2023	53,417	12,705	11,297	4,797	64,714	17,502
2024-2028	18,159	1,176	971	353	19,130	1,529
2029-2033	-	-	827	9,182	827	9,182
Total	<u>\$ 115,300</u>	<u>\$ 37,421</u>	<u>\$ 35,281</u>	<u>\$ 20,221</u>	<u>\$ 150,581</u>	<u>\$ 57,642</u>

Primary Government Certificates of Participation Principal and Interest Payments (In Thousands)		
Year Ended June 30	Governmental Activities	
	Principal	Interest
2014	\$ 6,855	\$ 2,114
2015	7,130	1,840
2016	7,410	1,554
2017	7,745	1,222
2018	8,135	834
2019 - 2023	8,540	426
Total	<u>\$ 45,815</u>	<u>\$ 7,990</u>
Premium on Certificates of Participation	3,625	-
Total	<u>\$ 49,440</u>	<u>\$ 7,990</u>

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 2013, 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, 2013 (In Thousands)	
General Fund	\$ 253,754
Special Revenue Funds:	
Trunk Highway Fund	\$ 120,305
Natural Resources Funds	8
Miscellaneous Special Revenue Fund	196
Tobacco Securitization Authority Fund	22,168
Total Special Revenue Funds	\$ 142,677
Capital Projects Fund:	
Building Fund	\$ 13,060
Total Transfers to Debt Service Fund	<u>\$ 409,491</u>

General Obligation Bond Issues

In August 2012, the state issued \$658,500,000 general obligation bonds, Series 2012A through Series 2012C:

- Series 2012A for \$422,000,000 in state various purpose bonds were issued at a true interest rate of 2.05 percent.
- Series 2012B for \$234,000,000 in state trunk highway bonds were issued at a true interest rate of 2.38 percent.
- Series 2012C for \$2,500,000 in state taxable bonds were issued at a true interest rate of 1.03 percent.

The state remains contingently liable to pay its advance refunded general obligation, revenue, and certificate of participation bonds as shown in the following table.

Primary Government Outstanding Defeased Debt (In Thousands)				
General Obligation Bonds				
Refunding Date	Refunding Amount	Refunded Amount	June 30, 2013 Outstanding Amount	Refunded Bond Call/Maturity Date
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
	<u>\$ 195,537</u>	<u>\$ 189,785</u>	<u>\$ 189,785</u>	
Revenue Bonds (Refunded by State General Fund Appropriation Bonds)				
Refunding Date	Refunding Amount	Refunded Amount	June 30, 2013 Outstanding Amount	Refunded Bond Call/Maturity Date
November 21, 2012	\$ 33,930	\$ 36,900	\$ 36,900	March 1, 2014
November 21, 2012	20,735	37,785	37,785	March 1, 2015
	<u>\$ 54,665</u>	<u>\$ 74,685</u>	<u>\$ 74,685</u>	
Certificate of Participation				
Refunding Date	Refunding Amount	Refunded Amount	June 30, 2013 Outstanding Amount	Refunded Bond Call/Maturity Date
December 18, 2012	NA	\$ 1,720	\$ 1,720	June 1, 2014
December 18, 2012	NA	1,790	1,790	June 1, 2015
December 18, 2012	NA	7,985	7,985	June 1, 2016
	NA	<u>\$ 11,495</u>	<u>\$ 11,495</u>	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2013. 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, 2013 (In Thousands)			
Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	\$ 698	\$ 1,080	5.00
State Operated Community Services	-	1,446	5.00
State Transportation	60	229,390	4.00 - 5.00
Maximum Effort School Loan	-	20,480	5.00
Rural Finance Authority	36,000	47,000	1.35 - 5.50
Refunding Bonds	-	1,257,445	1.75 - 5.00
Trunk Highway	1,337,498	1,278,455	2.00 - 5.00
Various Purpose	1,133,357	2,907,879	2.25 - 5.00
Total	<u>\$ 2,507,613</u>	<u>\$ 5,743,175</u>	

State General Fund Appropriation 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 state General Fund appropriation refunding bonds. 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.

Minnesota Statutes, Section 16A.965, authorizes the state to issue up to \$600 million of state 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 (component unit) that was created for that purpose by Minnesota Statutes, Chapter 473J. The state has commenced the financing process. 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.

State General Fund Appropriation Bond Issues

In November 2012, the state issued \$656,220,000 state General Fund appropriation refunding bonds, Series 2012A and Series 2012B:

- Series 2012A for \$54,665,000 in state taxable bonds were issued at a true interest rate of .61 percent.

- Series 2012B for \$601,555,000 in state tax-exempt bonds were issued at a true interest rate of 2.46 percent.

The following table is a schedule of state General Fund appropriation bonds authorized, but unissued as of June 30, 2013.

Primary Government State General Fund Appropriation Bonds Authorized, but Unissued, and Bonds Outstanding As of June 30, 2013 (In Thousands)			
Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
Professional Football Stadium	\$ 600,000	\$ -	NA
Pay-for-Performance	10,000	-	NA
Refund Tobacco Securitization Authority	-	656,220	0.43 - 5.00
Total	\$ 610,000	\$ 656,220	

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of \$7,300,000 were from local government entities to finance certain trunk highway projects. In addition, \$15,180,000 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 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. In May 2013, the SPPA issued refunding bonds of \$115,760,000. The proceeds of the bonds will be applied to refund SPPA's outstanding revenue bonds. The lease agreement was amended to approximate the debt service payments of SPPA refunding bonds. The state has other capital lease agreements to purchase equipment that meets the above criteria.

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). In December 2012, due to the completion of the integrated tax accounting system project, there was a partial defeasance of COPs of \$11,495,000.

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 \$1,412,000 for fiscal year 2013, have averaged approximately less than five percent 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 2013, principal and interest paid by the Iron Range Resources and Rehabilitation Board on the bonds was \$1,390,000. The total principal and interest remaining to be paid as of June 30, 2013, is \$12,468,000 payable through November 2022.

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, 2013, is \$179,247,000, payable through June 2026. Principal and interest paid during fiscal year 2013 and total 911 fee revenues were \$18,299,000 and \$63,222,000, 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 \$405,000,000 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 0.45 percent to 5.75 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 24 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$436,243,000. Principal and interest paid for the current year and total customer net revenues were \$22,704,000 and \$109,368,000, 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 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,418,000. Principal and interest paid and total customer net revenues during fiscal year 2013 were \$166,000 and \$450,000, respectively. These revenue bonds have a variable interest rate of .75 percent to 3.65 percent.

Claims

Municipal solid waste landfill liabilities of \$142,032,000 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, 2013, were \$48,065,000. Of this total, \$31,979,000 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 \$102,738,000 and \$4,978,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2013, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of \$32,700,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of \$373,500,000 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 \$9,669,000 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 \$283,570,000 and \$144,272,000 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 2013, 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. On August 9, 2012, the state of Minnesota issued revenue refunding bonds totaling \$21,880,000 on behalf of the state's three retirement systems at a true rate of 1.63%. Minnesota Statutes, Section 356B.10, authorized the issuance of the revenue bonds for a current refunding of the \$29,000,000 Retirement System Building Revenue Bonds, Series 2000, which were issued for the construction of an administrative office building. The revenue refunding bonds have an interest rate of 1.63 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 2013, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was \$2,087,000. The total principal and interest remaining to be paid as of June 30, 2013, is \$ 23,875,000, payable through 2025.

Long-Term Debt Repayment Schedule Fiduciary Funds Revenue Bonds – SERF, TRF, and PERF (In Thousands)		
Year Ended June 30	Principal	Interest
2014	\$ 1,570	\$ 500
2015	1,610	468
2016	1,645	436
2017	1,675	403
2018	1,710	370
2019 - 2023	9,170	1,319
2024 - 2028	<u>2,845</u>	<u>154</u>
Total	\$ 20,225	\$ 3,650
Bond Premium	<u>1,489</u>	-
Total	\$ 21,714	\$ 3,650

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, 2013, net of unamortized discounts/premiums, was \$2,136,183,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste disposal systems, sewers, and transportation projects, backed by the full faith and credit and taxing powers of MC. MC had \$1,785,309,000 in general obligation bonds and general obligation grant anticipation notes and \$1,368,000 of revenue bonds outstanding on December 31, 2012, 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, 2013, the principal amount of general obligation bonds and revenue bonds outstanding, net of unamortized discounts/premiums, was \$699,634,000 and \$298,951,000, respectively.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2013, the principal amount of revenue bonds outstanding was \$1,460,000.

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, 2013, the outstanding principal of revenue bonds was \$595,321,000, 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, 2013, net of unamortized discounts/premiums, was \$1,088,588,000.

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, 2012. 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, 2013, the outstanding commercial paper notes was \$230,050,000. 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 2012. On December 31, 2012, the total outstanding loans and notes payable was \$5,974,000.

Capital Leases

On December 1, 2004, Metropolitan Council entered into an annual appropriation lease purchase agreement for land and facilities. The lease is subject to non-appropriation by MC in which event the lease is terminated and there is no obligation of MC for future lease payments. MC intends to continue the lease through its entire term.

University of Minnesota has seven distinct capital leases. Three of the seven are financed through third-party financing for the purchase of fleet vehicles and other equipment. The remaining four capital leases have payments being paid directly to the lessor and represent leases for buildings and equipment.

Component Units General Obligation Bonds Major Component Units (In Thousands)					
Year Ended December 31	MC ⁽¹⁾		Year Ended June 30	U of M	
	Principal	Interest ⁽²⁾		Principal	Interest
2013	\$ 137,750	\$ 49,963	2014	\$ 35,583	\$ 30,658
2014	181,119	46,301	2015	31,767	29,342
2015	281,394	40,048	2016	36,290	27,764
2016	207,326	30,630	2017	37,680	26,122
2017	93,087	26,401	2018	39,495	24,341
2018-2022	456,824	93,750	2019-2023	157,470	96,843
2023-2027	278,194	34,544	2024-2028	135,230	62,308
2028-2032	91,556	5,815	2029-2033	118,585	26,919
2033-2037	-	-	2034-2038	57,870	6,025
Total	\$ 1,727,250	\$ 327,452	Total	\$ 649,970	\$ 330,322
Unamortized Discounts/ Premiums and Issuance Costs	58,059	-		49,664	-
Total	<u>\$ 1,785,309</u>	<u>\$ 327,452</u>	Total	<u>\$ 699,634</u>	<u>\$ 330,322</u>

⁽¹⁾ MC general obligation bonds include general obligation grant anticipation notes of \$100 million issued in calendar 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 ⁽¹⁾		U of M		Year Ended December 31	MC	
	Principal	Interest	Principal	Interest		Principal	Interest
2014	\$ 42,040	\$ 69,134	\$ 10,358	\$ 13,246	2013	\$ 1,365	\$ 27
2015	50,700	68,960	7,712	12,816	2014	-	-
2016	46,785	67,587	9,350	12,385	2015	-	-
2017	49,625	66,200	9,830	11,911	2016	-	-
2018	50,150	64,715	10,330	11,407	2017	-	-
2019-2023	260,810	297,584	60,025	48,669	2018-2022	-	-
2024-2028	336,575	245,643	76,800	31,893	2023-2027	-	-
2029-2033	417,800	177,962	55,350	14,781	2028-2032	-	-
2034-2038	445,390	104,389	35,135	3,050	2033-2037	-	-
2039-2043	400,062	37,292	-	-	2038-2042	-	-
2044-2048	17,670	1,331	-	-	2043-2047	-	-
2049-2053	3,519	121	-	-	2048-2052	-	-
Total	\$2,121,126	\$ 1,200,918	\$ 274,890	\$ 160,158	Total	\$ 1,365	\$ 27
Unamortized Discounts/ Premiums and Issuance Costs							
	5,057	-	24,061	-		3	-
Total	\$2,126,183	\$ 1,200,918	\$ 298,951	\$ 160,158	Total	\$ 1,368	\$ 27

⁽¹⁾ HFA bonds and notes payable include a \$10 million revolving line of credit liability, which is not included in this schedule.

**Component Units
Capital Leases
Major Component Units
(In Thousands)**

Year Ended December 31	MC		Year Ended June 30	U of M	
	Principal and Interest			Principal	
2013	\$ 1,030		2014	\$ 5,119	
2014	1,031		2015	5,196	
2015	1,026		2016	5,211	
2016	1,029		2017	4,875	
2017	1,026		2018	4,763	
2018-2022	5,123		2019-2023	18,196	
2023-2027	3,063		2024-2028	2,918	
Total	\$ 13,328		Total Principal	\$ 46,278	
Interest	(3,103)		Interest	14,958	
Total Principal	\$ 10,225		Total Principal and Interest	\$ 61,236	

Component Units Revenue Bonds Nonmajor Component Units (In Thousands)						
Year Ended June 30	AEDB		OHE		PFA	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,460	\$ 34	\$ 360	\$ 2,874	\$ 73,825	\$ 50,939
2015	-	-	1,135	2,867	77,620	47,293
2016	-	-	1,090	2,833	83,835	43,426
2017	-	-	3,045	2,800	78,475	39,282
2018	-	-	4,255	2,676	83,735	35,390
2019-2023	-	-	68,760	10,363	395,995	113,217
2024-2028	-	-	13,765	5,120	199,160	39,362
2029-2033	-	-	6,995	2,765	52,240	4,269
2034-2038	-	-	37,400	2,063	-	-
2039-2043	-	-	124,000	1,825	-	-
2044-2048	-	-	333,489	983	-	-
	<u>\$ 1,460</u>	<u>\$ 34</u>	<u>\$ 594,294</u>	<u>\$ 37,169</u>	<u>\$ 1,044,885</u>	<u>\$ 373,178</u>
Unamortized Discounts/Premiums and Issuance Costs	-	-	1,027	-	43,703	-
Total	<u>\$ 1,460</u>	<u>\$ 34</u>	<u>\$ 595,321</u>	<u>\$ 37,169</u>	<u>\$ 1,088,588</u>	<u>\$ 373,178</u>

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 entered into an interest rate swap. This was a freestanding pay-fixed, receive-variable interest rate swap which changed the variable interest rate bonds to synthetic fixed-rate bonds. At June 30, 2013, this swap was considered an ineffective hedge, where the change in fair value was 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 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. 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, 2013.

The rates on the taxable Series 2012A bonds and tax-exempt Series 2012B bonds are determined by a remarketing agent. The rates on Series 2012A bonds and Series 2012B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2012A and Series 2012B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity on the Series 2012A bonds. The Series 2012B bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

All bond series are secured by the revenues derived by the Agency from student loans financed by the proceeds of the bonds

Housing Finance Agency

As of June 30, 2013, 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 in the deferred inflows of resources as an interest rate swap agreement, whereas the inception-to-date change in fair value as of June 30, 2013, is included in the deferred outflows of resources as deferred loss on interest rate swap agreements on the Statement of Net Position. See Note 2 – Cash, Investment, and Derivative Instruments for more information.

Bond Defeasances

In prior years, U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was \$271,635,000 with \$144,375,000 outstanding as of June 30, 2013. 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, 2013.

Note 14 – Segment Information

Primary Government Segment Information Financial Data Year Ended June 30, 2013 (In Thousands)			
	Minnesota State Colleges and Universities		
	Revenue Fund	Itasca Residence Halls	911 Services
Condensed Statement of Net Position			
Assets:			
Current Assets	\$ 81,700	\$ 89	\$ 69,970
Restricted Assets	139,858	293	-
Capital Assets	334,980	3,190	124,780
Total Assets	<u>\$ 556,538</u>	<u>\$ 3,572</u>	<u>\$ 194,750</u>
Liabilities:			
Current Liabilities	\$ 25,886	\$ 146	\$ 19,121
Noncurrent Liabilities	313,069	1,840	139,163
Total Liabilities	<u>\$ 338,955</u>	<u>\$ 1,986</u>	<u>\$ 158,284</u>
Net Position:			
Net Investment in Capital Assets	\$ 121,093	\$ 1,220	\$ -
Restricted	96,490	293	36,466
Unrestricted	-	73	-
Total Net Position	<u>\$ 217,583</u>	<u>\$ 1,586</u>	<u>\$ 36,466</u>
Condensed Statement of Revenues, Expenses and Changes in Fund Net Position			
Operating Revenues - Customer Charges	\$ 109,368	\$ 450	\$ 63,222
Depreciation Expense	(16,196)	(119)	(9,749)
Other Operating Expenses	(78,410)	(205)	(26,019)
Operating Income (Loss)	<u>\$ 14,762</u>	<u>\$ 126</u>	<u>\$ 27,454</u>
Nonoperating Revenues (Expenses):			
Interest Income	\$ 674	\$ 29	\$ 2
Capital Contributions	3,331	-	-
Interest Expense	(12,522)	(224)	(5,951)
Other	(312)	-	(24,368)
Transfers-In (Out)	-	-	(685)
Change in Net Position	<u>\$ 5,933</u>	<u>\$ (69)</u>	<u>\$ (3,548)</u>
Beginning Net Position	211,650	1,655	29,473
Prior Period Adjustment	-	-	10,541
Ending Net Position	<u>\$ 217,583</u>	<u>\$ 1,586</u>	<u>\$ 36,466</u>
Condensed Statement of Cash Flows			
Net Cash Provided (Used) By:			
Operating Activities	\$ 35,211	\$ 243	\$ 37,240
Noncapital Financing Activities	-	150	(43,333)
Capital and Related Financing Activities	(3,641)	(333)	(25,041)
Investing Activities	213	21	2
Net Increase (Decrease)	<u>\$ 31,783</u>	<u>\$ 81</u>	<u>\$ (31,132)</u>
Beginning Cash and Cash Equivalents	\$ 160,064	\$ (2)	\$ 95,093
Ending Cash and Cash Equivalents	<u>\$ 191,847</u>	<u>\$ 79</u>	<u>\$ 63,961</u>

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, parking and wellness purposes.
- 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, 2012	\$ 559,286
Duluth Teachers Retirement Fund	June 30, 2012	\$ 119,410
Local Police & Fire Associations	January 01, 2013	\$ 1,665

University of Minnesota

The University of Minnesota (U of M) issued state-secured 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. As of October 2013, there are \$109,300,000 of these U of M bonds outstanding.

U of M issued state-secured 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. As of October 2013, \$156,440,000 of these bonds are still outstanding. The U of M issued additional bonds of \$35,395,000 in October 2013 to fund the remaining portion of the project.

Housing Finance Agency

The Housing Finance Agency (HFA) issued state-secured 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 22 years starting in 2010. As of October 2013, there are \$29,680,000 of the HFA nonprofit housing bonds outstanding.

HFA issued state-secured appropriation bonds to finance housing infrastructure. In 2012, the Minnesota Legislature appropriated from the General Fund up to \$2.2 million per year starting in 2014 through 2036. HFA has issued \$15,460,000 of bonds as authorized in legislation.

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, 2013, is \$15.1 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, 2013, is \$632 million. In August 2013, the state made a \$603,000 debt service payment under the program on behalf of the City of Williams. The state does not expect to make any other debt service payments on behalf of cities or counties under the program in the future.

Note 16 – Equity

Restricted Net Position – Government-wide Statement of Net Position

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

Primary Government Restricted Net Position Balances As of June 30, 2013 (In Thousands)				
	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Agricultural, Environmental and Energy Resources	\$ 318,856	\$ 882,898	\$ 14,986	\$ 1,216,740
Arts and Cultural Heritage	24,010	-	-	24,010
Capital Projects	-	-	4,536	4,536
Debt Service	256,890	-	119,012	375,902
Economic and Workforce Development	-	124,376	730	125,106
General Education	-	43,139	2,840	45,979
General Government	-	6,737	876	7,613
Health and Human Services	-	1,762	6,037	7,799
Higher Education	-	-	530,341	530,341
Public Safety and Corrections	-	22,456	63,791	86,247
School Aid - Expendable	5,947	-	-	5,947
School Aid - Nonexpendable	965,954	-	-	965,954
Transportation	1,354,976	22,115	-	1,377,091
Unemployment Benefits	-	-	1,143,319	1,143,319
Other Purposes	-	-	33,155	33,155
Total Restricted Net Position	\$ 2,926,633	\$ 1,103,483	\$ 1,919,623	\$ 5,949,739

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, 2013 (In Thousands)				
	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ -	\$ -	\$ 26,784	\$ 26,784
Trust or Permanent Fund Principal	750,071	-	965,954	1,716,025
Restricted for:				
Agricultural, Environmental and Energy Resources	1,112	123	505,776	507,011
Arts and Cultural Heritage	-	-	24,010	24,010
Capital Projects	-	-	100,907	100,907
Debt Service	-	-	591,693	591,693
Economic and Workforce Development	65,976	-	89,260	155,236
General Education	38,493	-	13,426	51,919
General Government	-	-	7,597	7,597
Health and Human Services	-	-	2,896	2,896
Public Safety	-	-	13,191	13,191
Transportation	-	-	1,405,343	1,405,343
Committed to:				
Agricultural, Environmental and Energy Resources	-	-	56,306	56,306
Economic and Workforce Development	-	-	212,501	212,501
General Education	-	-	8,510	8,510
General Government	-	-	11,682	11,682
Health and Human Services	-	-	372,140	372,140
Public Safety	-	-	34,172	34,172
Transportation	-	-	17,818	17,818
Assigned to:				
Agricultural, Environmental and Energy Resources	41,785	-	-	41,785
Capital Projects	-	-	1,152	1,152
Economic and Workforce Development	57,609	-	-	57,609
General Education	9,421	-	-	9,421
General Government	29,797	-	-	29,797
Health and Human Services	41,455	-	-	41,455
Higher Education	3,610	-	-	3,610
Public Safety	32,287	-	-	32,287
Transportation	3,598	-	-	3,598
Unassigned:	209,551	-	-	209,551
Total Fund Balances	\$ 1,284,765	\$ 123	\$ 4,461,118	\$ 5,746,006

Deficit Equity Balances

A \$5,501,000 deficit total net asset balance was reported in the Behavioral Services Fund (enterprise fund) as of June 30, 2013. This fund's operations are being evaluated and a plan will be established to address this deficit.

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 workplace 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 \$1,880,000.

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 \$2,973,157 greater than coverage during the fiscal year ended June 30, 2013.

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, 2013, was 4,887 members and their dependents. The members of the pool include 49 school districts, 26 cities/townships, 5 counties, and 9 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 6/30/12	\$ 9,209	\$ 2,448	\$ 2,598	\$ 9,059	
Fiscal Year Ended 6/30/13	\$ 9,059	\$ 2,841	\$ 2,231	\$ 9,669	
Tort Claims					
Fiscal Year Ended 6/30/12	\$ -	\$ 1,381	\$ 1,381	\$ -	
Fiscal Year Ended 6/30/13	\$ -	\$ 1,188	\$ 1,188	\$ -	
Workers' Compensation					
Fiscal Year Ended 6/30/12	\$ 129,378	\$ 15,030	\$ 22,596	\$ 121,812	
Fiscal Year Ended 6/30/13	\$ 121,812	\$ 6,780	\$ 20,959	\$ 107,633	
State Employee Insurance Plans					
Fiscal Year Ended 6/30/12	\$ 47,624	\$ 645,863	\$ 636,351	\$ 57,136	
Fiscal Year Ended 6/30/13	\$ 57,136	\$ 666,061	\$ 661,388	\$ 61,809	

**Primary Government
Public Employee Insurance Program
Medical Claims
(In Thousands)**

	Year Ended June 30	
	2013	2012
Unpaid Claims and Claim Adjustment Expenses, Beginning	\$ 3,338	\$ 1,943
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	\$ 37,050	\$ 36,024
Increases (Decreases) in Provision for Insured Events of Prior Years	37	585
Total Incurred Claims and Claim Adjustment Expenses	\$ 37,087	\$ 36,609
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	\$ 33,836	\$ 32,716
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	2,983	2,498
Total Payments	\$ 36,819	\$ 35,214
Total Unpaid Claims and Claim Adjustment Expenses, Ending	\$ 3,606	\$ 3,338

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 0.45 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 12/31/11	\$ 18,746	\$ 5,572	\$ 6,470	\$ 17,848
Fiscal Year Ended 12/31/12	\$ 17,848	\$ 4,612	\$ 6,008	\$ 16,452
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/12	\$ 7,863	\$ 2,110	\$ 1,831	\$ 8,142
Fiscal Year Ended 6/30/13	\$ 8,142	\$ 801	\$ 1,762	\$ 7,181
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/12	\$ 11,965	\$ 2,969	\$ 3,360	\$ 11,574
Fiscal Year Ended 6/30/13	\$ 11,574	\$ 2,999	\$ 2,813	\$ 11,760
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/12	\$ 24,161	\$ 246,924	\$ 242,692	\$ 28,393
Fiscal Year Ended 6/30/13	\$ 28,393	\$ 252,482	\$ 256,838	\$ 24,037

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, 2013 (In Thousands)	
GAAP Basis Fund Balance:	\$ 1,284,765
Less: Encumbrances	127,443
Unassigned Fund Balance	<u>\$ 1,157,322</u>
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	\$ (608,203)
Tax Refunds Payable	488,786
Human Services Receivable	(125,447)
Escheat Asset	(8,418)
Other Receivables	(28,511)
Permanent School Fund Reimbursement	(2,793)
Investments at Market	8,720
Expenditure Accruals/Adjustments:	
Medical Care Programs	787,879
Human Services Grants Payable	53,157
Education Aids	1,007,780
Police and Fire Aid	85,871
Perspective Differences:	
Account with no Legally Adopted Budget	(1,044,650)
Long-Term Receivables	(8,588)
Appropriation Carryover	(105,248)
Budgetary Reserve	<u>(1,006,571)</u>
Budgetary Basis:	
Unassigned Fund Balance	<u>\$ 651,086</u>

Note 19 – Litigation

- 1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The Tort Claims appropriations for each of the fiscal years ending June 30, 2012, and June 30, 2013, 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. *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 various state employees in their individual and official capacities alleging violations of federal and state law resulting from Hunt's conduct. The suits have all been consolidated and a consolidated amended complaint has been filed. 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, 2013, 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, and another was granted on November 1, 2013.
- e. *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.
- f. *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 and the time for the Commissioner to appeal has passed. This decision may impact about \$17 million of the Commissioner's sales and use tax assessments against other similarly situated software companies.
- g. *Skaja v. Minnesota Department of Health, Bearder, et al. v. Minnesota, et al, and 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 the statutes governing the newborn screening program provide a limited exception to the requirements of the Genetic Privacy Act. The *Bearder* case was remanded to the 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. 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 court granted state defendants' motion for summary judgment on all plaintiffs' damages claims with the exception of the parent plaintiffs' as to claims for emotional distress. A jury trial is scheduled for January 2014.
- h. *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 Minnesota Statutes, Section 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.

Note 20 – Prior Period Adjustment, Change in Accounting Principle, Change in Reporting Entity and Change in Fund Structure

Primary Government

Prior Period Adjustments

During fiscal year 2013, the Minnesota Department of Transportation changed the method of depreciation on buildings to align with internal rate development. This change resulted in a reduction of accumulated depreciation on buildings. A prior period adjustment of \$29.9 million is reflected in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

During fiscal year 2013, the Minnesota Department of Transportation capitalized nondepreciable infrastructure in governmental activities and miscellaneous towers in the 911 Services Fund (enterprise fund) that were previously expensed. These changes resulted in a prior period adjustment of \$86.9 million and \$10.5 million in Governmental Activities and Business-type Activities, respectively, reflected in the government-wide financial statements as well as the Enterprise Funds in the fund level statements. See Note 6 – Capital Assets for additional information.

During fiscal year 2013, Minnesota Management and Budget (MMB) identified an error in reversing journal entries from prior years that resulted in a \$46.1 million understatement of cash and fund balance. MMB recognized a prior period adjustment to increase cash and fund balance in the General Fund and the Governmental Activities in the government-wide financial statements by that amount.

Change in Reporting Entity

Minnesota Statutes allow volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2013, twenty firefighter groups joined the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association board of directors. Investment balances of \$5.1 million were reported as a change in reporting entity in the Volunteer Firefighter Retirement Fund.

Change in Fund Structure

Minnesota Statutes allow volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2013, eight firefighter groups moved from the volunteer fire accounts, part of the Supplemental Retirement Fund (investment trust fund), into the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association board of directors. The transfer was reported as a change in fund structure of \$2.2 million in the Supplemental Retirement Fund and the Volunteer Firefighter Retirement Fund.

Discretely Presented Component Unit (University of Minnesota)

Change in Accounting Principle

During fiscal year 2013, the University of Minnesota implemented GASB Statement No. 61 "The Financial Reporting Entity: Omnibus" which resulted in component units of the U of M no longer required to be discretely reported. This change resulted in a change in accounting principle of \$503.9 million.

Discretely Presented Component Units (Metropolitan Council and Minnesota Sports Facilities Authority)

Change in Fund Structure

The Minnesota Legislature established the Minnesota Sports Facilities Authority (Authority) to provide for the construction, financing and long term use of a new stadium and related stadium infrastructure for professional football and a broad range of other civic, community, athletic, educational, cultural and commercial activities. During fiscal year 2013, the operations from the Metropolitan Sports Facilities Commission, a component unit of Metropolitan Council (discretely presented component unit), were transferred to the Authority. This is reported as a change in fund structure of \$41.1 million.

Note 21 – Subsequent Events

Primary Government

On August 15, 2013, the state sold \$273.4 million of general obligation state various purpose bonds Series 2013A at a true interest rate of 3.35 percent, \$200.0 million of general obligation state trunk highway bonds Series 2013B at a true interest rate of 3.34 percent, and \$5.0 million general obligation state taxable state bonds Series 2013C at a true interest rate of 1.91 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On November 6, 2013, the state sold \$283.8 million of general obligation state various purpose bonds Series 2013D at a true interest rate of 3.10 percent, \$112.0 million of general obligation state trunk highway bonds Series 2013E at a true interest rate of 3.12 percent, and \$373.9 million general obligation state various purpose refunding bonds Series 2013F at a true interest rate of 2.25 percent. The refunding bonds are issued for the purpose of refunding \$394.0 million in principal of outstanding general obligation various purpose bonds of the state. These bonds are backed by the full faith and credit and taxing power of the state.

On October 16, 2013, the Iron Range Resources and Rehabilitation Board issued \$37.9 million of education facilities revenue bonds at a true interest rate of 3.76 percent. The bonds will be used to make grants to certain school districts located in the taconite relief area, as defined in Minnesota Statutes, Section 273.134. As stated in Minnesota Statutes, Section 298.28, the bonds will be paid from taconite production tax revenues in the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund).



**2013 Comprehensive Annual Financial Report
Required Supplementary Information**

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.

	<u>Principal Arterial Average PQI</u>	<u>Non-Principal Arterial Average PQI</u>
2012	3.36	3.24
2011	3.32	3.18
2010	3.33	3.17

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).

<u>Rating</u>	<u>Description</u>
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:

<u>Rating</u>	<u>Description</u>
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

<u>Principal Arterial</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fair to Good	94.5%	94.5%	94.4%

<u>All Other Systems</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fair to Good	93.0%	91.4%	91.3%

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):

		<u>Costs to be Capitalized</u>			<u>Maintenance of System</u>			<u>Total Construction Program</u>
		<u>Bridges</u>	<u>Pavement</u>	<u>Total Costs</u>	<u>Bridges</u>	<u>Pavement</u>	<u>Total Costs</u>	
Budget	2013	\$ 179,581	\$ 289,898	\$ 469,479	\$ 36,480	\$ 691,872	\$ 728,352	\$ 1,197,831
	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
Actual	2013	\$ 137,387	\$ 190,739	\$ 328,126	\$ 58,127	\$ 615,638	\$ 673,765	\$ 1,001,891
	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

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	2012 ⁽¹⁾	7/1/2012	7/1/2012	7/1/2012	7/1/2012
	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
Actuarial Value of Plan Assets	2012	\$ 663,713	\$ 144,898	\$ 15,523	\$ 554,244
	2011	\$ 637,027	\$ 145,996	\$ 19,140	\$ 563,046
	2010	\$ 603,863	\$ 144,728	\$ 26,821	\$ 567,211
Actuarial Accrued Liability	2012	\$ 968,166	\$ 281,576	\$ 247,657	\$ 760,955
	2011	\$ 907,012	\$ 248,630	\$ 216,559	\$ 700,898
	2010	\$ 851,086	\$ 240,579	\$ 86,236	\$ 683,360
Total Unfunded Actuarial Liability	2012	\$ 304,453	\$ 136,678	\$ 232,134	\$ 206,711
	2011	\$ 269,985	\$ 102,634	\$ 197,419	\$ 137,852
	2010	\$ 247,223	\$ 95,851	\$ 59,415	\$ 116,149
Funded Ratio ⁽²⁾	2012	69%	51%	6%	73%
	2011	70%	59%	9%	80%
	2010	71%	60%	31%	83%
Annual Covered Payroll	2012	\$ 200,035	\$ 38,644	\$ 1,378	\$ 62,524
	2011	\$ 197,702	\$ 40,473	\$ 1,774	\$ 63,250
	2010	\$ 192,450	\$ 39,291	\$ 1,877	\$ 63,250
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2012	152%	354%	16,846%	331%
	2011	137%	254%	11,128%	218%
	2010	128%	244%	3,165%	184%

⁽¹⁾The July 1, 2012, Annual Valuation Report is the most recently issued report available.

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 health care plan.

Required Supplementary Information Schedule of Funding Progress (In Thousands)		
Actuarial Valuation Date		7/1/2012 ⁽¹⁾
		7/1/2010
		7/1/2008
Actuarial Value of Plan Assets	7/1/2012	\$ -
	7/1/2010	\$ -
	7/1/2008	\$ -
Actuarial Accrued Liability	7/1/2012	\$ 651,890
	7/1/2010	\$ 799,321
	7/1/2008	\$ 754,801
Total Unfunded Actuarial Liability	7/1/2012	\$ 651,890
	7/1/2010	\$ 799,321
	7/1/2008	\$ 754,801
Funded Ratio ⁽²⁾	7/1/2012	0%
	7/1/2010	0%
	7/1/2008	0%
Annual Covered Payroll	7/1/2012	\$2,819,463
	7/1/2010	\$3,027,241
	7/1/2008	\$2,785,335
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2012	23%
	7/1/2010	26%
	7/1/2008	27%

⁽¹⁾The July 1, 2012, 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.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required Contribution and Investment Revenue:										
Earned	\$ 22,764	\$ 19,177	\$ 14,942	\$ 13,219	\$ 13,439	\$ 12,286	\$ 25,031	\$ 34,161	\$ 45,413	\$ 49,244
Ceded	2,231	1,736	1,491	1,347	1,298	1,218	2,684	2,660	3,502	4,582
Net Earned	\$ 20,533	\$ 17,441	\$ 13,451	\$ 11,872	\$ 12,141	\$ 11,068	\$ 22,347	\$ 31,501	\$ 41,911	\$ 44,662
2. Unallocated Expenses	\$ 2,296	\$ 1,904	\$ 1,638	\$ 1,547	\$ 1,505	\$ 1,534	\$ 2,037	\$ 2,411	\$ 3,018	\$ 3,612
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	\$ 19,466	\$ 16,499	\$ 12,551	\$ 11,206	\$ 10,748	\$ 9,473	\$ 19,350	\$ 24,134	\$ 38,173	\$ 41,959
Ceded	1,980	1,913	1,382	1,782	380	667	562	1,491	2,149	4,909
Net Incurred	\$ 17,486	\$ 14,586	\$ 11,169	\$ 9,424	\$ 10,368	\$ 8,806	\$ 18,788	\$ 22,643	\$ 36,024	\$ 37,050
4. Net Paid (Cumulative) as of:										
End of Policy Year	\$ 15,699	\$ 12,909	\$ 10,055	\$ 8,226	\$ 9,403	\$ 7,921	\$ 16,848	\$ 20,720	\$ 32,716	\$ 33,836
One Year Later	17,367	14,141	11,282	9,352	10,415	8,482	18,828	23,219	35,718	
Two Years Later	17,764	14,139	11,301	9,358	10,413	8,454	18,826	23,200		
Three Years Later	17,764	14,139	11,301	9,358	10,413	8,454	18,826			
Four Years Later	17,764	14,139	11,301	9,358	10,413	8,454				
Five Years Later	17,696	14,139	11,301	9,358	10,413					
Six Years Later	17,696	14,139	11,301	9,358						
Seven Years Later	17,696	14,139	11,301							
Eight Years Later	17,696	14,139								
Nine Years Later	17,696									
5. Re-estimated Ceded Claims and Expenses	\$ 1,980	\$ 1,913	\$ 1,382	\$ 1,782	\$ 380	\$ 667	\$ 562	\$ 1,491	\$ 2,149	\$ 4,909
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	\$ 17,486	\$ 14,586	\$ 11,169	\$ 9,424	\$ 10,368	\$ 8,806	\$ 18,788	\$ 22,643	\$ 36,024	\$ 37,050
One Year Later	17,385	14,152	11,294	9,362	10,425	8,502	18,848	23,249	36,006	
Two Years Later	17,764	14,139	11,301	9,358	10,413	8,454	18,826	23,304		
Three Years Later	17,764	14,139	11,301	9,358	10,413	8,454	18,826			
Four Years Later	17,764	14,139	11,301	9,358	10,413	8,454				
Five Years Later	17,696	14,139	11,301	9,358	10,413					
Six Years Later	17,696	14,139	11,301	9,358						
Seven Years Later	17,696	14,139	11,301							
Eight Years Later	17,696	14,139								
Nine Years Later	17,696									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses										
From End of Policy Year	\$ 210	\$ (447)	\$ 132	\$ (66)	\$ 45	\$ (352)	\$ 38	\$ 661	\$ (18)	\$ -

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 result 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 F

DESCRIPTION OF CERTAIN DOCUMENTS

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Following are descriptions of certain matters relating to the Project and summaries of certain agreements of the Authority in respect of the Project. The summaries and descriptions below are not intended to be a complete description of such documents or matters, and such summaries and descriptions are qualified in their entirety by reference to the applicable documents, the Act, the Stadium Act, and matters and documents referred to therein. The Authority has reviewed the information set out in this APPENDIX F, but the State, MMB, the Commissioner, the Bond Counsel and the Underwriters have not independently verified such information. Copies of the executed Development Agreement and Stadium Use Agreement, as well as biographical information relating to members of the Authority, may be found on the Authority's website, www.msfa.com. Neither the State, the Department nor the Commissioner are party to the documents described in this APPENDIX F.

Neither the Authority, the Team, StadCo nor the City is an obligor with respect to the Bonds. None of the payments made by the Team or StadCo under the Development Agreement or the Stadium Use Agreement, no payments made by the Team, if any, under the Football Playing Agreement, nor any of the City Special Taxes, are pledged to the Bonds or to payment of interest on, premium, if any, or principal of, the Bonds. Under the Act, the Stadium Act and related laws, the Continuing Appropriations are not conditioned on or limited by receipt by the State (or by failure of the State to receive) any payments in respect of the Development Agreement, the Stadium Use Agreement, or the Football Playing Agreement, or any City Special Taxes. The Bonds are payable solely from the Continuing Appropriations, subject to legislative repeal, unallotment or cancellation as described in "NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS" in this Official Statement.

The Minnesota Vikings

Minnesota Vikings Football, LLC, a Delaware limited liability company (the "Team"), owns a professional football franchise known as the Minnesota Vikings, which is a member of the National Football League (the "NFL"). As provided in Minn. Stat., Sec. 473J.15, subd. 2a, the Team shall provide, and the Authority to the extent of net proceeds from the sale of stadium builder licenses ("SBLs") shall provide, for payment of not less than \$477 million of the capital costs of the Project (the "Team/Private Contribution"). The Team and its special-purpose stadium affiliate, Minnesota Vikings Football Stadium, LLC, a Delaware limited liability company ("StadCo," and together with the Team sometimes referred to for convenience as the "Minnesota Vikings") have agreed to fund the Team's portion of the Team/Private Contribution. The Team and StadCo have also agreed to fund a portion of the operating costs, and contribute to capital reserves for the Project. See "Funding of Capital Reserves and Operations" and "Certain Agreements Relating to the Project" below.

In connection with the Authority's required findings and determinations under the Stadium Act, the Authority directed its counsel to undertake additional due diligence relating to certain litigation in the New Jersey state courts in which several members of the Team's ownership group are defendants. The report of investigation of Authority counsel, dated September 13, 2013, may be found on the Authority's website, www.msfa.com.

Funding of Capital Reserves and Operations

Under the Stadium Act, the Authority is responsible for payment of all operating costs of the stadium, including operating cost overruns. The Authority is also required to establish a capital reserve fund and is responsible for making capital repairs and improvements, so as to maintain the Project in a first-class manner comparable to that of other comparable NFL facilities of similar design and age.

The Stadium Act and the Stadium Use Agreement provide for contributions to a capital reserve fund in respective annual amounts by the State for the benefit of the Authority, and by the Minnesota Vikings. To fund the capital reserve fund, the State must pay on the behalf of the City of Minneapolis to the Authority, \$1,500,000 per year increased by the annual adjustment factor as defined in the Stadium Act, through 2046. The State's contribution from 2016 through 2020 is to be repaid to the State using the funds generated by certain special sales, liquor, lodging and restaurant taxes imposed by the City under Minnesota Laws 1986, Chapter 396, as amended, which are collected by the State Department of Revenue (commonly known as the Minneapolis Convention Center Taxes, herein the "City Special Taxes"). The City Special Taxes are also intended to provide funds for the State's post-2020 required contributions to the capital reserve fund. The Minnesota Vikings must contribute to the capital reserve fund, beginning in 2016 (or the first year in which a Team home NFL game is played at the Project, pro-rated for such number of Team home NFL games played at the Project during such first year) and each subsequent year during the term of the Stadium Use Agreement, \$1,500,000 per year increased by 3 percent each year.

For Authority operating expenses, the State must pay on the behalf of the City of Minneapolis to the Authority from 2016 through 2020, \$6,000,000 per year increased by the annual adjustment factor as defined in the Stadium Act. The State is to be repaid such amounts from the City Special Taxes. After 2020, through 2046, the State assumes this payment using funds generated by the City Special Taxes. The Minnesota Vikings must pay the Authority for Project operating expenses,

beginning in 2016 and each year during the term of the Stadium Use Agreement, \$8,500,000 per year increased by 3 percent each year.

Certain Agreements Relating to the Project

The Authority is a party to certain agreements in connection with the Project. These agreements include but are not limited to an Amended and Restated Development Agreement (the “Development Agreement”) and an Amended and Restated Stadium Use Agreement (the “Stadium Use Agreement”), each dated November 22, 2013, effective as of October 3, 2013, between the Authority and StadCo, and joined in by the Team for certain limited purposes, and a Football Playing Agreement (the “Football Playing Agreement”), dated October 3, 2013, between the Authority and the Team (the Development Agreement, the Stadium Use Agreement and the Football Playing Agreement, collectively, the “Authority Project Agreements”). As noted, neither the State, MMB nor the Commissioner is a party to the Authority Project Agreements.

Development Agreement. The Development Agreement sets out in detail the understandings of the Authority and the Minnesota Vikings concerning site acquisition, design, construction and funding of capital costs of the Project. As noted above, in addition to \$498 million in proceeds of the Bonds which will constitute the Appropriation Grant, under the Development Agreement a matching contribution toward Project costs must be provided by the Team from its own or other funding sources, and from the net proceeds from the sale of SBLs, in the aggregate amount of at least \$477 million.

According to the Development Agreement, the Team/Private Contribution of \$477 million includes proceeds of \$200 million from the NFL G-4 loan program, a term loan from U.S. Bank and a syndicate of other lenders of \$177 million (the “Bank Loan”), and a Team owner equity contribution of \$100 million. A portion of the Bank Loan will be used to finance the purchase of SBLs from the Authority, the net proceeds of which will be used to fund a portion of the Team/Private Contribution. A portion of the Team’s matching fund contribution to the Project budget has been allocated to Team expenditures associated with arrangements for playing the Team’s home games for the 2014 and 2015 NFL seasons at the University of Minnesota’s TCF Bank stadium.

The Team is required to post certain financial security for its pending matching contributions and is also responsible for certain Team funding shortfalls should any occur.

As a condition under the Stadium Act for commencement of construction of the Project, the Authority is required to find and determine that written agreements for the Team’s matching funds are in place. The Authority is also required to enter into one or more guaranteed maximum price contracts for construction of the Project. The Authority has provided MMB with copies of executed documents evidencing such matching fund arrangements, as well as a guaranteed maximum price contract, and has certified to MMB as to compliance with these requirements on the part of the Authority. The State, MMB, the Bond Counsel, the Financial Advisor and the Underwriters have not made any independent investigation as to the matters evidenced by such documents or covered by the Authority’s certification to MMB. The State has no reason to believe the Authority’s determinations or certification are not true or are in error.

Under the Development Agreement, the Authority acts as stadium developer (subject to the role of the Stadium Design and Construction Group, consisting of two representatives of the Authority and two representatives of the Team, as provided for in the Development Agreement). As required by the Stadium Act, the Authority has entered into a guaranteed maximum price contract with Mortenson Construction Company as construction manager. The guaranteed maximum price under the construction contract is approximately \$763,000,000. The Authority anticipates entering into another guaranteed maximum price contract with Ryan Companies US, Inc. in the approximate amount of \$41.25 million for construction of certain public infrastructure portions of the Project. As stadium developer, the Authority will have responsibility for certain Project cost overruns, should any occur, as more fully set forth in the Development Agreement.

The Development Agreement provides that the Team is required to deposit the first \$50,000,000 toward Project costs, which shall be applied to the first Project cost payments. The next \$50,000,000 of Project costs is to be paid by the Authority from a portion of the Appropriation Grant. Once the initial \$100,000,000 has been expended from these sources, the balance of the Authority’s contribution, to come from the Appropriation Grant, and the Team/ Private Contribution, is to be paid for Project costs in the proportion 51.2%/48.8%, respectively, with the result that total Project costs are ultimately to be borne in the ratio of 51.08%/48.92%, respectively. The Development Agreement provides for creation of a construction funds trust, among the Authority, StadCo, and U.S. Bank as trustee, to administer contributions and ratable drawings of Authority and Team funds for payment of construction costs. The Development Agreement also provides that the Team may make certain privately financed enhancements to the Project outside the Project budget, as agreed to by the Authority and the Team.

Under the Development Agreement, initial funding of the Team’s bank loan, receipt of the Grant Agreement by the Authority from the State, and certification of the guaranteed maximum price under the construction management contract having now occurred, the Development Agreement may not be terminated except for a breach or event of default based upon a material act of fraud as determined by a court.

Stadium Use Agreement. Under the Stadium Use Agreement, the Authority grants the use of the Project to the Team and StadCo, subject to the terms and provisions of the Stadium Use Agreement. The Stadium Use Agreement sets out the understandings of the parties with respect to ownership of tangible and intangible property rights, scheduling, apportionment of revenues, costs and obligations associated with the playing of NFL games and other anticipated uses of the Project, and other matters. The term of the Stadium Use Agreement begins on substantial completion of construction of the Project (“commencement date”) and ends on the earlier of the Team’s final game of the 30th NFL season played by the Team in the stadium, and 30 years after the commencement date. The Team agrees to play all of its home games at the Project beginning on the commencement date through the term of the Stadium Use Agreement. The Team agrees to maintain all Team training facilities within the State during the term. The Team also agrees to make available for each preseason and regular season game during the term at the Stadium not fewer than 3,250 non-season affordable tickets (as defined in the Stadium Use Agreement).

The Stadium Use Agreement provides for the Team’s contributions to Project operating costs and the capital reserve fund, as described under “Funding of Capital Reserves and Operations” above. As mandated by the Stadium Act, the Stadium Use Agreement also requires the Team until 2032 to pay to the State and the City (in proportion to expenditures made by the State and from City taxes), a specified percentage (decreasing over time) of the amount received from a sale of the Team in excess of the purchase price of the Team paid by the selling owner.

The Stadium Use Agreement generally requires the consent of the Authority for any sale, assignment or transfer of the agreement by the Team, but permits, without such consent, among other things, a transfer to a successor owner of the Minnesota Vikings NFL franchise which has been approved by the NFL, and a leasehold mortgage of the Team’s interest in the Stadium Use Agreement and the Project, subject to certain specified limitations and conditions.

The Stadium Use Agreement expressly provides for specific performance and injunctive relief for the benefit of either party necessary to redress or address any breach or threatened or imminent breach. The agreement states that the parties agree that the rights of the Authority to injunctive relief in the event of a breach of the Team’s covenant to play its home NFL games at the Project during the term shall not constitute a “claim” pursuant to Section 101(5) of the United States Bankruptcy Code and shall not be subject to discharge or restraint of any nature in any bankruptcy proceeding involving the Team.

Football Playing Agreement. The term of the Football Playing Agreement between the Authority and the Team is coterminous with the term of the Stadium Use Agreement. It may not otherwise be terminated except by mutual agreement. The Team acknowledges that its obligations under the Football Playing Agreement are independent of its rights and obligations under the Development Agreement, the Stadium Use Agreement and other agreements. In the Football Playing Agreement, the Team independently affirms its agreement to play all of its NFL home games at the Project for the 30-year term of the Stadium Use Agreement; agrees to be a party to a sub-use agreement with StadCo for use of the stadium, affirms that it otherwise has the ability to fully and completely comply with and perform the Football Playing Agreement and its obligations under the Football Playing Agreement; covenants not to vacate or abandon the stadium or permit StadCo to do so during the term; agrees to provide affordable tickets as described in the Football Playing Agreement, keep all of its training facilities within the State during the term, and make payments to the State and City as described in the Stadium Use Agreement in decreasing percentages upon a sale of the Team prior to 2032. The Football Playing Agreement requires the consent of the Authority for an assignment of the Team’s rights in the Football Playing Agreement but allows the Team to assign the Football Playing Agreement without the consent of the Authority to a successor owner of the Minnesota Vikings NFL franchise approved by the NFL, so long as the successor has assumed all obligations of the Team under the agreement.

The Football Playing Agreement also contains rights on the part of the Authority to specific performance and injunctive relief substantially similar to those described in the last paragraph under “*Stadium Use Agreement*” above.

Neither the Authority, the Team, StadCo nor the City is an obligor with respect to the Bonds. None of the payments made by the Team or StadCo under the Development Agreement or the Stadium Use Agreement, no payments made by the Team, if any, under the Football Playing Agreement, nor any of the City Special Taxes, are pledged to the Bonds or to payment of interest on, premium, if any, or principal of, the Bonds. Under the Act, the Stadium Act and related laws, the Continuing Appropriations are not conditioned on or limited by receipt by the State (or by failure of the State to receive) any payments in respect of the Development Agreement, the Stadium Use Agreement, or the Football Playing Agreement, or any City Special Taxes. The Bonds are payable solely from the Continuing Appropriations, subject

to legislative repeal, unallotment or cancellation. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS” in this Official Statement.

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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.

3.01 **Official Statement.** The Official Statement dated January ___, 2014, relating to the Bonds (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 respective purchasers of the Bonds designated in Section 5 hereof (collectively, the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds of a series are reoffered.

3.02 **Continuing Disclosure.**

(a) General Undertaking. On behalf of the State, the Commissioner covenants and agrees with the Registered Owners (as hereinafter defined) 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 of a series, 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 of a series, 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:

(i) On or before December 31 of each year, commencing in 2014 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the fiscal year ending on the previous June 30, prepared by the State's Department of Management and Budget 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 Securities and Exchange Commission (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 "Material" (as defined in subparagraph (ii) of this paragraph (b)), 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 subparagraph (i) or paragraph (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.

(ii) 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 or 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.

(iii) 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 (i) of this paragraph (b) at the time specified thereunder;

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

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

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

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

(c) Manner of Disclosure.

(i) 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).

(ii) 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 (i) 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.

(iii) 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.

(iv) The State shall determine in the manner it deems 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.

(i) The covenants of the State in this Section 3.02 shall remain in effect with respect to a series of Bonds so long as any Bonds of such series 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.

(ii) 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 (ii) 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 (1) 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 (2) 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 (A)(1) 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.

(iii) 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.

(iv) 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 of a series, may take whatever action at law or in equity as 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 subparagraph (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, a waiver of the State's sovereign immunity, or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State.

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APPENDIX H

FORMS OF LEGAL OPINIONS

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January 31, 2014

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, MN 55155

\$391,785,000
State of Minnesota
State General Fund Appropriation Bonds
Tax-Exempt Series 2014A

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 connection with the issuance of \$391,785,000 State General Fund Appropriation Bonds, Tax-Exempt Series 2014A, dated January 31, 2014 (the “Series 2014A Bonds”). The Series 2014A Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State, including, in particular, Minnesota Statutes Section 16A.965 (the “Act”), and the Order dated January 31, 2014 of the Commissioner of Management and Budget (the “Order”) authorizing issuance of the Series 2014A Bonds for the purpose of financing a portion of the costs of acquiring, constructing, improving and equipping the stadium project of the Minnesota Sports Facilities Authority (the “Authority”) as provided by the Act and Minnesota Statutes, Chapter 473J. We have also examined the constitution and statutes of the State, the form of bond prepared for this issue, the decision of the Minnesota Supreme Court in *Schowalter v The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota*, Court file no. A12-0622, October 31, 2012, pertaining to general fund appropriation bonds of the State, and such certified proceedings and other papers as we deem necessary to render this opinion as bond counsel. 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 2014A Bonds have been authorized and issued in accordance with the constitution and laws of the State, including, in particular, the Act and constitute valid and binding special obligations of the State, payable in each fiscal year only from amounts appropriated by the Legislature of the State pursuant to the Act for such fiscal year. The Series 2014A Bonds are not public debt of the State subject to constitutional limitations on indebtedness, and the full faith, credit and taxing powers of the State are not pledged to the payment of the Series 2014A Bonds or to any payment that the State agrees to make under the Act and the Order. The State has not pledged any other revenue or asset for the payment of the principal of or interest on the Series 2014A Bonds.

2. Interest on the Series 2014A 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; (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 and the Authority'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 2014A 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 or the Authority, following the issuance of the Series 2014A Bonds, with covenants respectively made by the Commissioner of Management and Budget in the Order and by the Authority in the General Fund Appropriation Bond Proceeds Grant Agreement — Construction Grant for the Minnesota Sports Facilities Authority Project, effective November 22, 2013, between the Authority and Minnesota Management and Budget, relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2014A 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 2014A Bonds. No provision has been made for an increase in the interest payable on the Series 2014A 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 2014A Bonds.

Very truly yours,

[To be signed and delivered
at Closing by Kutak Rock LLP]

January 31, 2014

The Honorable James D. Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, MN 55155

\$70,280,000
State of Minnesota
State General Fund Appropriation Bonds
Taxable Series 2014B

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 connection with the issuance of \$70,280,000 State General Fund Appropriation Bonds, Taxable Series 2014B, dated January 31, 2014 (the "Series 2014B Bonds"). The Series 2014B Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State, including, in particular, Minnesota Statutes Section 16A.965 (the "Act"), and the Order dated January 31, 2014 of the Commissioner of Management and Budget (the "Order") authorizing issuance of the Series 2014B Bonds for the purpose of financing a portion of the costs of acquiring, constructing, improving and equipping the stadium project of the Minnesota Sports Facilities Authority, as provided by the Act and Minnesota Statutes, Chapter 473J. We have also examined the constitution and statutes of the State, the form of bond prepared for this issue, the decision of the Minnesota Supreme Court in *Schowalter v. The State of Minnesota and the Taxpayers and Citizens of the State of Minnesota*, Court file no. A12-0622, October 31, 2012, pertaining to general fund appropriation bonds of the State, and such certified proceedings and other papers as we deem necessary to render this opinion as bond counsel. 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 2014B Bonds have been authorized and issued in accordance with the constitution and laws of the State, including, in particular, the Act, and constitute valid and binding special obligations of the State, payable in each fiscal year only from amounts appropriated by the Legislature of the State pursuant to the Act for such fiscal year. The Series 2014B Bonds are not public debt of the State subject to constitutional limitations on indebtedness, and the full faith, credit and taxing powers of the State are not pledged to the payment of the Series 2014B Bonds or to any payment that the

State agrees to make under the Act and the Order. The State has not pledged any other revenue or asset for the payment of the principal of or interest on the Series 2014B Bonds.

2. Interest on the Series 2014B Bonds is includable in gross income for federal income tax purposes, in taxable net income of individuals, estates or trusts for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. We express no other opinion regarding federal, state and other tax consequences to holders of the Series 2014B Bonds.

In order to ensure compliance with Treasury Circular 230, taxpayers holding the Series 2014B Bonds are hereby notified that: (a) any discussion of United States federal tax issues in this opinion is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Internal Revenue Code of 1986, as amended; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

Very truly yours,

[To be signed and delivered
at Closing by Kutak Rock LLP]

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