NOTICE

$21,750,000
Minnesota Housing Finance Agency
Nonprofit Housing Bonds (State Appropriation),
Series 2011

Official Statement, dated February 1, 2011

The Official Statement, dated February 1, 2011, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 7.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 7.0 may cause the Official Statement that you view or print to differ from the Official Statement.

The posting of the Official Statement is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

The Agency may remove this copy of the Official Statement from this website at any time.

NEW ISSUE

RATINGS: Moody's: Aa2
S&P: AA+
(See "Ratings" herein.)

This Official Statement has been prepared by the Minnesota Housing Finance Agency (the "Agency") to provide information about the Series 2011 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 2011 Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, terms used with initial capital letters on this cover page have the meanings given in this Official Statement.

$21,750,000
Minnesota Housing Finance Agency
Nonprofit Housing Bonds (State Appropriation), Series 2011

Dated Date: Date of Delivery **Due: As shown on inside front cover**

Tax Exemption	Interest on the above-captioned Bonds (the "Series 2011 Bonds") is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, is not an item of tax preference for federal or Minnesota alternative minimum tax purposes, but is included in adjusted current earnings of corporations for federal alternative minimum tax purposes. Such interest is included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions. (See "Tax Exemption and Related Considerations" herein for additional information.)
Redemption	The Series 2011 Bonds are subject to optional and mandatory sinking fund redemption as described under "The Series 2011 Bonds" herein.
Security	THE SERIES 2011 BONDS AND THE OUTSTANDING SERIES 2009 BONDS (AS HEREIN DEFINED) ARE SPECIAL, LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY, AND EQUALLY AND RATABLY, FROM SPECIFIED TRANSFERS EXPECTED TO BE MADE BY THE STATE OF MINNESOTA (THE "STATE") PURSUANT TO LEGISLATION PROVIDING FOR THE APPROPRIATION OF SUCH TRANSFERS FROM THE GENERAL FUND OF THE STATE TO THE AGENCY (THE "STATE APPROPRIATIONS"), AND MONEYS AND SECURITIES HELD FROM TIME TO TIME IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (AS HEREIN DEFINED) AND PLEDGED TO SUCH PAYMENT. NO OTHER REVENUES OR ASSETS OF THE AGENCY, NOR THE FULL FAITH AND CREDIT OF THE AGENCY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2011 BONDS. THE AGENCY HAS NO TAXING POWER. THE SERIES 2011 BONDS ARE NOT AN INDEBTEDNESS OR OTHER OBLIGATION OF THE STATE, ARE NOT PUBLIC DEBT OF THE STATE, AND THE FULL FAITH AND CREDIT AND TAXING POWER OF THE STATE ARE NOT PLEDGED TO THEIR PAYMENT OR TO ANY SUCH TRANSFERS TO THE AGENCY. PURSUANT TO MINNESOTA LAW, THE STATE APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE MINNESOTA LEGISLATURE AND ARE ALSO SUBJECT TO REDUCTION THROUGH UNALLOTMENT. See "Nature of Obligation and Source of Payment" herein.
Interest Payment Dates	February 1 and August 1, commencing August 1, 2011, and, for any Series 2011 Bonds to be redeemed, the redemption date.
Denominations	$5,000 or any multiple thereof.
Closing/Settlement	February 15, 2011 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Underwriters' Counsel	McGrann Shea Carnival Straughn & Lamb Chartered, Minneapolis, Minnesota.
Trustee	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix B hereto.

The Series 2011 Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity of, and tax exemption of interest on, the Series 2011 Bonds.

RBC Capital Markets **Morgan Stanley** **Piper Jaffray & Co.**

The date of this Official Statement is February 1, 2011.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

$14,620,000 Serial Bonds

Due (August 1)	Principal Amount	Interest Rate	Price	CUSIP*
2011	$ 685,000	2.000%	100.662%	60415N5W8
2012	665,000	2.000	101.666	60415N5X6
2013	675,000	2.000	101.616	60415N5Y4
2014	700,000	3.000	104.111	60415N5Z1
2015	715,000	2.500	101.267	60415N6A5
2016	740,000	4.000	107.558	60415N6B3
2017	765,000	4.000	106.619	60415N6C1
2018	800,000	4.000	105.203	60415N6D9
2019	830,000	3.375	99.162	60415N6E7
2020	860,000	3.625	99.089	60415N6F4
2021	895,000	3.875	99.361	60415N6G2
2022	930,000	4.125	99.591	60415N6H0
2023	965,000	4.250	98.760	60415N6J6
2024	1,015,000	5.250	105.773	60415N6K3
2025	1,070,000	5.250	104.586	60415N6L1
2026	1,125,000	5.250	103.498	60415N6M9
2027	1,185,000	5.250	102.671	60415N6P2

$7,130,000 5.00% Term Bonds Due August 1, 2031, Price: 99.112%, (CUSIP 60415N6N7*)

*CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the owners of the Series 2011 Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2011 Bonds or as indicated above. A CUSIP number for a specific maturity may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency (the "Agency"), the State of Minnesota (the "State") or the Underwriters to give any information or representations, other than those contained in the Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Agency, the State and from other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the 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 Agency or the State since the date hereof.

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

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities 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 the information.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 2011 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

OFFICIAL STATEMENT
relating to
$21,750,000
MINNESOTA HOUSING FINANCE AGENCY
NONPROFIT HOUSING BONDS
(STATE APPROPRIATION), SERIES 2011

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), the State of Minnesota (the "State"), and the Nonprofit Housing Bonds (State Appropriation), Series 2011 (the "Series 2011 Bonds"), in connection with the offering and sale of the Series 2011 Bonds by the Agency and for the information of all who may become initial Owners of the Series 2011 Bonds.

The Series 2011 Bonds are being issued pursuant to the Act, an Indenture of Trust, dated as of September 1, 2009, as amended and supplemented by a First Supplemental Indenture of Trust, dated as of February 1, 2011 (as so amended and supplemented and as hereafter amended and supplemented from time to time in accordance with its terms, the "Indenture"), each between the Agency and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Agency issued its Nonprofit Housing Bonds (State Appropriation), Series 2009 (the "Series 2009 Bonds"), under the Indenture in the original principal amount of $13,270,000, of which, as of December 31, 2010, $11,380,000 in aggregate principal amount was Outstanding. The Series 2009 Bonds, the Series 2011 Bonds and any additional bonds issued pursuant to the Indenture (the "Additional Bonds") are equally and ratably secured thereunder and are herein called the "Bonds."

The Indenture should be referred to for the definitions of terms used with initial capital letters herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act and the Indenture and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act and the Indenture are qualified in their entirety by reference to the Act and Indenture, copies of which are available from the Agency, and all references to the Series 2011 Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Indenture.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota, established in 1971 pursuant to the Act. Section 462A.36 of the Act authorizes the Agency to issue its bonds in an aggregate principal amount not to exceed $36 million to fund loans ("Loans") to pay for all or a portion of the costs of acquisition, construction, preservation, and rehabilitation of permanent supportive housing for individuals and families who either have been without a permanent residence for at least 12 months or at least four times in the last three years, or are at significant risk of lacking a permanent residence for 12 months or at least four times in the last three years, and for other authorized purposes under the Act.

The Series 2011 Bonds are being issued to provide money for the Agency to fund Loans to finance permanent supportive housing and to pay costs of issuance of the Series 2011 Bonds. (See "Estimated Sources and Uses of Funds.") For a description of the developments expected to be financed with proceeds of the Series 2011 Bonds, see "The Developments" herein. The Series 2011 Bonds are secured, on a parity with the Series 2009 Bonds and Additional Bonds, if any, hereafter issued under the Indenture, by a pledge made by the Agency under the Indenture of all amounts appropriated to the Agency by the State pursuant to Section 462A.36 of the Act (the "State Appropriations"), which provides that amounts necessary to pay principal of and premium, if any, and interest on nonprofit housing bonds issued pursuant to Section 462A.36, and the fees, charges and expenses related thereto, are appropriated annually, but not to exceed $2,400,000 annually, from the State general fund (the "General Fund") to the Commissioner of Management and Budget for transfer to the Agency through July 15, 2031.

The Series 2011 Bonds are special, limited obligations of the Agency. The Series 2011 Bonds are not general obligations of the Agency and general funds of the Agency are not pledged to the payment of the

Series 2011 Bonds or the interest thereon. Principal of, premium, if any, and interest on the Series 2011 Bonds are payable solely from the Trust Estate established pursuant to the Indenture, consisting principally of the State Appropriations. The Series 2011 Bonds shall in no event be payable from the general revenues or assets of the Agency. The Act provides that the Bonds are not public debt of the State, and that the full faith and credit and taxing powers of the State are not pledged to their payment or to any payments that the State agrees to make thereunder. Pursuant to Minnesota law, the State Appropriations may be reduced or repealed in their entirety by the Minnesota Legislature (the "Legislature"). The State Appropriations are also subject to unallotment under Minnesota Statutes, Section 16A.152. See "Nature of Obligation and Source of Payment" and "Appendix A – Summary of Certain Provisions of the Indenture."

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long term mortgage financing for such housing.

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

Michael Finch, Chairman — Term expires January 2014, Minneapolis, Minnesota – Health Care Consultant

The Honorable *Rebecca Otto* — *Ex officio*, St. Paul, Minnesota – State Auditor

Joseph Johnson III, Member — Term expires January 2013, Duluth, Minnesota – Banker

Lee Himle, Member — Term expires January 2011, Spring Valley, Minnesota – Insurance Agency Owner*

Marina Muñoz Lyon, Vice Chairman — Term expires January 2011, St. Paul, Minnesota – Foundation Officer*

Gloria J. Bostrom, Member — Term expires January 2012, Roseville, Minnesota – Retired

Barbara Sanderson, Member — Term expires January 2012, Grand Rapids, Minnesota – Writer/Facilitator

*Serves until a successor is appointed and qualified.

Staff

The staff of the Agency presently consists of approximately 204 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

The principal officers and staff related to the Plan (as hereinafter defined) are as follows:

Mary Tingerthal — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 1, 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing Partnership Network where she coordinated the work of the Housing Partnership Fund, which provides acquisition and predevelopment financing; Housing Partnership Ventures, which serves as the Network's investment vehicle; the Charter School Financing Partnership, a new conduit for charter school loans; and the Network's housing counseling intermediary and neighborhood stabilization programs. In 2008, she was instrumental in establishing the National Community Stabilization Trust -- a nationwide company dedicated to helping local organizations put vacant and foreclosed properties back into productive reuse. Prior to that, Ms. Tingerthal held senior management positions with the National Equity Fund, GMAC Residential Funding, the City of Saint Paul, and the Community Reinvestment Fund. She worked for the Agency beginning in the late 1970s when she spent 10 years working with the Agency's home improvement division. Ms. Tingerthal holds a Master's Degree in Business from Stanford Graduate School of Business, and a Bachelor of Arts Degree from the University of Minnesota. She serves as the vice chair of the Consumer Advisory Council to the Federal Reserve Board and serves on the Boards of the National Housing Trust, the National Community Investment Fund, and on the investment committee of the Calvert Foundation.

Patricia Hippe —Deputy Commissioner effective May 2000. From January 1995 to the date of her appointment as Deputy Commissioner, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, National Association, with responsibility for administration of taxable and tax-exempt bond issues. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, and a Bachelor of Science in Business Administration degree from the University of Minnesota and has successfully completed both the Certified Public Accountant and Certified Management Accountant exams.

William Kapphahn — Director of Finance of the Agency effective September 2008. Mr. Kapphahn has directed debt and investments for the Agency since September 2007. Previously Mr. Kapphahn was Controller for the Agency from November 1998 to September 2007. From June 1996 to October 1998, he was Director of Finance and Administration at Children's Home Society and Family Services with responsibility for accounting, information systems, and facility management. Previous to that, he held various accounting positions of increasing responsibility at The Saint Paul Foundation, Amherst H. Wilder Foundation, Servomation Corporation, and Land O' Lakes, Inc. Mr. Kapphahn holds a Masters degree in Business Administration with a concentration in Finance and a Bachelor of Arts degree in Business Administration from the University of St. Thomas, St. Paul, Minnesota.

Patricia L. Hanson — Assistant Commissioner, Housing Programs effective March 2010. From February, 1981 to the date of appointment, Mrs. Hanson was with Wells Fargo, and her most recent 15 years were as the President, Community Development & Specialized Lending. In that capacity, she managed all single family residential portfolios for the 26 banking states, Community Development Lending & Community Development for eight banking states, along with the Minnesota Foundation and Volunteer Initiatives. Previous to that role, she held various positions with Wells Fargo including VP, Mergers & Acquisitions, Wells Fargo Corporation; CAO for Wells Fargo Credit Card Business; Regional Controller for the Iowa banks for Wells Fargo and CFO of the Des Moines Wells Fargo bank. Prior to Wells Fargo, she spent five years in public accounting with Ernst & Young. Mrs.

Hanson graduated from Minnesota State University, Mankato with a B.S. in Accounting and is a Certified Public Accountant.

Marcia Kolb — Assistant Commissioner, Multifamily, effective May 2010. Ms. Kolb has been with the Agency for 28 years during which time she has held a variety of progressively more responsible positions spending time in Single Family, Multifamily and Finance and Operations roles. Prior to assuming the role of Assistant Commissioner, from 1990 to 2010 Ms. Kolb was the manager of the Multifamily underwriting staff responsible for underwriting, tax credit allocation, supportive housing, rental rehabilitation loans and real estate closings. She also served as an agency-wide coordinator of a talent and strategy management initiative. Before her work at the Agency, she was a partner in a general contracting and real estate development company. Ms. Kolb holds a Bachelor of Arts degree from Metropolitan State University and a Masters degree in Business Administration from Bethel University.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101; its investor relations contact is Sharon Spahn Bjostad at (651) 282-2577; and its general telephone number is (651) 296-7608. The Agency's website address is http://www.mnhousing.gov. No information on the Agency's website is incorporated into this Official Statement.

THE SERIES 2011 BONDS

General

The Series 2011 Bonds are issuable only as fully registered bonds and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2011 Bonds. Wells Fargo Bank, National Association, in Minneapolis, Minnesota, serves as Trustee under the Indenture. Interest on the Series 2011 Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of the Series 2011 Bonds, which interest is to be redistributed by DTC. Principal of the Series 2011 Bonds is payable at maturity or earlier redemption upon surrender at the designated principal corporate trust office of the Trustee. See "Appendix B — Book-Entry-Only System."

The Series 2011 Bonds are issuable in the denominations of $5,000 or any multiple thereof of single stated maturities. For every exchange or transfer of Series 2011 Bonds (except an exchange upon partial redemption of a Series 2011 Bond), the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Series 2011 Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to prior redemption as hereinafter described.

The Series 2011 Bonds will bear interest from their dated date, payable semiannually on February 1 and August 1 of each year, commencing August 1, 2011, and, for any Series 2011 Bonds then to be redeemed, on any redemption date, at the respective annual rates set forth on the inside front cover hereof until payment of the principal or redemption price of such Series 2011 Bonds. Interest on the Series 2011 Bonds is calculated on the basis of a 360-day year composed of twelve 30-day months and will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding an interest payment date, whether or not a business day or, with respect to Series 2011 Bonds to be redeemed, as of the 15th day immediately preceding the date of mailing or other transmission of notice of redemption, whether or not a business day.

Optional Redemption

The Series 2011 Bonds maturing on or after August 1, 2022, are subject to redemption, in whole or in part on any date on or after August 1, 2021, at the option of the Agency, from the stated maturities and in the principal amounts selected by the Agency, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2011 Bonds with a stated maturity in 2031 (the "Series 2011 Term Bonds") are subject to mandatory sinking fund redemption in part on August 1 in the years and in the principal amounts, plus accrued interest, without premium, respectively, as follows:

Series 2011 Bonds with a Stated Maturity of August 1, 2031

Year	Principal Amount	Year	Principal Amount
2028	$1,250,000	2030	$2,225,000
2029	1,315,000	2031 (maturity)	2,340,000

The principal amount of the Series 2011 Term Bonds required to be redeemed on each sinking fund payment date set forth above shall be reduced by the principal amount of the Series 2011 Term Bonds, accompanied by written instructions to such effect by an Authorized Officer of the Agency at least 45 days prior to the redemption date that have been either (i) purchased by and on behalf of the Agency and delivered to the Trustee for cancellation, or (ii) redeemed other than through mandatory sinking fund redemption, and that have not been previously made the basis for a reduction of the principal amount of the Series 2011 Term Bonds to be redeemed on the sinking fund payment date; provided, however, that for any such reduction, the Agency delivers to the Trustee an Agency Certificate certifying that the principal and interest payable on Outstanding Bonds in the current or any future Fiscal Year do not exceed the maximum amount of State Appropriations authorized by the Act to be paid in such Fiscal Year.

General Redemption Provisions

Notice of redemption is to be mailed, first-class postage prepaid, not less than 30 days before the Redemption Date, to each Owner of Series 2011 Bonds to be redeemed; but neither the failure to mail such notice to the Owner of any particular Series 2011 Bond nor any defect in any notice so mailed shall affect the validity of the proceedings for redemption of any Series 2011 Bond not affected by such failure or defect.

Notice of redemption having been given as aforesaid and funds sufficient to pay the redemption price are on deposit with the Trustee, the Series 2011 Bonds so to be redeemed, on the Redemption Date, become due and payable at the Redemption Price therein specified and on and after such date (unless the Agency shall default in the payment of the Redemption Price) such Bonds shall cease to bear interest.

NATURE OF OBLIGATION AND SOURCE OF PAYMENT

General

The Bonds (including the Series 2011 Bonds) are special, limited obligations of the Agency. The State Appropriations are expected to be transferred on July 15 of each year from the General Fund of the State to the Agency by the Commissioner of Management and Budget pursuant to Section 462A.36 of the Act and are pledged pursuant to the Indenture to the payment of Outstanding Bonds. The Bonds are not general obligations of the Agency and general revenues or assets of the Agency are not pledged to the payment of the Bonds or the interest thereon. Principal of, premium, if any, and interest on the Bonds are payable solely from the Trust Estate established pursuant to the Indenture, consisting principally of State Appropriations. The Bonds shall in no event be payable from the general revenues or assets of the Agency, which include appropriations from the State other than the State Appropriations pursuant to Section 463A.36 of the Act, and shall not constitute an indebtedness or other obligation of the State, are not public debt of the State, and the full faith and credit of the State are not pledged to their payment or for any annual transfers of State Appropriations to the Agency. No revenues from the Loans are expected to be available to pay debt service on the Bonds, and payments on the Loans, if any, are not pledged to pay principal of or interest on the Bonds.

In the opinion of Bond Counsel, State Appropriations from the General Fund to the Agency do not require further State or other approval except as expressly provided in the Act. See "—The State Appropriations" and "—Certain Risks With Respect to Payment of State Appropriations" hereunder.

The Indenture provides that, as received each year, all State Appropriations paid by the State to the Agency shall be remitted by the Agency to the Trustee for deposit into the Bond Fund held under the Indenture and that amounts in the Bond Fund are irrevocably pledged to and shall be used for the payment of principal of and premium (if any) and interest on the Bonds, as and when such principal, premium and interest shall become due and payable. The Trustee may also use moneys in the Bond Fund in excess of the amount necessary to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year to pay fees, charges and expenses with respect to the Bonds, except as otherwise required under the Indenture upon occurrence of Event of Default and with respect to advances, counsel fees and other expenses reasonably made or incurred by the Trustee (see "Appendix A — Summary of Certain Provisions of the Indenture — Application of Revenues and Other Moneys After Event of Default" and "—Compensation of Trustee"). Upon written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a sinking fund payment date on either of the next two interest payment dates after such purchase, provided that such Bonds are delivered to the Trustee for cancellation upon such purchase.

The Indenture further provides that proceeds of the Series 2011 Bonds shall be deposited by the Agency in a Program Fund (the "Program Fund"). The money in the Program Fund shall be held in trust by the Trustee and applied to the funding of certain Loans and payment of costs of issuance of the Series 2011 Bonds. The Trustee is to create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Loans. See "Appendix A — Summary of Certain Provisions of the Indenture."

The State Appropriations

Section 462A.36 of the Act provides that the Agency may issue up to $36 million of nonprofit housing bonds in one or more series to which State Appropriations may be pledged. The Series 2011 Bonds are the second series of such nonprofit housing bonds; the first series was the Series 2009 Bonds. To qualify as such bonds, the Bonds must be "qualified 501(c)(3) bonds" (within the meaning of Section 145(a) of the Internal Revenue Code of 1986, as amended (the "Code")) or not "private activity bonds" (within the meaning of Section 141(a) of the Code). The Bonds may be issued for the purpose of making loans, on terms and conditions the Agency deems appropriate, to finance the costs of the construction, acquisition, preservation and rehabilitation of permanent supportive housing for individuals and families who either have been without a permanent residence for at least 12 months or at least four times in the last three years, or who are at significant risk of lacking a permanent residence for 12 months or at least four times in the last three years. An insubstantial amount of Bond proceeds may be used for permanent supportive housing for individuals and families experiencing homelessness who do not meet the criteria outlined above. "Permanent supportive housing" is defined as housing that is not time-limited and provides or coordinates with linkages to services necessary for residents to maintain housing stability and maximize opportunities for education and employment. Bonds may also be issued to finance the costs of the construction, acquisition, preservation, and rehabilitation of foreclosed or vacant housing to be used for affordable rental housing. For a description of the developments expected to be financed with proceeds of the Series 2011 Bonds, see "The Developments" herein. Upon issuance of the Series 2011 Bonds, the Agency will have issued $35,020,000 in aggregate principal amount of the $36 million in principal amount of Bonds currently authorized by the Act.

Section 462A.36 of the Act requires the Agency to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in such year and the fees, charges and expenses related to the Bonds. The amount so certified, not to exceed $2,400,000 annually, is appropriated on July 15 of each year until 2031 from the General Fund to fund transfers by the Commissioner of Management and Budget to the Agency to pay debt service on the Outstanding Bonds and related fees, charges and expenses. Such amounts appropriated to the Agency pursuant to Section 462A.36 of the Act are the "State Appropriations."

Under the Indenture, the Agency has covenanted to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in such year and the fees, charges and expenses related to the Bonds.

The Act contains no provision establishing any right of Owners of Outstanding Bonds to require the Commissioner of Management and Budget to make the specified State Appropriations or limiting the ability of the State to amend or repeal Section 462A.36 of the Act or, by other legislative, executive or judicial action, to adversely affect the amount or timely transfer of State Appropriations.

Certain Risks With Respect to Payment of State Appropriations

Section 462A.36 of the Act provides for annual State Appropriations of funds from the General Fund to the Agency for payment of Outstanding Bonds, conditioned upon certification by the Agency to the Commissioner of Management and Budget of the actual amount of annual debt service on each series of Outstanding Bonds. The State Appropriations constitute an appropriation for future years that does not require any further action by the Legislature. However, pursuant to Minnesota law, a standing appropriation may be reduced or repealed in its entirety by the Legislature. The Legislature is prohibited from acting to bind any future Legislature.

Furthermore, the State Appropriations are subject to unallotment by the Commissioner of Management and Budget under Minnesota Statutes, Section 16A.152, as described below. Article XI, Section 6, of the Minnesota Constitution requires a balanced budget for the State by prohibiting borrowing for operating purposes beyond the end of a biennial budget period. 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 of Management and Budget 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 of Management and Budget 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 of Management and Budget, with the approval of the Governor, shall use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner of Management and Budget, 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 of Management and Budget is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
>
> (b) If the Commissioner of Management and Budget 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 of Management and Budget 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 of Management and Budget 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 reforecast to reflect legislative actions that have a direct impact on State revenues and to reflect changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner of Management and Budget 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 Management and Budget of his obligation to reduce allotments to State agencies.

The unallotment power has been used at various times. Essentially, the power allows the Commissioner of Management and Budget, with the approval of the Governor, to reduce appropriations previously made by law, including State Appropriations that have not been transferred to the Bond Fund pursuant to the Act and the Indenture. The method of choosing appropriations to be unalloted and the amount any appropriation is reduced is discretionary. The Commissioner of Management and Budget has imposed unallotments on the Agency in previous fiscal years: approximately $4.5 million in the aggregate in fiscal year 2009 (of total unallotments of $924 million) and approximately $2.2 million for fiscal year 2003 (of total unallotments of $273.5 million).

In July 2005, the State underwent a partial government shutdown for all programs for which appropriation had not been enacted. Certain critical State services were nonetheless required by district court order to be provided. In the event of a future State government shutdown, receipt by the Agency of payments of the State Appropriations could be delayed.

Any of: (i) a legislative reduction or repeal of the State Appropriations established by Section 462A.36 of the Act; (ii) an unallotment of, or other executive action affecting, the State Appropriations established by Section 462A.36 of the Act; or (iii) a partial government shutdown affecting the practical ability of the Commissioner of Management and Budget to make transfers of State Appropriations to the Agency could prevent the anticipated full and timely payment of interest and principal then due on the Series 2011 Bonds. In addition, prospective secondary market purchaser concerns that such an event might occur could materially and adversely affect the market price of the Outstanding Series 2011 Bonds even if the event does not in fact occur.

The Bonds are not general obligations of the Agency and general funds or assets of the Agency are not pledged to the payment of the Bonds or the interest thereon. Principal of, premium, if any, and interest on the Bonds are payable solely from the Trust Estate established pursuant to the Indenture, consisting principally of State Appropriations. The Bonds shall in no event be payable from the general revenues of the Agency, which include appropriations from the State other than the State Appropriations pursuant to Section 462A.36 of the Act, and shall not constitute an indebtedness or other obligation of the State, are not public debt of the State, and the full faith and credit of the State are not pledged to their payment or for any annual transfers of State Appropriations to the Agency.

Additional Bonds

The debt service payable on the Series 2009 Bonds and the Series 2011 Bonds is expected to consume substantially all of the State Appropriations currently authorized. (See "Debt Service Requirements on Outstanding Bonds" herein.) Without further legislative authorization, no further Additional Bonds (other than refunding Bonds) are expected to be issued.

The Agency may issue Additional Bonds to provide funds to make additional Loans and pay costs of issuance of such Additional Bonds and other purposes authorized by the Act. Any such Additional Bonds are to be authorized by a resolution of the Agency and prescribed in a supplemental indenture (a "Supplemental Indenture") executed by the Agency and the Trustee and which, when so issued, authorized and prescribed, shall be secured by the Indenture and the Trust Estate, consisting primarily of State Appropriations, on a parity with the Bonds then Outstanding under the Indenture; provided that no such Additional Bonds are to be issued under the Indenture or secured by the Trust Estate on a parity with the Outstanding Bonds unless there is delivered to the Trustee, among other things, the following: (a) an Agency Certificate to the effect that the principal and interest required to be paid on the Outstanding Bonds, including the Additional Bonds to be issued, in the current and any future Fiscal Year, does not exceed the maximum amount of State Appropriations authorized by the Act in any such Fiscal Year; (b) an opinion of Bond Counsel (1) stating that all conditions precedent provided in the Indenture relating to the authentication and delivery of such Additional Bonds have been complied with, and (2) stating that the Additional Bonds whose authentication and delivery are then applied for, when issued and executed by the Agency and authenticated and delivered by the Trustee, will be the valid and binding special, limited obligations of the Agency in accordance with their terms and entitled to the benefits of and secured by the lien of the Indenture, subject to customary qualifications and assumptions; (c) an executed counterpart of the Supplemental Indenture creating such Additional Bonds; and (d) written confirmation from each Rating Agency that issuance of such Additional Bonds will not impair the then existing rating on Outstanding Bonds.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

The following table sets forth, for each Fiscal Year of the State ending June 30, the amounts to be required for payment of interest on and principal at maturity or mandatory sinking fund redemption of the Series 2009 Bonds and the Series 2011 Bonds (assuming no optional redemption of such Bonds) and which are required to be paid from the State Appropriations of up to $2,400,000 expected to be received on July 15 of each such fiscal year:

Fiscal Year	Series 2009 Bonds		Series 2011 Bonds		
Ending June 30	Principal	Interest	Principal	Interest	Total
2011	$1,890,000	$506,458	---	---	$2,396,458
2012	465,000	357,400	$ 685,000	$888,960	2,396,360
2013	475,000	348,000	665,000	911,706	2,399,706
2014	485,000	338,400	675,000	898,306	2,396,706
2015	490,000	328,650	700,000	881,056	2,399,706
2016	505,000	318,195	715,000	861,619	2,399,814
2017	515,000	306,331	740,000	837,881	2,399,213
2018	530,000	292,868	765,000	807,781	2,395,649
2019	545,000	277,538	800,000	776,481	2,399,019
2020	560,000	260,963	830,000	746,475	2,397,438
2021	575,000	243,578	860,000	716,881	2,395,459
2022	595,000	224,925	895,000	683,953	2,398,878
2023	615,000	204,878	930,000	647,431	2,397,309
2024	640,000	183,300	965,000	607,744	2,396,044
2025	660,000	160,550	1,015,000	560,594	2,396,144
2026	685,000	135,300	1,070,000	505,863	2,396,163
2027	715,000	107,300	1,125,000	448,244	2,395,544
2028	745,000	78,100	1,185,000	387,606	2,395,706
2029	775,000	47,700	1,250,000	325,250	2,397,950
2030	805,000	16,100	1,315,000	261,125	2,397,225
2031	---	---	2,225,000	172,625	2,397,625
2032	---	---	2,340,000	58,500	2,398,500

Under the Indenture, State Appropriations are to be credited to the Bond Fund and applied to the payment of principal of and interest on Outstanding Bonds before being applied to the payment of fees, charges and expenses with respect to the Bonds. (See "Appendix A—Summary of Certain Provisions of the Indenture—Bond Fund.")

STATE FINANCIAL INFORMATION

The Bonds (including the Series 2011 Bonds) are special, limited obligations of the Agency. Specified transfers expected to be made by the State pursuant to Section 462A.36 of the Act are pledged pursuant to the Indenture for the payment of the Outstanding Bonds. (See "Nature of Obligation and Source of Payment.") Potential purchasers and Owners of the Series 2011 Bonds are advised to consider the likelihood of their full and timely receipt of principal and interest payments on the Series 2011 Bonds when due on the basis of the financial condition of the State, rather than that of the Agency.

General financial information relating to the State is set forth in Appendices E through H to this Official Statement. The State's audited basic financial statements for the Fiscal Year ended June 30, 2010, are included as Appendix I. The State most recently released certain revenue and expenditure forecasts prepared by the Department of Management and Budget in December 2010. Information concerning this forecast is included in Appendix F. The next forecast of revenue and expenditures is expected to be prepared in February 2011 and released on or about March 3, 2011.

The February 2011 forecast of revenue and expenditures will be available on the Minnesota Management and Budget website (www.mmb.state.mn.us) and on the Municipal Securities Rulemaking Board's internet repository named "Electronic Municipal Market Access" ("EMMA") filed with respect to the Series 2011 Bonds. Any amendment or supplement to the basic financial statements of the State, and any subsequent financial statements published by the State and made publicly available in a State official statement or revenue and expenditure forecast required by statute or an official quarterly economic update published by the State on the Minnesota Management and Budget website and also filed on EMMA with respect to the Series 2011 Bonds, to and including a date 25 days following the "end of the underwriting period" (as defined in Rule 15c2-12 of the Securities and Exchange Commission) applicable to the Series 2011 Bonds offered hereby, shall be deemed to be incorporated by reference in this Official Statement from the date made publicly available. No other information on the Minnesota Management and Budget website or on EMMA is incorporated into this Official Statement. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

THE DEVELOPMENTS

Background; Plan To End Long-Term Homelessness in the State

In March 2004, based on legislation proposed by the Governor and enacted by the State Legislature in 2003, a broad-based working group of leaders from the public, private and nonprofit communities issued "Ending Long-Term Homelessness in Minnesota: Report and Business Plan of the Working Group on Long-Term Homelessness" (the "Plan"). The goal of the Plan was to end long-term homelessness in the State by 2010 by providing housing and appropriate support service options to those experiencing long-term homelessness. In April 2007, the Plan was recalibrated to reflect the experience of three years of implementation, and in August 2010 the Plan was recalibrated again in light of the downturn in the economy, reflecting a revised strategy to be achieved by 2015.

The primary strategy of the Plan is to create 4,000 permanent supportive housing opportunities for individuals, unaccompanied youth, and families with children that are experiencing long-term homelessness. The Plan includes a financing plan calling for investments from all sectors (government, business, philanthropy, and nonprofit) and at all levels (federal, State and local). The financing plan identifies as resources $77 million in proceeds of State general obligation bonds, $50 million in Agency resources, $46 million in appropriations by the State to the Agency (which amount does not include the State Appropriations), and $88 million in appropriations by the State to the Department of Human Services. As of October 30, 2010, the Agency and its partners had funded 3,303 housing opportunities (including opportunities with rental assistance only) for people experiencing long-term homelessness.

The State and the Agency have contributed significant resources to this effort. In 2005 and 2006, the Legislature approved $30 million in general obligation bonding for permanent supportive housing. In 2005, the Legislature also approved the Governor's requests for increases in capital, operating and service funding for supportive housing totaling $14 million and provided over $5 million of funding for related initiatives for youth foster care transition, homeless outreach, and prisoner reentry housing. State funding for supportive services has continued to be appropriated by the Legislature in each biennium. In 2007, the Legislature and the Governor increased the funding to the Agency for supportive housing to $17 million and dedicating an additional $5 million of available one-time funds. In 2009, the Legislature and the Governor increased funding to the Agency for supportive housing to $21 million. Given the large projected State budget deficit for the next biennium, funding to the Agency for supportive housing may be reduced in the next biennium. The Agency has also contributed nearly $50 million of its internal resources to the Plan.

Prior to enactment in 2008 of Section 462A.36 of the Act, the Legislature had appropriated to the Agency $12 million in Fiscal Year 2005 and $19.5 million in Fiscal Year 2006 of general obligation bond proceeds to fund the capital costs of permanent supportive housing. Because of State constitutional restrictions on the use of State general obligation bond proceeds (e.g., requiring governmental ownership of the development), the Agency sought authorization to issue nonprofit housing bonds secured by a standing appropriation by the Legislature to provide more flexibility in financing permanent supportive housing developments. In 2008, the Legislature enacted Section

462A.36 of the Act authorizing the Agency to issue up to $30 million of nonprofit housing bonds. In 2010, the Legislature amended Section 462A.36 of the Act to increase the authorized principal amount of nonprofit housing bonds to $36 million, but did not increase the annual amount or extend the period of collection of State Appropriations.

The Developments Expected To Be Financed with Proceeds of the Series 2011 Bonds

The issuance of the Series 2011 Bonds implements part of the financing plan described above to fund capital costs of permanent supportive financing. The Series 2011 Bonds are being issued to provide money for the Agency to fund all or a portion of five separate Loans for permanent supportive housing pursuant to the Plan. To the extent that proceeds of the Series 2011 Bonds are not sufficient to fund all of these Loans, the Agency will fund the remaining portion of the Loans from its own funds.

One Loan is expected to finance a portion of the cost of the acquisition and construction of 85 permanent supportive housing units near downtown Minneapolis, Minnesota, in a seven-story development known as "J. Jerome Boxleitner Place." Boxleitner Place comprises single room occupancy units to be owned and developed by CHDC Boxleitner LLC, a Colorado limited liability company, the sole member of which is Community Housing Development Corporation, a Minnesota nonprofit corporation. Catholic Charities of the Archdiocese of Saint Paul and Minneapolis, a Minnesota nonprofit corporation, is expected to lease and manage the development and provide supportive services.

Another Loan is expected to finance a portion of the cost of the acquisition and construction of 16 permanent supportive housing units in Owatonna, Minnesota, in a two-story development known as "Youngdahl Living." Youngdahl Living comprises one-bedroom units to be owned by Youngdahl Development LLC, a Minnesota limited liability company, the sole member of which is South Central Human Relations Center, a Minnesota nonprofit corporation, and managed by Lloyd Management. South Central Human Relations Center is expected to provide supportive services.

Another Loan is expected to finance the cost of the acquisition of 25 permanent supportive housing units in Minneapolis, Minnesota, in a three-story development known as "Dundry House." Dundry House comprises 18 single room occupancy units and seven one-bedroom units to be owned by Dundry House LLC, a Minnesota limited liability company, the sole member of which is Hope Community Inc., a Minnesota nonprofit corporation, and managed by Aeon Management LLC. Cabrini Partnership is expected to provide supportive services.

Another Loan is expected to finance a portion of the cost of the acquisition and rehabilitation of 150 permanent supportive housing units in Saint Paul, Minnesota, in a five-story development known as "Redeemers Arms." Redeemers Arms comprises 51 single room occupancy units, 58 efficiency units, and 41 one-bedroom units to be owned by CHDC Redeemers LLC, a Colorado limited liability company, the sole member of which is Community Housing Development Corporation, a Minnesota nonprofit corporation. The development is expected to be managed by BDC Management Company, which is also expected to provide supportive services.

Another Loan is expected to finance a portion of the costs of the acquisition and construction of 20 permanent supportive housing units on the Bois Forte Indian Reservation in a seven-building development to be known as "Oshki-agoojin." Oshki-agoojin comprises eight one-bedroom units, six two-bedroom units and six three-bedroom units to be owned by the Bois Forte Band of Minnesota Chippewa. The development is expected to be managed by D.W. Jones Management Inc. and Bois Forte Human Services is expected to provide supportive services.

Each of the Loans described above and the Loans that were financed with proceeds of the Series 2009 Bonds is or will be a 0% interest, non-amortizing, nonrecourse deferred loan that is forgivable if the conditions for use are met. No revenues from the Loans are expected to be available to pay debt service on the Bonds, and payments on the Loans, if any, are not pledged to pay principal of or interest on the Bonds. Consequently, Owners of the Bonds should not regard the Loans or the developments financed thereby as providing security for the Bonds.

If any one or more of these developments does not proceed for any reason, the Agency may use moneys in the Program Fund to make loans for other developments eligible for funding under the Act.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to the Series 2011 Bonds are as follows:

Sources:	
Principal Amount of Series 2011 Bonds	$21,750,000
Net Original Issue Premium	291,623
Total Sources of Funds	$22,041,623
Uses:	
Deposit to Program Fund for Loans	$21,793,758
Costs of Issuance	85,800
Underwriters' Compensation	162,065
Total Uses of Funds	$22,041,623

The Agency may reimburse itself from proceeds of the Series 2011 Bonds for Agency funds advanced to fund Loans and related costs authorized by the Act before the date of issuance of the Series 2011 Bonds.

TAX EXEMPTION AND RELATED CONSIDERATIONS

Tax Exemption

It is the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the Agency and, where applicable, the Borrowers, and the Trustee with certain covenants contained in the Indenture and Tax Exemption Agreements described in the Indenture (the "Tax Covenants"), that interest to be paid on the Series 2011 Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes. Such interest is, however, included in taxable income for purposes of Minnesota franchise taxes imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Series 2011 Bonds in order that interest on the Series 2011 Bonds be and remain excludable from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Series 2011 Bond proceeds and the facilities financed with such proceeds; restrictions on the investment of Series 2011 Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series 2011 Bonds to become includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exemption of interest on the Series 2011 Bonds. No provision has been made for redemption of or for an increase in the interest rate on the Series 2011 Bonds in the event that interest on the Series 2011 Bonds becomes includable in federal gross income or in Minnesota taxable net income.

Original Issue Discount

The Series 2011 Bonds with stated maturities in 2019 through 2023 and in 2031 (collectively, the "Discount Bonds") are being sold at a discount from the principal amount payable on such Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond 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 owner's federal and Minnesota tax basis 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 dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such 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. 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. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

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

Bond Premium

The Series 2011 Bonds with stated maturities in 2011 through 2018 and in 2024 through 2027 (collectively, the "Premium Bonds") are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Premium Bonds must, from time to time, reduce their federal and Minnesota tax bases for the Premium Bonds for purposes of determining gain or loss on the sale or payment 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 the Premium Bonds, even if such Premium Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire 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 Premium Bonds.

Related Tax Considerations

Interest on the Series 2011 Bonds is not an item of tax preference for federal or Minnesota alternative minimum tax purposes but is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Series 2011 Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Series 2011 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. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2011 Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. Indebtedness may be allocated to the Series 2011 Bonds for this purpose even though not directly traceable to the purchase of the Series 2011 Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Series 2011 Bonds. 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 Series 2011 Bonds within the meaning of section 265(b) of the Code, except to the extent permitted under Section 265(b)(7) of the Code, as limited by Sections 265(a)(2) and 291 of the Code. 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 Series 2011 Bonds that is received or accrued during the taxable year. Interest on the Series 2011 Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by section 884 of the Code, and is included in net investment income of foreign insurance companies under section 842(b) of the Code.

The market value and marketability of the Series 2011 Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the Series 2011 Bonds or by future reductions in income tax rates.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES 2011 BONDS OR RECEIPT OF INTEREST ON THE SERIES 2011 BONDS. PROSPECTIVE PURCHASERS OR BONDOWNERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

CONTINUING DISCLOSURE

The Agency will covenant in a continuing disclosure agreement with the Trustee for the benefit of the Owners and Beneficial Owners (as defined in Appendix C hereto) of the Series 2011 Bonds to provide annually certain financial information and operating data relating to the State and to provide notices of the occurrence of certain enumerated events. Such information and notices are to be filed by the Agency with the Municipal Securities Rulemaking Board through its internet repository named "Electronic Municipal Market Access" (EMMA). (See "Appendix C — Summary of Continuing Disclosure Undertakings.") The Agency and the State will enter into a separate agreement pursuant to which the State will agree to provide to the Agency the information needed for the Annual Report described in Appendix C. (See "Appendix C — Summary of Continuing Disclosure Undertakings.")

These covenants have been made in order to assist the Underwriters in complying with the Rule (as defined in Appendix C hereto). Neither the Agency nor the State has ever failed to comply in any material respect with any previous undertakings under the Rule. Breach of the covenants will not constitute a default or an "Event of Default" under the Series 2011 Bonds or the Indenture. A broker or dealer is to consider a known breach of the covenants, however, before recommending the purchase or sale of the Series 2011 Bonds in the secondary market. Thus, a failure on the part of the Agency or the State to observe the covenants may adversely affect the marketability and liquidity of the Series 2011 Bonds and their market price.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency or the State, overtly threatened any litigation against the Agency or the State seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series 2011 Bonds, or in any manner questioning or affecting the validity of the Series 2011 Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for Fiscal Year Ended June 30, 2010 (which are attached as Appendix I hereto), 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.

CERTAIN LEGAL MATTERS

The validity of, and the tax exemption of interest on, the Series 2011 Bonds are subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. The opinion of Bond Counsel will be provided in substantially the form set forth in Appendix D attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, McGrann Shea Carnival Straughn & Lamb Chartered, Minneapolis, Minnesota.

RATINGS

The Series 2011 Bonds are rated “Aa2” by Moody’s Investors Service, Inc. and “AA+” by Standard & Poor’s Ratings Services. The ratings reflect only the views of these rating agencies. For an explanation of the ratings as described by those rating agencies, please contact the rating agencies. The ratings are subject to change or withdrawal by either of the rating agencies at any time. Therefore, after the date hereof, investors should not assume that such ratings are still in effect. A downward revision or withdrawal or suspension of either rating is likely to have an adverse effect on the market price and marketability of the Series 2011 Bonds.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the “Financial Advisor”) is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series 2011 Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2011 Bonds and provided other advice to the Agency. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Series 2011 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

UNDERWRITING

RBC Capital Markets, LLC, Morgan Stanley & Co. Incorporated and Piper Jaffray & Co. (collectively, the “Underwriters”) will purchase the Series 2011 Bonds at an aggregate purchase price of $21,879,558.38 (which price reflects an underwriting discount of $162,064.67 and net original issue premium of $291,623.05). The Underwriters may offer and sell the Series 2011 Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

Morgan Stanley, the parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Series 2011 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets. Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with its allocation of Series 2011 Bonds.

Piper Jaffray & Co. (“Piper”) has entered into an agreement (the “Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings allocated to Piper at the original offering prices. Under the Distribution Agreement, if applicable to the Series 2011 Bonds, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series 2011 Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made or incorporated in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any of the Series 2011 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By /s/ MARY TINGERTHAL
Commissioner

Dated: February 1, 2011.

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS
OF THE INDENTURE

The Indenture contains various definitions, covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Indenture (including the First Supplemental Indenture of Trust) for a full and complete statement of its provisions.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth, (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Indenture, or (iii) requesting or directing the Trustee or other party to take action pursuant to the Indenture

Agency Resolution: A copy of a resolution certified by an Authorized Officer to have been duly adopted by the members of the Agency and to be in full force and effect on the date of such certification, and delivered to the Trustee.

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Bond Counsel: Any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds selected by the Agency.

Bond Fund: The Bond Fund created under the Indenture within the Agency's Housing Development Fund.

Bondowner: A Person in whose name a Bond is registered in the Bond Register.

Business Day: Any day (a) other than a Saturday, Sunday or other day that is a legal holiday in the State, and (b) on which banks in the city in which the designated principal corporate trust office of the Trustee are located are not required or authorized by law to be closed.

Code: The Internal Revenue Code of 1986, as amended and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Default: An Event of Default and an event or condition, the occurrence of which would, with the lapse of time or the giving of notice or both, became an Event of Default.

Fiscal Year: The 12-month period commencing July 1 and concluding on June 30 in the next succeeding calendar year, or any other 12-month period designated by the State as its fiscal year.

Government Obligations: Direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury).

Interest Payment Date: The date on which interest is payable on any Bonds (other than upon redemption of a Bond on a date other than a regularly schedule interest payment date).

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency's moneys:

(a) Government Obligations;

(b) Obligations (i) that are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;

(c) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including the Trustee) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such depository will not adversely affect the Rating of the Bonds;

(d) Repurchase agreements and reverse repurchase agreements with banks that are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;

(e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in clause (a), (b) or (d) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in clause (a), (b) or (d) above;

(f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and

(g) Any other investment that will not adversely affect the Rating of the Outstanding Bonds.

<u>Opinion of Counsel</u>: A written opinion of counsel selected by the Agency and acceptable to the Trustee or selected by the Trustee.

<u>Outstanding</u>: When used with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture *except*:

(i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee in trust for the Owners of such Bonds; *provided* that if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Bonds which have been defeased within the meaning of the Indenture; and

(iv) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture;

provided, however, that in determining whether the Owners of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Agency shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded.

<u>Owner</u>: With respect to any Bond, the Bondowner.

Person: Any individual, corporation, limited liability company, partnership, limited liability partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Program Fund: The Program Fund created under the Indenture.

Rating: With respect to any Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Indenture, and an action that does not "impair" the Rating with respect to any Bonds shall be an action that will not cause the Rating Agency to lower, suspend or withdraw the rating it has assigned to the Bonds.

Rating Agency: Any nationally recognized entity that, upon the request of the Agency, has issued a credit rating on any Bonds issued pursuant to the Indenture.

Rebate Fund: The Rebate Fund created under the Indenture.

Record Date: The 15th day of the month, whether or not a Business Day, immediately preceding the month containing each Interest Payment Date, unless otherwise specified in a Supplemental Indenture, and with respect to any redemption notice or other notice to be given by the Trustee pursuant to the Indenture, the 15th day, whether or not a Business Day, immediately preceding the date of mailing or other transmission of such notice.

Redemption Date: When used with respect to any Bond to be redeemed, the date fixed for such redemption by or pursuant to the Indenture.

Redemption Price: When used with respect to any Bond to be redeemed, the price at which it is to be redeemed pursuant to the Indenture.

Sinking Fund Payment Date: A date set forth in any applicable provision of the Indenture or a Supplemental Indenture for the making of a mandatory principal payment for the redemption of a Term Bond.

Special Record Date: A date fixed by the Trustee pursuant to the Indenture for the payment of any interest not paid at its Stated Maturity.

Stated Maturity: When used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

Tax Exemption Agreement: A Tax Exemption Agreement entered into by the Agency and each mortgagor with respect to a Loan funded with the proceeds of Bonds.

Term Bonds: Any Bond for the payment of the principal of which mandatory payments are required by the Indenture or a Supplemental Indenture to be made at times and in amounts sufficient to redeem all or a portion of such Bond prior to its Stated Maturity.

Trust Estate: The assets, revenues and other property pledged pursuant to the Granting Clauses of the Indenture.

Program Fund

The Agency by the Indenture establishes an account with the Trustee to be designated the "Program Fund," as a subaccount of the nonprofit housing account established by the Act, and is required to deposit with the Trustee to the credit thereof proceeds of the Series 2011 Bonds as provided in the Indenture. Income and profit from the investment of moneys in the Program Fund shall be credited to such Fund. The moneys in the Program Fund shall be held in trust by the Trustee and applied to the funding of the Loans and payment of costs of issuance of the Series 2011 Bonds. The Trustee shall create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Loans. The Trustee shall pay each item payable from the applicable account in the Program Fund to the Agency or at the Agency's direction, or shall make arrangements for the transfer and deposit of the amount for such payment, as the Agency shall request. Upon receipt by the Trustee of an Agency Certificate stating that all amounts to be paid with respect to Loans financed by Bonds of such series has been paid, any balance remaining in the Program Fund with respect to such Bonds shall be transferred to the Bond Fund.

Bond Fund

The Agency by the Indenture establishes, and is required to maintain, so long as any of the Bonds are outstanding, with the Trustee, a separate account within the Agency's Housing Development Fund to be designated the "Nonprofit Housing Bond Fund," as a subaccount of the nonprofit housing account established by the Act, into which the Agency and Trustee shall make certain deposits pursuant to the Indenture, including, as received each year, all State Appropriations paid by the State. The moneys and investments in the Bond Fund are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of, premium (if any) on and interest on the Bonds, as and when such principal, premium and interest shall become due and payable. Except as otherwise provided in the Indenture (see "Compensation of Trustee" and "Application of Revenues and Other Moneys After Event of Default" hereinafter), so long as all principal, premium and interest on the Bonds have been paid when due, and the amount in the Bond Fund is sufficient to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year, upon the written direction of the Agency pursuant to an Agency Certificate, the Trustee may use moneys in the Bond Fund in excess of such amount to pay fees, charges and expenses with respect to the Bonds. Upon the written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a Sinking Fund Payment Date on either of the next two Interest Payment Dates after such purchase, provided that such Bonds are delivered to the Trustee for cancellation upon such purchase.

Investment of Moneys in Program Fund and Bond Fund

The Trustee shall invest the moneys on deposit in the Program Fund or held as a part of the Bond Fund, respectively, at the written request and direction of an Authorized Officer in Investment Obligations. The type, amount and maturity of Investment Obligations shall conform to any instructions of the Authorized Officer. The Trustee may, from time to time, cause any such investments to be sold or otherwise be converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to the respective Fund. Any interest or profit derived from investments shall be credited to the respective Fund. Investments permitted under the Indenture may be purchased from the Trustee or from any of its affiliates. No portion of the Program Fund or the Bond Fund representing proceeds of the Bonds shall be invested or used in such manner that any of the Bonds would be "arbitrage bonds" under the Code; the Trustee may conclusively rely on the written direction of an Authorized Officer as to compliance with the Code. The Trustee shall be entitled to assume that any investment that at the time of purchase is an Investment Obligation remains an Investment Obligation thereafter, absent receipt of written notice or information to the contrary. If no investment direction is received for a Fund, the funds shall be held uninvested. The Trustee shall have no liability or responsibility for any loss or for failure to maximize earnings resulting from any investment for a Fund made in accordance with the Indenture.

Rebate Fund

In order that the Agency may comply with certain tax covenants with respect to the Series 2011 Bonds made pursuant to the Indenture, the Trustee shall establish a special fund designated as the "Rebate Fund." The Rebate Fund is not a trust fund, is not part of the Trust Estate and is not subject to the lien of the Indenture. For each series of Bonds that is subject to the rebate requirements of Section 148(f) of the Code, or its equivalent, a separate account shall be established in the Rebate Fund. The Trustee shall make information regarding the investments thereunder available to the Agency and shall make deposits in and disbursements from the Rebate Fund in accordance with written instructions in an Agency Certificate delivered from time to time, shall invest the Rebate Fund pursuant to said written instructions, and shall deposit income from such investments immediately upon receipt thereof in the Rebate Fund. The Trustee shall upon receipt of an Agency Certificate transfer moneys from the Bond Fund or moneys representing interest income from the Program Fund, as directed by the Agency Certificate, to the Rebate Fund in the amount of any required deposit. Records of transactions with respect to the Rebate Fund shall be retained by the Trustee until six years after the Bonds of a series are no longer outstanding.

Payment of Bonds

The Agency covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture and in each and every Bond executed, authenticated and delivered thereunder; will pay or cause to be paid, solely from the Trust Estate, including State Appropriations, the principal of, premium (if any) on and interest on every Bond issued thereunder on the dates, at the places and in the manner prescribed in the Bonds in any coin or currency that, on the respective dates of payment of such principal and interest, is legal tender for the payment of public and private debts; and will cause such amounts received to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the maturity of any Bond in amounts sufficient to pay such installment; provided, however, that the principal of and interest on any Bond are not and shall not be an indebtedness or other obligation of the State and the Bonds are not public debt of the State, and the full faith and credit of the State are not pledged to their payment or for any annual transfers of State Appropriations to the Agency. The Agency covenants that it will take all actions required by the Act to cause the State Appropriations to be received on or prior to the dates such amounts are required to pay, with other amounts available in the Bond Fund, principal of and interest of Outstanding Bonds and will deposit all State Appropriations as received in the Bond Fund.

Covenant to Request State Appropriations

On or prior to each June 30 while any Bonds remain Outstanding, the Agency covenants that it will certify to the Commissioner of Management and Budget of the State the amount of principal, premium, if any, and interest on each series of the Bonds, and the fees, charges, and expenses related to each series of the Bonds, payable in the next succeeding Fiscal Year, less the amount on hand in the Bond Fund and available to pay such amounts.

Covenants Relating to Loans

The Agency covenants that the proceeds of the Bonds will be used solely to pay costs of issuance of the Bonds, to pay interest on the Bonds prior to the first date State Appropriations are received and to fund Loans to finance the costs of the construction, acquisition, preservation, and rehabilitation of permanent supportive housing (as defined in the Act) for individuals and families who either have been without a permanent residence for at least 12 months or at least four times in the last three years or are at significant risk of lacking a permanent residence for 12 months or at least four times in the last three years; provided the Agency may use an insubstantial portion (not more than 10%) of the proceeds of the Bonds to fund Loans to finance costs of permanent supportive housing for individuals and families experiencing homelessness who do not meet the above criteria. Proceeds of the Bonds may also be used for other purposes authorized by the Act as amended from time to time.

Tax Covenants with Respect to Series 2011 Bonds

The Agency shall not take any action or fail to take any action or permit any action to be taken on its behalf or cause, or permit any circumstance within its control to arise or continue, if such action or inaction would adversely affect the exclusion from gross income for federal income purposes of the interest on the Series 2011 Bonds. These covenants will survive the payment of the Series 2011 Bonds.

The Agency shall not use or permit the use of any proceeds of the Series 2011 Bonds or any other funds of the Agency, directly or indirectly, to acquire any securities, obligations, or other investment property, and shall not use or permit the use of any amounts received by the Agency or the Trustee with respect to the Series 2011 Bonds in any manner, and shall not take or permit to be taken any other action or actions, that would cause the Series 2011 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. The Agency acknowledges that the Series 2011 Bonds are subject to the rebate requirements of Section 148(f) of the Code and applicable regulations. The Agency agrees that it will retain such records, make such determinations, file such reports and documents and pay such amounts at such times as required under Section 148(f) of the Code and applicable regulations to preserve the exclusion of interest on the Series Bonds from gross income for federal income tax purposes.

The Agency shall not use or permit the use of any proceeds of the Series 2011 Bonds or any other funds of the Agency, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, that would result in the Series 2011 Bonds being treated as obligations not described in Section 103(a) of the Code.

In furtherance of this covenant the Agency will enter into a Tax Exemption Agreement with respect to each Loan to be funded with the proceeds of the Series 2011 Bonds in order for interest on the Series 2011 Bonds to be excluded from gross income of the Owners for purposes of federal income taxation.

Events of Default

Each of the following events is defined as, and is declared to be and to constitute, an "Event of Default" under the Indenture:

(a) If payment of the principal of, or premium, if any, on any of the Bonds, when the same shall become due and payable, whether at Stated Maturity or upon a Sinking Fund Payment Date, or otherwise, shall not be made.

(b) If payment of any interest on the Bonds when the same shall become due and payable shall not be made.

(c) If default shall be made in the performance or observance of any other of the covenants, agreement or conditions on the part of the Agency in the Indenture, or in the Bonds contained, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than 10% in principal amount of the Bonds Outstanding, provided that if (i) the Agency is proceeding with due diligence to remedy the same, (ii) the default is able to be remedied, and (iii) the Agency has commenced action during the 60-day period necessary to remedy such default, such 60-day period shall be increased to such extent, but not more than an additional 180 days, as shall be necessary to enable the Agency to cure the default through the exercise of due diligence.

(d) The Agency shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

(e) The State has limited or altered the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Indenture, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Remedies

Upon the occurrence and continuation of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(a) Suit upon all or any part of the Bonds;

(b) Suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners;

(c) Suit to enjoin any acts or things that may be unlawful or in violation of the rights of the Bondowners; and

(d) Enforcement of any other right of the Bondowners conferred by law or by the Indenture.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts that may be unlawful or in violation of the Indenture, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Indenture.

Application of Revenues and Other Moneys After Event of Default

The Agency covenants that if an Event of Default shall happen and shall not have been remedied, the Agency, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee, as promptly as practicable after receipt thereof, any State Appropriations and other payments or receipts pledged under the Indenture. During the continuation of an Event of Default the Trustee shall apply such moneys, securities, revenues, payments and receipts and the income therefrom as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of duties under the Indenture;

(b) To the payment of the interest and principal or Redemption Price then due and payable on Outstanding Bonds, as follows:

> *First*: To the payment to the Persons entitled thereto of all installments of interest then due and payable in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and
>
> *Second*: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Outstanding Bonds that shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Outstanding Bonds due and payable on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever all principal amounts of and interest on all Bonds have been paid under the above provisions, and any required arbitrage rebate and all fees, expenses and charges of the Trustee have been paid, any balance remaining under the Indenture shall be paid to the Agency.

Majority of Bondowners Control Proceedings

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Indenture to the contrary, the Bondowners of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or any other proceedings under the Indenture, provided that such direction is in accordance with law and the provisions of the Indenture and provided that nothing in the Indenture shall impair the right of the Trustee in its discretion to take any other action under the Indenture that it may deem proper.

Individual Bondowner Action Restricted

No Bondowner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(1) an Event of Default has occurred (a) under section (a) or (b) of the Events of Default subheading above, (b) as to which the Trustee has actual notice, or (c) as to which the Trustee has been notified in writing, and

(2) the Bondowners of at least a majority in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and

(3) such Bondowners shall have offered the Trustee indemnity, and

(4) the Trustee shall have failed or refused to exercise the powers in the Indenture granted or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Bondowners shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner in the Indenture provided and for the equal benefit of the Bondowners of all Bonds Outstanding appertaining thereto.

Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of a Bondowner (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Bondowner may institute or prosecute any such suit or enter judgment therein, if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein, under applicable law, would result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, accounts and properties pledged under the Indenture for the equal and ratable benefit of all Bondowners.

Waiver and Non-Waiver of Event of Default

No delay or omission of the Trustee or of any Bondowner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein. Every power and remedy given by the Indenture with respect to remedies to the Trustee and the Bondowners, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may waive any Event of Default that in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of the Bondowners of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one series of Bonds shall at the time be Outstanding, the Bondowners of a majority in principal amount of the Bonds of each such Series), shall waive any Event of Default under the Indenture and its consequences; provided, however, that except under the circumstances set forth in the paragraph above, a default in the payment of the principal, or Redemption Price, if any, of or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Owner of such Bond.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the Agency, the Trustee and the Bondowners shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with these provisions.

Notices of Defaults

Within 10 Business Days after the receipt of notice of an Event of Default or the occurrence of an Event of Default of which the Trustee has actual notice or is deemed to have notice, the Trustee, unless such Event of Default shall have theretofore been cured, shall give written notice thereof by first class mail to each Owner of Bonds then Outstanding, provided that, except in the case of a default in the payment of principal or the Redemption Price of or interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondowners. The Trustee shall immediately notify the Agency of any Default or Event of Default known to the Trustee.

Trustee May Rely Upon Certain Documents and Opinions

Except as otherwise specifically provided in the Indenture, the Trustee may rely and shall be protected in acting upon certain resolutions, certificates, statements, instruments, opinions, reports, notices, requests, consents, orders, bonds or other papers or documents and may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel. Before being required to take any remedial action, the Trustee may require an opinion of counsel reasonably acceptable to it, which opinion of counsel shall be made available to the other parties to the Indenture upon request, or a verified certificate of any such party, or both concerning proposed actions.

Compensation of Trustee

All advances, counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trust created by the Indenture and reasonable compensation to the Trustee for its services in the premises, including extraordinary fees such as default fees, if any, shall be paid by the Agency from the Trust Estate. The compensation of the Trustee shall not be limited to or by any provision of law in regard to the compensation of trustees of an express trust. The Trustee shall have a first lien, with right of payment prior to payment on account of interest or principal of any Bond issued under the Indenture, for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created thereby and exercise and performance of the powers and duties of the Trustee thereunder and the cost and expense incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee). The Trustee's right to receive compensation, reimbursement, indemnification of money due and owing under the Indenture shall survive the Trustee's resignation or removal.

Resignation or Removal of Trustee

The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the Agency 30 days' notice in writing, and to the Bondowners 30 days' notice by certified mail at its or his address as set forth on the registration books of such resignation, specifying a date when such resignation shall take effect. Such resignation shall take effect on the day specified in such notice, if a successor Trustee has been appointed, or upon such later date as a successor is appointed. If no successor Trustee shall have been appointed and have accepted appointment within 90 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition a court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any Trustee may be removed at any time by an instrument or instruments in writing, appointing a successor to the Trustee so removed, filed with the Trustee and executed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds secured by the Indenture and then Outstanding.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee, and a successor may be appointed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with the Trustee and notification thereof being given to the Agency. In the event the Trustee has been removed by action of the Bondowners, until a new Trustee shall be appointed by the Bondowners as authorized in the Indenture, the Agency may, subject to the provisions thereof, appoint a Trustee to fill such vacancy. After any such appointment by the Agency, the Trustee so appointed shall cause notice of its appointment to be mailed within 30 days of such appointment to the Owners of the Bonds, and any new Trustee so appointed by the Agency shall immediately and without further act be superseded by a Trustee appointed in the manner above provided by the Owners of a majority in principal amount of said Bonds whenever such appointment by said Bondowners shall be made.

If, in a proper case, no timely appointment of a successor Trustee shall be made pursuant to the foregoing provisions the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor trustee.

Payment and Discharge of Indenture

If the Agency, its successors or assigns, shall

(a) pay or cause to be paid the principal of and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal and premium, if any, of the Bonds and interest thereon by depositing with the Trustee at or at any time before maturity amounts sufficient in cash and/or in Government Obligations (the principal and interest on which when due and payable or redeemable at the option of the holder thereof) and without consideration of any reinvestment thereof shall be sufficient to pay the entire amount due or to become due thereon for principal and premium, if any, and interest to maturity of all said Bonds Outstanding, or

(c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding Bonds to be called for redemption not surrendered or to be surrendered to it for cancellation has been given or waived as provided in the Indenture, or that arrangements satisfactory to the Trustee have been made ensuring that such notice will be given or waived, or (2) a written instrument executed by the Agency and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Agency, or (3) file with the Trustee a waiver of such notice of redemption signed by the Owners of all of such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such Bonds are to be redeemed, as provided in the Indenture, the entire amount of the Redemption Price, in cash and/or Government Obligation (which do not permit the redemption thereof at the option of the issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the Outstanding Bonds is due and payable, or

(d) surrender to the Trustee for cancellation all Outstanding Bonds for which payment is not so provided, and shall also pay all other sums due and payable under the Indenture by the Agency,

then and in that case, if all required arbitrage rebate has been paid in respect of the Bonds, all the Trust Estate shall revert to the Agency, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Agency, and at its cost and expense, execute to the Agency, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Agency all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds and interest thereon), which shall then be held under the Indenture as a part of the Trust Estate.

In case of any discharge of the lien of the Indenture pursuant to paragraphs (b) or (c) above, there shall be submitted to the Trustee an opinion of Bond Counsel to the effect that the interest on the Bonds being discharged will not become includable in gross income for federal income tax purposes.

Bonds Deemed Not Outstanding After Deposits

When there shall have been deposited at any time with the Trustee in trust for the purpose, cash or Government Obligations the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding thereunder; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Owners of such Bonds.

Purposes for Which Supplemental Indentures May be Executed

The Agency, by Agency Resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Indenture, may enter into such indentures supplemental thereto as the

Agency may or shall deem necessary or desirable without notice to or consent of any Bondowner for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Agency in the Indenture or any Supplemental Indenture other covenants and agreements to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(b) To add to the limitations and restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Agency by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained in the Indenture;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the State Appropriations or of any other part of the Trust Estate;

(e) To cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any Supplemental Indentures that may be defective or inconsistent with any other provision contained in the Indenture or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under the Indenture or any Supplemental Indenture as the Agency may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any Supplemental Indenture and which shall not impair the security of the same;

(f) To modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939, excluding, however, the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939;

(g) To provide for the issuance of Additional Bonds pursuant to the Indenture;

(h) To make any other change in the Indenture as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

The Trustee shall not enter into a Supplemental Indenture under these provisions unless it obtains an Opinion of Counsel stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the Indenture and is authorized or permitted by the Indenture.

Modification of Indenture with Consent of Bondowners

Subject to the terms and provisions below, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Agency and the Trustee of such indenture or indentures supplemental thereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or deleting in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that, notwithstanding any other provision of the Indenture, nothing therein contained shall permit or be construed as permitting, without the consent of the Owners of all Outstanding Bonds affected thereby, (i) an extension of the maturity of any Bond issued under the Indenture, or (ii) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (iii) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (iv) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of the Bonds required to consent to Supplemental Indentures, or (vi) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such Supplemental Indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

APPENDIX B

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for the Series 2011 Bonds. The ownership of one fully registered Series 2011 Bond for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series 2011 Bonds, references herein to the Bondowners, Owners or registered owners of such Series 2011 Bonds shall mean Cede & Co. or such other nominee and shall not mean the Beneficial Owners (as hereinafter defined) of such Series 2011 Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries 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"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial ownership interests in the Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2011 Bonds, except in the event that use of the Book-Entry System for Series 2011 Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by 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 Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series 2011 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2011 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2011 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to any Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal and redemption price of and interest on the Series 2011 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 Trustee on the 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 and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Under the Indenture, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations to the extent of the payments so made.

The above information contained in this Appendix B is based solely on information provided by DTC. No representation is made by the Agency, the State or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the State, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series 2011 Bonds (i) payments of principal of or interest and premium, if any, on the Series 2011 Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series 2011 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2011 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the State, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person or entity with respect to: (1) the Series 2011 Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of, or interest on, the Series 2011 Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to Owners of Series 2011 Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series 2011 Bonds; or (6) any consent given or other action taken by DTC as a Bondowner.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to the Series 2011 Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Series 2011 Bonds are required to be delivered as described in the Indenture. The Beneficial

Owner, upon registration of such Series 2011 Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for the Series 2011 Bonds. In such event, the Series 2011 Bonds are to be delivered as described in the Indenture.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKINGS

To satisfy the requirements of Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"), the Agency and the Trustee will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement"). The Rule provides for the filing of an annual report and notice of certain material events with the Municipal Securities Rulemaking Board (the "MSRB"). The Agency and the State have entered into a separate Continuing Disclosure Agreement (the "State Agreement") under which the State has agreed to provide the Agency with the information the Agency will need to satisfy the Annual Report obligation described below.

The Disclosure Agreement

The Disclosure Agreement requires the Agency to cause an Annual Report to be delivered to the Trustee and to the MSRB on or before December 31 of each year, commencing December 31, 2011 (the "Annual Report Date"), in an electronic format as prescribed by the MSRB.

The Annual Report must contain the following:

1. Audited financial statements of the State for the most recent complete fiscal year prepared in accordance with generally accepted accounting principles, as in effect from time to time. If audited financial statements of the State are not available by the Annual Report Date, unaudited financial statements shall be provided. If audited financial statements of the State have not been provided, they must be filed with the MSRB when available.

2. The following financial information and operating data contained in Appendices E, F, G and H to this Official Statement to the extent not included in the annual financial statements.

If the Trustee is unable to verify by the Annual Report Date that an Annual Report was provided to the MSRB, it shall promptly send a notice to the MSRB regarding the failure by the Agency to provide the Annual Report.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which are available to the public on the Municipal Securities Rulemaking Board's Internet website or filed with the Securities and Exchange Commission.

If any part of such information can no longer be generated because the operations of the State have materially changed or been discontinued, such information need no longer be provided if the Annual Report includes a statement to such effect.

The Agency does not undertake to provide all information an investor may want to have in making decisions to hold, sell or buy Series 2011 Bonds, but only to provide the Annual Report and the notices of Listed Events described below.

The Disclosure Agreement also requires that the Agency notify the MSRB of any of the following Listed Events:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

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

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

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

(vi) 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;

(vii) Modifications to rights of security holders, if material;

(viii) The giving of notice to redeem any Series 2011 Bonds other than for sinking fund redemption, if material;

(ix) Tender offers;

(x) Defeasances;

(xi) Release, substitution, or sale of property securing repayment of the securities, if material;

(xii) Rating changes;

(xiii) Bankruptcy, insolvency, receivership or similar events of the Agency or the State;

(xiv) Consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Disclosure Agreement requires the Trustee to notify the Agency of Listed Events of which it has actual knowledge. Whenever the Agency obtains actual knowledge of the occurrence of a Listed Event, the Agency is to file, or cause the Trustee to file, notice thereof with the MSRB in a timely manner not in excess of 10 Business Days after the occurrence of the Listed Event.

The Agency's obligations under the Disclosure Agreement terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2011 Bonds.

The Agency and the Trustee may amend any provision of the Disclosure Agreement, subject to the following conditions:

(i) the amendment is in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the State or the type of operations conducted by the State;

(ii) the Disclosure Agreement, after giving effect to the amendments, would have complied with the requirements of the Rule as of the date of the Official Statement, after taking into account any subsequent amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the Trustee either determines, in its discretion, that the amendment does not materially impair the interest of the Holders of the Series 2011 Bonds or obtains the consent of Holders of at least 51% in aggregate principal amount of the Series 2011 Bonds then outstanding.

In addition, any Annual Report containing amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information.

The Disclosure Agreement does not prevent the Agency from disseminating any other information, using the means of dissemination set forth in the Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Agreement. If any such information is included in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Agreement, the Agency has no obligation under the Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

In the event of a failure of the Agency to provide a timely Annual Report or to report the occurrence of a Listed Event, the Trustee or any Holder of Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to provide the reports. A default under the Disclosure Agreement shall not be deemed an Event of Default under the Series 2011 Bonds or the Indenture, and the sole remedy under the Disclosure Agreement is an action to compel performance. Direct, indirect, consequential and punitive damages shall not be recoverable. None of the agreements or obligations of the Agency or of the State shall be construed to constitute 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. Neither a default by the Agency under the Disclosure Agreement nor a default by the State under the State Agreement shall constitute a default or an Event of Default under the Bonds or the Indenture. The Trustee may condition the taking of any action under the Disclosure Agreement on receiving indemnification satisfactory to it.

The Agency reserves the right to discontinue providing any information required under the Disclosure Agreement or the Rule, if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful, and to modify the undertaking under the Disclosure Agreement, if a court of competent jurisdiction or the Agency determines on the advice of counsel that such modification is required by the Rule.

The Disclosure Agreement shall inure solely to the benefit of the parties thereto, the Underwriters and the Holders from time to time of the Series 2011 Bonds, and shall create no rights in any other person or entity. For purposes of the Disclosure Agreement, "Holders" means the Beneficial Owners of Series 2011 Bonds so long as such Series 2011 Bonds are in book-entry only form, and, if the Series 2011 Bonds are not in book-entry only form, the Owners or Beneficial Owners of the Series 2011 Bonds. "Beneficial Owner" means any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2011 Bonds (including persons holding Series 2011 Bonds through nominees, depositories or other intermediaries).

The State Agreement

Under the State Agreement the State agrees to provide the information needed for the Annual Report which the Agency is required to provide under the Disclosure Agreement. The State may satisfy this obligation either by providing the Annual Report to the Agency or by identifying any other disclosure document which may be included or incorporated by reference in order to satisfy the Annual Report requirement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[To be dated the date of issuance of the Series 2011 Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Nonprofit Housing Bonds (State Appropriation), Series 2011

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Nonprofit Housing Bonds (State Appropriation), Series 2011, in the aggregate principal amount of $21,750,000 (the "Series 2011 Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The Series 2011 Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Indenture referenced below. The Series 2011 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, all as provided in the Indenture referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Indenture of Trust dated as of September 1, 2009 (the "Original Indenture"), as supplemented and amended by the First Supplemental Indenture of Trust dated as of February 1, 2011 (the "First Supplemental Indenture;" the Original Indenture as supplemented and amended by the First Supplemental Indenture is hereinafter referred to as the "Indenture"), each between the Agency and Wells Fargo Bank, National Association, as trustee. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming compliance by the Agency and each owner (the "Owners") of the developments financed by the Series 2011 Bonds (the "Developments") with the covenants contained in the Indenture and the loan documentation related to each Development, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Indenture has been duly executed and delivered by the Agency; (3) the Indenture is a valid and binding special, limited obligation of the Agency, enforceable against the Agency in accordance with its terms, and creates the valid pledge it purports to create solely with respect to the Trust Estate held under the Indenture, including specified transfers to the Agency expected to be made by the Commissioner of Management and Budget from an appropriation from the General Fund of the State of Minnesota (the "State Appropriations") pursuant to Minnesota Statutes, Section 462A.36 (the "Act"); (4) the State Appropriations and transfers to the Agency do not require any further action by the State of Minnesota or other approval except as expressly provided in the Act; provided, however, that pursuant to State of Minnesota law, the State Appropriations may be reduced or repealed in their entirety by the Minnesota Legislature; (5) the Series 2011 Bonds have been duly authorized and issued by the Agency and are valid and binding special, limited obligations of the Agency, payable solely from the Trust Estate and not from any other funds or assets of the Agency, enforceable in accordance with their terms, and entitled to the benefits granted by and secured by the covenants contained in the Indenture, and the State of Minnesota is not liable thereon and the Series 2011 Bonds are not public debt of the State and the full faith and credit and taxing powers of the State are not pledged for their payment; and (6) the interest payable on the Series 2011 Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the Series 2011 Bonds is not an item of tax preference for federal or Minnesota alternative minimum tax purposes but is included in adjusted current earnings for purposes of the federal alternative minimum taxes imposed on corporations. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the Series 2011 Bonds. All owners of Series 2011 Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the Series 2011 Bonds.

Noncompliance by the Agency or the Owners of the Developments with their covenants in the Indenture or applicable loan documentation relating to the Developments may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series 2011 Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Series 2011 Bonds and the Indenture may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ___________, 2011.

Respectfully yours,

APPENDIX E

STATE GOVERNMENT AND FISCAL ADMINISTRATION

(This page has been left blank intentionally.)

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, resulting in the Commissioner of Management and Budget assuming many of the duties related to human resource management, employee insurance and collective bargaining on behalf of the State as an employer. After the merger, the Department was renamed the Department of Minnesota Management and Budget ("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.

State 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 Schowalter

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 and certain revenue bonds, general obligation certificates of indebtedness, and equipment lease purchase financings, including certificates of participation.
- Preparation of periodic and special reports on the financial affairs of the State.

- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- To receive and account for all moneys paid into the State treasury properly disbursed or invested.
- Negotiation and administration of bargaining agreements and compensation plans.
- Development and management of employee, retiree and dependent insurance benefits.

Accounting System

State law requires the Commissioner 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. A request for proposal process has been completed, proposals have been evaluated, and a software selection has been made and a contract with a system implementation vendor is in place. A two year implementation period is underway with the new system expected to go live on July 1, 2011, the beginning of fiscal year 2012.

Financial Reporting

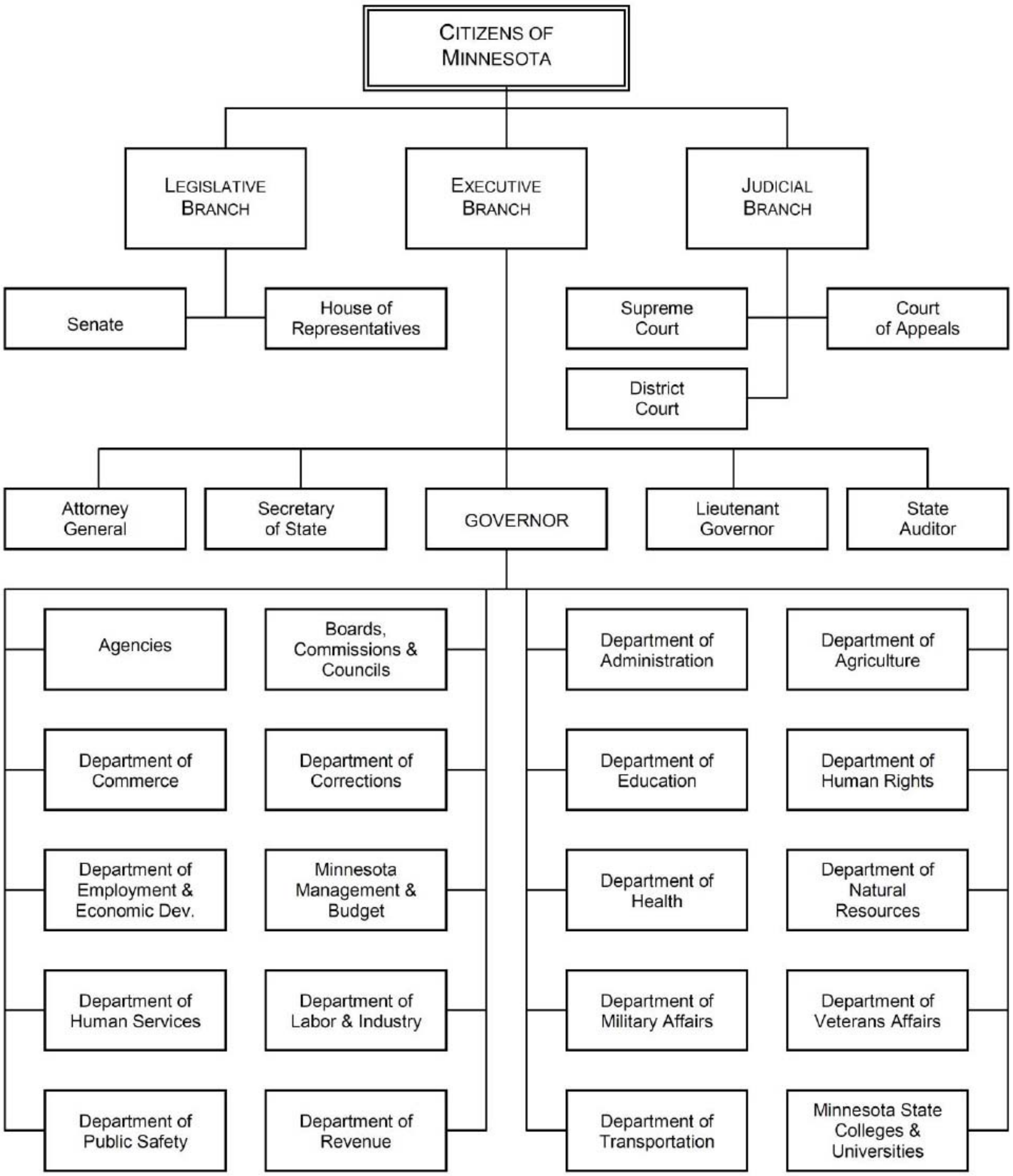
State law requires the Commissioner of Management and Budget to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the 2010 basic financial statements are presented in Appendix I, and general long-term debt unaudited schedules are presented in Appendix G.

Investments

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

- Invested Treasurer's Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the constitution, State law, or by federal law.
- Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.
- Various retirement funds — investment of assets and reserves.
- Trust Funds — investment of assets and reserves.
- Other departmental funds.

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 and Budgeting

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

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

Audit Control Procedures

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

Status of Collective Bargaining

The State has a total of 16 bargaining units for State employees which includes three faculty bargaining units negotiated and maintained by the Minnesota State Colleges and Universities System. Each odd-numbered year, the 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 bargaining unit. All contracts and compensation plans are subject to review and approval by the Legislature.

The State currently has agreements with all of the sixteen units, AFSCME (7 units-craft, service, health care non-professional, clerical, technical, correctional officers and radio communications operators), MAPE, MMA, MGEC, MLEA, SRSEA, MNA, IFO, MSCF and MSUAF, for the Current Biennium, which expires on June 30, 2011.

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 2010**
AFSCME (7 bargaining units)	17,484
MN Association of Professional Employees (MAPE)	12,722
Middle Management Association (MMA)	2,879
MN Government Engineers Council (MGEC)	973
MN Nurses Association (MNA)	737
MN Law Enforcement Association (MLEA)	725
State Residential Schools Education Association (SRSEA)	192
State College Faculty Association (MSCF)	5,381
State University Interfaculty Organization (IFO)	3,435
State University Admin and Service Faculty (MSUAF)	744
Total Represented Employees	45,272
Total State Employment	52,096
Percent of All Executive Branch Employees Unionized	87%

APPENDIX F

State Finances

Table of Contents

STATE FINANCES

FINANCIAL STATEMENTS

The basic financial statements for the State for the fiscal year ended June 30, 2010 are included herein as Appendix I. 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 I 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 I. 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 I in reliance upon the report of the Legislative Auditor. Revenues and expenditures on a budgetary basis for the sixth-month period ended December 31, 2010 and comparative data for the same period ended December 31, 2009 are summarized on page F-6.

Past and Future Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2010 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 biennium during which the forecasts are made 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 I) 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 new funds are included in the GAAP fund balance in Fiscal Year 2010, 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.

Control Procedures

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

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

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

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

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

Balanced Budget

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

If a forecast shows a shortfall for the General Fund for the then existing biennium, the Commissioner of Management and Budget 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 of Management and Budget, with the consent of the Governor and after consulting with the Legislative Advisory Commission may also reduce outstanding appropriations, commonly referred to as "unalloting."

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

REVENUE AND EXPENDITURE FORECASTING

General

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

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

Forecasting Risks

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

Current Forecast Methods and Assumptions

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

The IHS GII national economic forecasts are reviewed by Minnesota's Council of Economic Advisors (the "Council"), a group of macro-economists from the private sector and academia. The

Council provides an independent check on the IHS GII forecast. If the Council determines that the IHS GII forecast is significantly more optimistic than the current consensus, the Commissioner of Management and Budget 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 2010 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 2010 revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown on the following page. IHS GII estimated potential GDP growth at 2.3 percent over the 2009 to 2013 period. Real GDP is projected to exceed or equal potential in 2010 – 2013 as the economy recovers. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS GII NOVEMBER 2010
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2009 Actual %	Calendar Year 2010 Forecast %	Calendar Year 2011 Forecast %	Calendar Year 2012 Forecast %	Calendar Year 2013 Forecast %
REAL GDP Growth Rate	(2.6)	2.7	2.3	2.9	2.7
GDP DEFLATOR (Inflation)	0.9	1.0	1.3	1.4	1.6
NOMINAL GDP Growth Rate	(1.7)	3.7	3.6	4.3	4.4

A report is published with each forecast and is available at www.mmb.state.mn.us. The February 2011 revenue and expenditure forecast is expected to be released in early March 2011. The February 2011 IHS GII Baseline will in all likelihood 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, 2008 through 2010, and for the additional time periods shown. For the Fiscal Years ended June 30, 2008 through 2010 the revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such fiscal years. For the six-month periods ended December 31, 2009 and December 31, 2010, such revenues and expenditures include only cash receipts and disbursements allocable to such periods, respectively for appropriated funds within the General Fund. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included. The actual expenditures are presented by object of expenditure, the State's historical method of presentation, whereas forecasts of expenditures are presented by function, consistent with generally accepted accounting principles for reporting purposes.

STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
($ in thousands)
UNAUDITED

	Fiscal Year Ended June 30 (1)			July 1,2009 through December 31 2009 (3)	July 1,2010 through December 31 2010 (3)
	2008	2009	2010 (2)		
NET REVENUES:					
Individual Income Taxes	$ 7,932,036	$ 7,162,974	$ 6,729,244	$ 3,268,945	$ 3,512,541
Corporation Income Taxes	1,024,040	727,928	540,504	233,692	428,688
Sales Taxes	4,499,400	4,279,055	4,181,319	1,904,940	2,103,601
Property Taxes	704,246	729,373	766,830	381,484	361,505
Motor Vehicle Excise Taxes	319,599	244,917	235,756	120,665	110,690
Other Taxes	1,209,366	1,196,171	1,438,940	602,458	564,891
Tobacco Settlement	184,411	179,854	164,786	100	100
Federal Revenues	-	-	401	-	-
Licenses and Fees	254,691	246,755	256,278	143,068	150,811
Departmental Services	47,326	47,503	111,798	22,339	21,539
Investment/Interest Income (4)	95,900	38,385	63,127	4,464	1,414
Securities Lending Income (5)	9,197	940	183	-	-
All Other Revenues	320,652	299,463	334,724	216,307	203,672
NET REVENUES	$ 16,600,864	$ 15,153,318	$ 14,823,890	$ 6,898,462	$ 7,459,452
EXPENDITURES:					
Current:					
Public Safety and Corrections (11)	$ 578,464	$ 601,299	$ 540,876	$ 295,628	$ 296,064
Transportation	252,390	237,131	283,228	134,406	135,239
Agricultural, Environmental and Energy Resources	216,220	234,886	205,116	117,730	113,386
Economic and Workforce Development (6)	203,457	111,869	156,781	32,521	25,391
General Education (7) (11)	6,969,053	7,076,624	6,444,487	2,362,534	3,261,859
Higher Education (8)	870,322	830,789	841,752	439,689	309,547
Health and Human Services (11)	4,713,362	4,551,788	4,384,540	2,210,656	2,243,854
General Government (9)	710,433	692,936	633,298	368,826	357,498
Intergovernment Aid (10)	1,511,504	1,435,675	1,549,199	1,526,596	1,300,033
Securities Lending Rebates and Fees (5)	8,793	568	56	-	-
Total Current Expenditures	$ 16,033,998	$ 15,773,565	$ 15,039,333	$ 7,488,586	$ 8,042,871
Capital Outlay	15,587	8,067	30,972	-	-
Debt Service	36,965	32,149	45,841	11,281	20,923
TOTAL EXPENDITURES	$ 16,086,550	$ 15,813,781	$ 15,116,146	$ 7,499,867	$ 8,063,794
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ 514,314	$ (660,463)	$ (292,256)	$ (601,405)	$ (604,342)
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	$ -	$ -	$ 5,729	$ -	$ -
Transfer-In	443,647	555,696	378,042	45,373	39,001
Transfer-Out	(1,395,442)	(1,379,167)	(1,187,744)	(959,059)	(852,000)
NET OTHER FINANCING SOURCES (USES)	$ (951,795)	$ (823,471)	$ (803,973)	$ (913,686)	(812,999)
NET CHANGE IN FUND BALANCES	$ (437,481)	$ (1,483,934)	$ (1,096,229)	$ (1,515,091)	$ (1,417,341)

(1) For fiscal years 2008, 2009 and 2010, 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 2010, the state implemented a new GAAP pronouncement, which required several new funds to be included in the GAAP General Fund. These additional funds do not have appropriated budgets.

(3) For the six-month periods ended December 31, 2009 and 2010, only current receipts and disbursements have been included for funds included in the CAFR General Fund with appropriated budgets.

(4) For the six-month periods ended December 31, 2009 and 2010, Investment/Interest Income does not include changes in the fair market value of investments.

(5) For the six-month periods ended December 31, 2009 and 2010, Securities Lending activity is included in Investment/Interest Income.

(6) During fiscal year 2008, Economic and Workforce Development function spending increased due to grants to businesses and residents of southeastern Minnesota for flooding damage.

(7) During fiscal year 2008, General Education function spending increased due to a two percent increase in the per pupil grant formula, as well as increases in special education and one-time appropriations for school technology and deferred maintenance. During the six-month periods ended December 31, 2009 to December 31, 2010, the increase in General Education function spending resulted from a payment timing difference in grants to the School Districts.

(8) During fiscal year 2008, Higher Education function spending increased due to additional grants to the University of Minnesota. During the six-month periods ended December 31, 2009 to December 31, 2010, the decrease in Higher Education function spending resulted from a payment timing difference in grants to the University of Minnesota.

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

(10) Decrease in fiscal year 2009 resulted from decrease in grants to cities and counties.

(11) During fiscal year 2010, Public Safety and Corrections, General Education, and Health and Human Services function spending decreased due to shifts of General Fund spending to the Federal Fund and reimbursed by American Recovery and Reinvestment Act grants.

BIENNIUM BUDGETS

The biennium that began on July 1, 2007 and ended on June 30, 2009, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2009 and will end on June 30, 2011 is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2011 and will end on June 30, 2013 is referred to herein as the "Next Biennium". The biennium that will begin on July 1, 2013 and will end on June 30, 2015 is referred to herein as the "Subsequent Biennium".

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

November 2010 Forecast

MMB prepared a revised forecast of General Fund revenues and expenditures for the Current Biennium at the end of November 2010. Forecast changes total $202 million, with Current Biennium projected spending $255 million lower, offset by a $44 million reduction in revenues and a $9 million increase in the Budget Reserve Account. The $399 million projected balance for the Current Biennium will carry forward into the Next Biennium.

General Fund revenues for the Current Biennium are forecast to total $30.493 billion, $44 million (0.1 percent) less than end-of-session estimates. A projected $314 million (2.2 percent) decline in income tax revenues was offset by a $199 million improvement in the corporate income tax forecast and a $55 million increase in expected net receipts from the sales tax.

Projected spending in the Current Biennium is estimated to be $30.266 billion, $255 million (0.8 percent) below end-of-session estimates. A $183 million decrease in health and human services spending is due to lower than expected Medical Assistance costs – as well as revised estimates of the closeout of the General Assistance Medical Care program and the contingent early expansion of Medical Assistance to single adults. A $123 million reduction in FY 2011 debt services costs results from one-time savings from bond refinancing in September 2010 and savings from this past summer's bond sale. The lower projected spending estimates are offset by a slight increase ($48 million) in K-12 education, mostly due to a reduction in savings from the property tax recognition shift.

Normally any forecast balance would be allocated by statutory requirements to restore the General Fund cash flow account and the budget reserve. However, this provision was suspended during the October special legislative session because federal law prohibits any state savings resulting from the higher Medicaid matching rate from contributing directly or indirectly to state reserves. Therefore the $399 million balance for the Current Biennium will carry forward into the Next Biennium. Separately, $8.6 million from the workers' compensation assigned risk plan was deposited in the budget reserve, a surplus directed to the reserve by current statutes.

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 2010 Forecast. Authorized expenditures are presented by function.

CURRENT BIENNIUM
GENERAL FUND
ESTIMATES OF REVENUES AND EXPENDITURES
NOVEMBER 2010 FORECAST
($ in thousands)

	Fiscal Year 2010	Fiscal Year 2011	Current Biennium
Forecast Resources			
Prior Year Ending Balance (1)	$ 446,921	$ 439,730	$ 446,921
Net Non-dedicated Revenues	14,171,460	15,416,109	29,587,569
Dedicated Revenues	16,383	1,600	17,983
Transfers From Other Funds	391,546	430,756	822,302
Prior Year Adjustments	40,376	25,000	65,376
Subtotal Current Resources	$ 14,619,765	$ 15,873,465	$ 30,493,230
Total Revenues Plus Prior Year Ending Balance	$ 15,066,686	$ 16,313,195	$ 30,940,151
Authorized Expenditures & Transfers			
K-12 Education	$ 5,346,894	$ 6,091,263	$ 11,438,157
Higher Education	1,455,940	1,358,277	2,814,217
Property Tax Aids & Credits	1,614,125	1,404,300	3,018,425
Health & Human Services	4,103,878	4,565,549	8,669,427
Public Safety	855,603	964,522	1,820,125
Transportation	96,896	70,140	167,036
Environment, Energy & Natural Resources	153,558	160,894	314,452
Agriculture & Veterans	120,660	127,306	247,966
Economic Development	135,185	148,084	283,269
State Government	291,445	340,034	631,479
Debt Service	429,123	403,044	832,167
Capital Projects	10,250	12,648	22,898
Other	3,196	5,967	9,163
Cancellation Adjustment	0	(15,000)	(15,000)
Subtotal Expenditures & Transfers	$ 14,616,753	$ 15,637,028	$ 30,253,781
Dedicated Revenue Expenditures	10,203	2,500	12,703
Total Expenditures and Transfers	$ 14,626,956	$ 15,639,528	$ 30,266,484
Balance Before Reserves	439,730	673,667	673,667
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	0	8,665	8,665
Appropriations Carried Forward	106,652	0	0
Budgetary Balance	$ 67,078	$ 399,002	$ 399,002

(1) On a budgetary basis, Fiscal Year 2009 ended with an Unrestricted General Fund balance of $447 million and an Unreserved Accounting General Fund balance of $52 million.

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

CURRENT BIENNIUM
GENERAL FUND- ESTIMATES OF NONDEDICATED REVENUES
NOVEMBER 2010 FORECAST
($ in thousands)

	Fiscal Year 2010	Fiscal Year 2011	Current Biennium
Net Nondedicated Revenues:			
Income Tax - Individual	$ 6,530,958	$ 7,235,400	$ 13,766,358
Income Tax - Corporate	663,505	967,800	1,631,305
Sales Tax	4,177,345	4,531,200	8,708,545
Motor Vehicle Sales Tax	74,120	29,919	104,039
Statewide Property Tax	766,831	762,225	1,529,056
Estate Tax	151,849	154,000	305,849
Liquor, Wine & Beer	75,571	77,355	152,926
Cigarette & Tobacco	183,752	190,300	374,052
Mining	668	3,785	4,453
Mortgage Registry Tax	94,616	78,300	172,916
Deed Transfer Tax	58,477	43,700	102,177
Gross Earnings Taxes	275,916	280,050	555,966
Lawful Gambling Taxes	40,414	37,800	78,214
Medical Assistance Surcharges	231,404	233,836	465,240
Income Tax Reciprocity	66,932	58,697	125,629
Tobacco Settlements	168,297	161,837	330,134
Investment Income	4,862	1,500	6,362
DHS SOS Collections	48,917	47,500	96,417
Lottery Revenue	56,223	59,593	115,816
Departmental Earnings	260,851	248,000	508,851
Fines & Surcharges	97,139	95,000	192,139
All Other Nondedicated Revenue	195,055	172,492	367,547
Tax and Non-Tax Refunds	(52,242)	(54,180)	(106,422)
Total Net Nondedicated Revenues	$ 14,171,460	$ 15,416,109	$ 29,587,569

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 November 2010 Forecast.

Historical and Projected Revenue Growth
November 2010 Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
Individual Income Tax	$7,759	$6,988	$6,531	$7,235	$7,499	$8,177	
$ change		(771)	(457)	704	264	678	
% change		**-9.9%**	**-6.5%**	**10.8%**	**3.6%**	**9.0%**	**1.1%**
Sales Tax	4,571	4,344	4,177	4,531	4,382	4,649	
$ change		(227)	(167)	354	(149)	267	
% change		**-5.0%**	**-3.8%**	**8.5%**	**-3.3%**	**6.1%**	**0.3%**
Corporate Tax	1,020	708	664	968	728	813	
$ change		(312)	(44)	304	(240)	85	
% change		**-30.6%**	**-6.2%**	**45.8%**	**-24.8%**	**11.7%**	**-4.4%**
Statewide Property Tax	704	729	767	762	776	785	
$ change		25	38	(5)	14	9	
% change		**3.6%**	**5.2%**	**-0.7%**	**1.8%**	**1.2%**	**2.2%**
Motor Vehicle Sales	186	117	74	30	0	0	
$ change		(69)	(43)	(44)	(30)	0	
% change		**-37.1%**	**-36.8%**	**-59.5%**	**-100.0%**	**n/a**	**-100.0%**
Other Tax Revenue	1,172	1,164	1,153	1,125	1,069	1,114	
$ change		(8)	(11)	(28)	(56)	45	
% change		**-0.7%**	**-0.9%**	**-2.4%**	**-5.0%**	**4.2%**	**-1.0%**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,651	$14,454	$15,538	
$ change		(1,362)	(684)	1,285	(197)	1,084	
% change		**-8.8%**	**-4.9%**	**9.6%**	**-1.3%**	**7.5%**	**0.2%**
Non-Tax Revenues	824	762	805	765	738	738	
$ change		(62)	43	(40)	(27)	0	
% change		**-7.5%**	**5.6%**	**-5.0%**	**-3.5%**	**0.0%**	**-2.2%**
Dedicated, Transfers, Other	444	576	448	457	267	268	
$ change		132	(128)	9	(190)	1	
% change		**29.7%**	**-22.2%**	**2.0%**	**-41.6%**	**0.4%**	**-9.6%**
Total Current Resources	$16,680	$15,388	$14,619	$15,873	$15,459	$16,544	
$ change		(1,292)	(769)	1,254	(414)	1,085	
% change		**-7.7%**	**-5.0%**	**8.6%**	**-2.6%**	**7.0%**	**-0.2%**

Historical and Projected Spending Growth
November 2010 Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
K-12 Education	$6,819	$6,938	$5,347	$6,091	$8,425	$7,223	
$ change		119	(1,591)	744	2,334	(1,202)	
% change		**1.7%**	**-22.9%**	**13.9%**	**38.3%**	**-14.3%**	**1.2%**
Higher Education	1,563	1,550	1,456	1,358	1,458	1,458	
$ change		(13)	(94)	(98)	100	0	
% change		**-0.8%**	**-6.1%**	**-6.7%**	**7.4%**	**0.0%**	**-1.4%**
Prop. Tax Aids & Credits	1,581	1,489	1,614	1,404	1,732	1,737	
$ change		(92)	125	(210)	328	5	
% change		**-5.8%**	**8.4%**	**-13.0%**	**23.4%**	**0.3%**	**1.9%**
Health & Human Services	4,630	4,460	4,104	4,566	5,834	6,073	
$ change		(170)	(356)	462	1,268	239	
% change		**-3.7%**	**-8.0%**	**11.3%**	**27.8%**	**4.1%**	**5.6%**
Public Safety	909	957	856	965	891	891	
$ change		48	(101)	109	(74)	0	
% change		**5.3%**	**-10.6%**	**12.7%**	**-7.7%**	**0.0%**	**-0.4%**
Debt Service	409	453	429	403	570	572	
$ change		44	(24)	(26)	167	2	
% change		**10.8%**	**-5.3%**	**-6.1%**	**41.4%**	**0.4%**	**6.9%**
All Other	1,094	1,014	821	853	864	863	
$ change		(80)	(193)	32	11	(1)	
% change		**-7.3%**	**-19.0%**	**3.9%**	**1.3%**	**-0.1%**	**-4.6%**
Total Spending	$17,005	$16,861	$14,627	$15,640	$19,774	$18,817	
$ change		(144)	(2,234)	1,013	4,134	(957)	
% change		**-0.8%**	**-13.2%**	**6.9%**	**26.4%**	**-4.8%**	**2.0%**

BUDGET PLANNING ESTIMATES

Next Biennium

The November 2010 Forecast establishes the starting point for Next Biennium budget considerations. It contains revised revenue and expenditure estimates for the Current Biennium based on the most recent information about the national and State economic outlook, caseloads, enrollments, and cost projections. Additionally this forecast provides closing balances for FY 2010 and compares how actual revenue collections and expenditures in that year compare to end-of-session estimates.

General Fund revenues for the Next Biennium are forecast to grow by $1.510 billion (5.0 percent) over Current Biennium, while expenditures are projected to grow by $8.324 billion (27.5 percent). Three-quarters, about $6.3 billion, of the $8.3 billion of spending growth is from one-time federal stimulus resources, education payment shifts and one-time budget actions that created General Fund savings in the Current Biennium that do not continue into the Next Biennium.

General Fund revenues for Next Biennium are forecast to total $32.004 billion, $904 million (2.8 percent) less than prior revenue planning estimates. A slightly weaker outlook for economic growth through the entire forecast horizon is the primary reason for the decline in the revenues outlook.

Individual income tax receipts showed the largest dollar decline from the planning estimates, down $471 million or 2.9 percent. Corporate income taxes had the largest percentage decline, off 10.7 percent or $185 million. Sales tax receipts are now forecast to fall short of prior planning estimates by $119 million or 1.3 percent.

Projected spending in the Next Biennium is forecast to total $38.591 billion, $108 million (0.2 percent) below end-of-special session estimates. A $111 million decrease in estimated health and human services spending is the primary source of the savings. Small overall adjustments to enrollment growth and average cost for Medical Assistance programs account for the decrease from prior forecasts. The forecast for K-12 education spending increases $26 million from previous estimates. The increase results primarily from a $41 million reduction in savings from the property tax recognition shift, due to a downward revision in expected property tax levies.

Next Biennium revenues are forecast to total $32.004 billion and biennial spending is projected to be $38.591 billion. The gap in forecast revenues and expenditures is reduced by the $399 million balance now expected at the close of FY 2011.

The new administration will submit a new budget for the Next Biennium by February 15, 2011.

Subsequent Biennium

The November 2010 Forecast provides the first revenue and expenditure planning estimates for the Subsequent Biennium. These estimates are materially different from the short-term forecasts for the Current Biennium and Next Biennium. Projection methods are different and the longer-term projections carry a higher degree of uncertainty and an inherently larger potential range of error.

Revenue projections are based on Global Insight's (GII) November baseline forecast for the Subsequent Biennium. Expenditure projections assume current funding level and policies continue unchanged, adjusting only for caseload and enrollment changes as well as specific formula-driven items.

For the Subsequent Biennium current resources are projected to reach $34.595 billion, an increase of $2.591 billion (8.1 percent) over the forecast for the Next Biennium. The Subsequent Biennium expenditures are projected to be $39.678 billion, an increase of $1.087 billion (2.8 percent) over forecast spending levels for the Next Biennium.

The individual income tax is the major source of revenue growth in the Subsequent Biennium. Projected income tax receipts are now forecast to exceed levels forecast for the Next Biennium by $1.489 billion or 9.5 percent. The spending growth in the Subsequent Biennium planning estimates is much lower than that shown for the Next Biennium. Total spending is projected to increase by nearly $1.1 billion, 2.8 percent over the Next Biennium. Health and human services projections account for $1.693 billion of the growth.

While wage and price inflation is included in revenue planning estimates, State law prohibits including a general inflation adjustment for project expenditures. For the Subsequent Biennium inflation is expected to average slightly over 2.1 percent per year. Applying forecast inflation to the current law projected spending base would add about $1.283 billion to the Subsequent Biennium spending.

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 2010 consist of three income brackets having tax rates of 5.35 percent, 7.05 percent and 7.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the National CPI. The base of the tax is federal taxable income, with selected additions and subtractions. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is $347. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents. A refundable low income motor fuels credit applied for Tax Year 2009, but was repealed effective for tax year 2010.

SINGLE FILER

Taxable Income	Tax
on the first $22,730	5.35 percent
on all over $22,770, but not over $74,780	7.05 percent
on all over $74,780	7.85 percent

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $33,280	5.35 percent
on all over $33,280 but not over $132,220	7.05 percent
on all over $132,220	7.85 percent

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

HEAD OF HOUSEHOLD

Taxable Income	Tax
on the first $28,030	5.35 percent
on all over $28,030 but not over $112,620	7.05 percent
on all over $112,620	7.85 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.

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

Corporate Franchise Tax: A flat tax rate of 9.8% is imposed on corporate taxable income. Corporations that do business both in and outside of Minnesota must apportion their taxable income on the basis of a three factor formula that in Tax Year 2009 gives an 87% weight to sales, an 6.5% weight to payroll and a 6.5% weight to property. Laws enacted in 2005 called for the weights to be incrementally adjusted each year, so that by 2014 the weight for sales will be 100%. The phase in began in 2007. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8%, to the extent the minimum tax exceeds the regular tax.

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

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

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

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

1.5%	Life insurance
2.0%	Domestic and foreign company premiums.
1.0%	Mutual property and casualty companies with assets of 5 million or less on 12/31/89.
1.26%	Mutual property and casualty companies with assets in excess of 5 million but less than 1.6 billion on 12/31/89.
3.0%	Surplus line agents.
0.5%	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. For fiscal year 2011, 93.75% of the collections are dedicated to transportation related funds. Under a constitutional amendment adopted by the voters in 2006, all of the collections will be dedicated to transportation related funds beginning in fiscal year 2012.

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

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

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

A 75 cents per pack health impact fee is imposed on cigarettes and a health impact fee of 35% is imposed on tobacco products. In lieu of a sales tax on cigarettes, a wholesale tax is imposed at rates, adjusted annually, to yield revenues equivalent to a 6.5% retail sales tax. The initial rate in 2005 was set at 25.5 cents per pack. The current rate is 34.6 cents per pack.

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

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

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

Legalized Gambling Taxes:

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

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

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

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

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

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

Other Sources

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

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

Tobacco Settlement

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

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of highways, bridges and maintenance, enforcement, service, and administrative buildings across the State. Minnesota has 914 miles of interstate highways, all of which are part of the State trunk highway system.

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

Trunk Highway Fund

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

Current Biennium
Trunk Highway
($ in Millions)

Resources	
Unreserved Balance at June 30, 2009	$107
Revenues	3,008
Total Resources	3,115
Expenditures	2,877
Projected Unreserved Balance at June 30, 2011	$238
Transfers to Debt Service Fund	117
Projected Unrestricted Balance at June 30, 2011	$121

MINNESOTACARE® PROGRAM

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

The program is not part of the General Fund. A separate fund, called the Health Care Access Fund, was established as a special revenue fund to account for revenues and expenditures for the MinnesotaCare® program. Program revenues are derived primarily from a 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs. The 2008 Legislature created a loan from the Health Care Access Fund to the General Fund in the amount of $50 million. When the Commissioner of Health determines that accumulated savings to State-administered health care programs from enacted health care reform reach $50 million, the Commissioner of Management and Budget must transfer a like amount back from the General Fund to the Health Care Access Fund.

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

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

Resources	
Unreserved Balance at June 30, 2009	$292
Revenues	1,113
Total Resources	$1,405
Expenditures	1,150
Projected Unreserved Balance at June 30, 2011	$255
Transfers to Other Funds	201
Projected Unrestricted Balance at June 30, 2011	$54

The federal Patient Protection and Affordable Care Act, Public Law 111-148, and the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 allow Minnesota to receive federal matching funds associated with covering adults without children, a newly-eligible group under the federal health care reform. The Minnesota Legislature and Governor agreed to a compromise in the 2010 legislative session, which would allow either the current governor or his successor to opt into the early expansion any time prior to January 15, 2011. Newly elected Governor Dayton issued an executive order on January 5, 2011, opting in to the early expansion.

The Health Care Access Fund balance as of June 30, 2011, incorporates the fiscal effects of an early expansion of Medicaid coverage to single adults without children under seventy-five percent of the federal poverty guideline. Fiscal effects include reduced MinnesotaCare® expenditures to reflect movement of qualifying individuals to Medicaid. Savings in MinnesotaCare® are transferred to the general fund to help cover the cost of additional spending associated with the expanded Medicaid population. The fiscal effects of moving forward with the early expansion were initially estimated based upon an effective date of January 1, 2011, though the actual effective date has yet to be determined. Fiscal effects of the program expansion will be re-estimated once the effective date is determined.

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 November 2010 forecast fund balance estimates anticipated revenues and expenditures resulting from the final enacted budget updated for forecast changes. Based on current law, the November 2010 forecast represent the State's official forecast of its financial position until new revenue and expenditure forecasts are prepared in February of each year.

Based on the forecast for the remainder of the biennium, continual monitoring of estimated vs. actual revenues and expenditures is required to ensure adequate cash flow. There are 43 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 of Management and Budget 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 State secured a line of credit in the maximum amount of $600 million in the third quarter of 2010 to increase liquidity and assist in managing the fluctuations of forecasted state receipts and disbursements. The State also intends to continue to utilize a variety of administrative tools to manage Statutory General Fund cash flow on a daily basis. Those tools may consist of, and are not limited to, statutorily permitted delays in certain payments to school districts, higher education institutions, and health care providers, as well as delays in remittance of certain corporate and sales tax refunds.

The extent to which the line of credit is actually utilized to meet cash flow needs will be determined by the variance between estimated and actual receipts and the timing of major payments during any given month.

The State currently has no short-term debt outstanding.

The tables on the following two pages show the actual monthly Statutory General Fund cash flows for FY 2010 and for FY 2011 actual cash flow data through December 2010 and projections through June 2011. These projections are based on November 2010 forecast.

For FY 2011, comparing the cash flows based on the November 2010 Forecast to cash flows based on 2010 End of Session projections, the State's actual Statutory General Fund cash flow cumulative receipts for the first six months of the fiscal year (July-December 2010) were approximately $223 million greater than previously projected and disbursements were approximately $58 million less than projected. As a result, actual December 2010 end-of-month cash balances were $281 million more than previously projected and the minimum Statutory General Fund cash balance for the month was $604 million more than previously projected. Monthly cash flow results and projections are subject to a high level of variability and no conclusions should be drawn based on these results.

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
FY 2010 ACTUAL
Fiscal Year Ending June 30, 2010
(Dollars in Thousands)

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	TOTAL
BEGINNING CASH BALANCE	$2,475,390	$1,847,504	$1,104,850	$1,048,731	$1,040,168	$833,484	$1,055,575	$1,702,971	$1,167,894	$1,139,391	$1,587,694	$1,073,738	
REVENUE													
Individual Income Tax	$549,345	$460,970	$664,245	$499,635	$435,503	$659,249	$784,883	$103,187	$340,944	$885,466	$458,825	$655,971	$6,498,223
Sales and Use Taxes	152,923	401,403	347,810	380,547	358,715	307,673	440,092	318,647	254,121	351,773	367,925	573,231	4,254,861
Corporate & Bank Excise	(18,356)	18,996	128,670	28,176	35,517	40,689	5,026	30,002	178,434	39,300	32,457	133,815	652,726
Statewide Property Tax	25,207	-	-	164	2,450	353,663	5,830	59	-	-	-	394,874	782,247
Motor Vehicle Taxes	8,936	11,644	8,389	(2,505)	(1,042)	14,057	(800)	1,544	16,168	13,386	1,854	9,844	81,475
Tobacco Product Taxes	(423)	38,643	1,838	35,202	2,439	15,147	19,641	16,100	(5,472)	20,051	24,169	51,559	218,895
Insurance Taxes	2,204	4,203	75,232	4,442	2,422	77,649	2,538	11,384	87,435	1,280	1,813	72,598	343,199
Other Excise Taxes	125,700	107,378	68,703	138,749	76,824	143,356	150,684	80,674	77,152	137,200	75,663	87,427	1,269,509
Investment Earnings	3,266	2,573	1,873	1,429	1,073	1,058	1,065	992	752	431	708	7,049	22,269
Tobacco Settlement	-	-	-	-	-	-	164,684	-	-	-	-	-	164,684
Inter-governmental Grants	9,196	11,799	15,972	10,951	11,385	11,477	9,434	10,429	9,226	30,020	9,185	30,263	169,338
Other Sources	512,763	474,804	436,685	243,173	371,926	334,457	538,744	309,173	307,879	310,725	324,369	589,178	4,753,876
TOTAL REVENUE	$1,370,762	$1,532,411	$1,749,416	$1,339,964	$1,297,211	$1,958,476	$2,121,821	$882,191	$1,266,640	$1,789,631	$1,296,968	$2,605,809	$19,211,302
TOTAL SOURCES	$3,846,152	$3,379,915	$2,854,266	$2,388,695	$2,337,379	$2,791,960	$3,177,396	$2,585,162	$2,434,534	$2,929,022	$2,884,663	$3,679,547	
EXPENDITURES													
State Payroll	$349,900	$226,630	$237,718	$237,030	$233,463	$331,868	$229,114	$239,674	$231,622	$238,136	$239,695	$223,570	$3,018,420
Agency Operations	196,185	135,941	117,578	113,477	104,205	119,146	101,478	97,238	104,244	113,222	103,729	119,590	1,426,032
Aid to School Districts	115,350	790,680	570,535	336,207	115,637	364,260	525,142	511,616	278,713	541,418	914,869	233,307	5,297,734
Aid to Cities	262,891	9,450	71,243	44,442	7,672	292,426	8,992	3,471	6,233	5,310	4,997	5,873	722,999
Aid to Counties	105,805	178,083	33,832	88,807	39,208	197,463	22,388	27,038	42,071	31,157	25,470	12,902	804,223
Aid to Higher Education Institutions	60,438	97,188	144,141	73,504	67,299	88,066	114,310	72,570	8,285	64,002	71,914	115,868	977,583
Aid to Non-Gov't Organizations	32,316	28,882	33,642	22,304	21,864	18,990	27,159	22,774	15,423	23,516	18,120	17,237	282,228
Aid to Special Districts	17,537	(956)	12,482	17,508	13,539	14,641	8,135	12,909	9,207	10,346	8,680	12,679	136,704
Payments to Individuals	565,740	696,003	549,669	348,415	367,777	244,566	355,206	359,562	532,527	235,973	336,551	213,747	4,805,735
Other	292,487	113,165	34,695	66,834	103,232	64,961	82,499	70,416	66,819	78,250	86,900	296,981	1,357,238
Debt Service	-	-	-	-	430,000	-	-	-	-	-	-	-	430,000
TOTAL EXPENDITURES	$1,998,648	$2,275,066	$1,805,535	$1,348,527	$1,503,895	$1,736,386	$1,474,425	$1,417,268	$1,295,144	$1,341,328	$1,810,925	$1,251,752	$19,258,897
ENDING CASH BALANCE	$1,847,504	$1,104,850	$1,048,731	$1,040,168	$833,484	$1,055,575	$1,702,971	$1,167,894	$1,139,391	$1,587,694	$1,073,738	$2,427,796	
MINIMUM STATUTORY CASH BALANCE FOR THE MONTH	$1,847,504	$1,078,503	$1,011,771	$841,282	$833,486	$832,079	$1,062,749	$1,154,719	$929,987	$993,825	$1,017,969	$980,781	

STATUTORY GENERAL FUND
MONTHLY CASH FLOW ANALYSIS
NOVEMBER 2010 FORECAST
Fiscal Year Ending June 30, 2011
(Dollars in Thousands)

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	TOTAL
BEGINNING CASH BALANCE	$2,427,796	$1,739,891	$872,996	$901,034	$1,004,547	$1,511,428	$1,009,499	$1,733,048	$1,270,946	$939,398	$1,206,562	$1,424,325	
REVENUE													
Individual Income Tax	$567,047	$499,817	$721,104	$508,469	$524,579	$690,189	$846,126	$216,649	$475,998	$991,328	$516,715	$783,421	$6,498,223
Corporate & Bank Excise	(8,774)	40,608	181,458	60,232	26,600	128,459	38,797	30,386	216,688	39,913	29,864	111,996	896,228
Sales and Use Taxes	157,025	405,481	500,282	416,393	370,508	298,434	470,567	353,131	312,563	371,580	350,739	498,848	4,505,551
Statewide Property Tax	9,565	2	-	158,648	172,131	21,074	7,719	-	-	-	204,548	204,548	778,235
Motor Vehicle Taxes	4,059	4,427	4,491	(2,409)	1,012	4,663	2,105	1,877	2,376	2,954	2,875	3,258	31,687
Tobacco Product Taxes	(36,745)	68,028	8,952	(2,978)	32,930	23,797	16,213	13,792	8,562	20,474	13,545	26,120	192,691
Insurance Taxes	792	4,477	78,700	198	1,902	79,364	1,098	17,233	87,768	2,269	1,882	80,310	355,994
Other Excise Taxes	131,143	91,857	74,877	141,520	101,006	74,044	202,456	89,691	71,785	134,957	93,624	97,229	1,304,188
Investment Earnings	748	994	648	850	370	699	1,677	1,720	1,574	1,499	1,563	1,341	13,683
Tobacco Settlement	-	-	-	-	-	-	161,737	-	-	-	-	-	161,737
Inter-governmental Grants	7,158	15,852	11,407	14,363	16,571	20,982	4,926	2,683	3,605	4,111	2,363	2,525	106,547
Other Sources	584,298	497,471	459,569	327,602	300,124	363,119	513,754	306,150	315,416	425,293	321,893	392,120	4,806,809
TOTAL REVENUE	$1,416,315	$1,629,015	$2,041,487	$1,622,886	$1,547,732	$1,704,825	$2,267,175	$1,033,313	$1,496,334	$1,994,379	$1,539,612	$2,201,716	$20,494,791
TOTAL SOURCES	$3,844,111	$3,368,906	$2,914,483	$2,523,920	$2,552,280	$3,216,253	$3,276,674	$2,766,360	$2,767,280	$2,933,777	$2,746,174	$3,626,041	
EXPENDITURES													
State Payroll	$340,038	$233,710	$243,879	$243,872	$244,521	$342,905	$253,330	$238,365	$256,056	$257,855	$279,455	$248,074	$3,182,061
Agency Operations	140,597	145,236	119,124	126,480	115,444	115,457	115,984	103,834	128,215	110,160	124,700	129,469	1,474,700
Aid to School Districts	122,589	1,119,883	948,040	569,690	111,873	338,337	595,050	533,859	665,988	626,724	342,043	87,407	6,061,483
Aid to Cities	230,804	8,731	75,411	15,146	8,317	242,265	12,730	9,018	3,490	2,827	14,556	7,882	631,176
Aid to Counties	215,788	27,662	52,970	64,401	45,191	155,741	51,213	26,705	48,091	20,212	34,740	31,776	774,491
Aid to Higher Education Institutions	56,760	98,131	22,727	23,072	58,117	128,781	92,725	60,091	63,231	67,603	58,785	149,548	879,571
Aid to Non-Gov't Organizations	29,262	38,676	23,172	17,674	16,493	31,081	25,797	22,635	14,901	15,389	17,688	14,188	266,956
Aid to Special Districts	19,664	10,524	9,281	17,548	6,272	17,989	8,638	10,818	12,266	3,330	8,070	9,751	134,151
Payments to Individuals	593,695	664,057	441,223	366,224	334,105	367,453	317,578	406,133	557,813	422,031	329,381	262,141	5,061,834
Other	355,024	149,301	77,621	75,265	100,519	65,480	70,581	83,955	77,831	201,084	112,432	139,252	1,508,344
Debt Service	-	-	-	-	-	401,265	-	-	-	-	-	-	401,265
TOTAL EXPENDITURES	$2,104,220	$2,495,910	$2,013,449	$1,519,373	$1,040,852	$2,206,754	$1,543,626	$1,495,414	$1,827,883	$1,727,216	$1,321,849	$1,079,487	$20,376,033
ENDING CASH BALANCE	$1,739,891	$872,996	$901,034	$1,004,547	$1,511,428	$1,009,499	$1,733,048	$1,270,946	$939,398	$1,206,562	$1,424,325	$2,546,554	
MINIMUM STATUTORY CASH BALANCE FOR THE MONTH	$1,619,772	$838,702	$848,776	$630,293	$988,658	$847,062	$1,033,933	$1,270,948	$763,767	$583,093	$904,131	$1,398,149	

MINNESOTA DEFINED BENEFIT RETIREMENT PLANS
AND OTHER POSTEMPLOYMENT BENEFITS

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriations. Estimates of direct General Fund appropriations to these plans for the Current Biennium and Previous Biennium are shown in the table on F-27. Additionally, the table on F-25 presents summary financial data on the plans. information in this table includes:

a. the actuarial accrued benefit liability;

b. the actuarial and market value of assets;

c. the actuarial and market value unfunded accrued liability;

d. the actuarial and market value funding ratio;

e. the number of plan members;

f. identification of the funds for which the State has custodial responsibility; and

g. identification of the funds for which the State may have a contingent liability.

The State retirement system is composed primarily of three statewide systems covering most of the employees of the State, counties, cities, and townships, and school districts. The three systems are the Minnesota State Retirement System ("MSRS"), the Public Employees Retirement Association ("PERA") and the State Teachers' Retirement Association ("TRA"). The systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay benefits to retired public employees and their beneficiaries.

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

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

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

3. *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 July 1, 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 July 1, 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.

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

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

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

MSRS, TRA and PERA have published a Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010; these reports contain detailed financial and actuarial information. The public web sites for Minnesota State Retirement System, the State Teachers' Retirement Association and the Public Employees Retirement Association are http://www.msrs.state.mn.us/, http://www.tra.state.mn.us/, and http://www.mnpera.org/, respectively.

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

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

In the case of the expected rate of return of assets, the actual rate of return on the pension funds depends on the performance of their respective investment portfolios. The investment portfolios of the respective pension funds can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one Fiscal Year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL. For Fiscal Year 2009, the rate of return of the assets of the combined pension systems was negative 18.8%, causing the UAAL of the pension systems to increase between Fiscal Year 2008 and Fiscal Year 2009. For Fiscal Year 2010, the estimated year-end combined return is 15.2%.

Assets of the pension funds are invested by the State Board of Investment (the "SBI"). The SBI includes: Governor, Attorney General, Secretary of State and State Auditor. Members of the SBI are subject to the Prudent Person rule, fiduciary standards detailed in Minnesota Statutes Chapter 356A, and investment guidelines in Minnesota Statutes, Chapter 11A.

A 17-member Investment Advisory Council advises the SBI on investment policy. The Executive Director of each pension system serves as a member. Also, investment consultants are hired to monitor and evaluate investment performance of the various investment firms hired by the SBI.

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, 2010, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $42.3 billion. As of June 30, 2010, the aggregate actuarial value of all assets of the pension systems was $48.9 billion.

The pension funds have different amortization methods that are used to calculate the amount of the UAAL as summarized in the State's Comprehensive Annual Financial Report in Appendix I of this Official Statement (See page 1-80).

The 2010 legislature passed significant pension legislation into law that increased employee and employer contribution rates, changed post-retirement benefit adjustments, changed interest on refunds, and made other changes to reduce the funding deficiencies of Minnesota's pension systems. Changes were not uniform across all plans. See "Recent Pension Legislation and Litigation" below.

The following table presents summary data on Minnesota's defined benefit retirement plans. Assets are presented in two ways: actuarial value of assets ("AVA") and market value of assets ("MVA").

Condition of Defined Benefit Pension Plans to Which Minnesota Provides General Fund Resources, June 30, 2010

($ in millions)[1]

		Actuarial Value			Market Value			Membership	
	Actuarial Accrued Liability[2]	Actuarial Value of Assets (AVA)[3]	Unfunded Actuarial Accrued Liability (UAAL)[4]	Funding Ratio[5]	Market Value of Assets (MVA)[6]	Unfunded Liability	Funding Ratio	Active Members	Other Members
1. Funds For Which the State Has Custodial Responsibility									
Minnesota State Retirement System (MSRS):									
— State Employees Retirement Fund	$10,264	$8,960	$1,304	87.30%	$7,693	$2,571	74.95%	48,494	50,360
— Correctional Employees Retirement Fund	851	604	$247	70.95%	525	$326	61.71%	4,268	3,437
— State Patrol Retirement Fund	683	567	$116	83.00%	489	$194	71.54%	848	977
— Judicial Retirement Fund	241	145	$96	60.16%	126	$115	52.46%	312	309
— Legislative Retirement Fund[(7)]	86	27	$59	31.10%	27	$59	31.10%	47	455
— Elective State Officers Fund[(7)]	4	0.2	$4	5.66%	0.2	$4	5.66%	0	16
Subtotal	$12,129	$10,303	$1,826		$8,860	$3,269		53,969	55,554
Public Employees Retirement Association (PERA):									
— General Employees Fund	17,181	13,127	4,054	76.40%	11,339	5,842	66.00%	140,389	239,672
— PERA Police & Fire Fund	5,964	5,188	776	87.00%	4,454	1,510	74.68%	11,002	9,871
— Minneapolis Employees Retirement Fund	1,286	844	442	65.62%	844	442	65.62%	143	4,445
— Local Correctional Service Fund	248	242	6	97.25%	211	37	84.93%	3,521	3,942
Subtotal	$24,679	$19,401	$5,278		$16,848	$7,831		155,055	257,930
Teachers' Retirement Association (TRA):	$22,082	$17,323	$4,759	78.45%	$14,940	$7,142	67.66%	77,356	88,260
Subtotal	$58,890	$47,027	$11,863		$40,648	$18,242		286,380	401,744
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[(8)]	779	586	193	75.22%	598	181	76.77%	167	1,577
St. Paul Teachers' Retirement Fund	1,472	1,001	471	68.05%	815	657	55.40%	3,837	6,326
Duluth Teachers' Retirement Fund	313	255	58	81.66%	192	121	61.34%	1,054	2,317
Subtotal	$2,564	$1,842	$722		$1,605	$959		5,058	10,220
TOTAL	**$61,454**	**$48,869**	**$12,585**		**$42,253**	**$19,201**		**291,438**	**411,964**

[1] The information provided in this table reflects the condition of all funds as of June 30, 2010. For additional information on the State's pension systems, refer to the State Financial Statements in Appendix I. See Footnote 8 – Pension and Investment Trust Funds (see pages I-75 through I-82) and Required Supplementary Information (see pages I-125 through I-126).

[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 full market value of the assets held by the pension fund.

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

[8] Information for local police and fire associations reflects values as of December 31, 2009 for Bloomington Police, Minneapolis Fire and Virginia Fire and December 31, 2008 for Minneapolis Police and Fairmont Police.

The following table summarizes historical, present and forecasted direct General Fund appropriations to defined benefit retirement funds in Minnesota. This table does not include the contributions the State makes as an employer to the pension funds. These employer contributions are paid out of agency operating budgets; more information on these contributions can be obtained in the CAFRs for MSRS, TRA and PERA.

Minnesota Retirement Plans
Estimated General Fund Appropriation
November 2010 Forecast Estimates
($ in thousands)

	Previous Biennium	Current Biennium	Next Biennium
State Employees			
Constitutional Officers Retirement	$875	$885	$953
Legislators Retirement Plan[(1)]	4,508	4,650	5,083
City & County Employees			
Minneapolis Employees Retirement Fund[(2)]	17,873	18,000	45,500
Basic Local Police & Fire Association[(3)]	166,984	162,489	173,284
Local Police or Fire Associations Amortization	6,485	1,889	5,520
Public Employees Retirement Association Aid	29,054	28,774	28,768
Volunteer Firefighter Relief	1,180	1,444	1,444
Local School Districts			
Teachers' Retirement Association (for Mpls)[(4)]	31,255	30,908	30,908
St. Paul Teachers' Retirement Association[(5)]	5,794	5,654	5,654
Duluth Teachers' Retirement Association[(5)]	346	692	692
Redistributed P&F Amortization Aid	4,555	9,093	6,406
TOTAL	**$268,909**	**$264,478**	**$304,212**

---

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

(2) Effective July 1, 1998, the State contribution is provided on a formula basis and is capped at no more than $9 million per fiscal year. In FY 2012 and 2013 the annual State contribution will increase 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.

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

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

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

Recent Pension Legislation and Litigation

- The 2010 pension bill provides numerous financial stability provisions intended to reduce future unfunded liabilities for the Minnesota State Retirement System (MSRS), the Teachers' Retirement Association (TRA), the Public Employees Retirement Association (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, all PERA, TRA, DTRFA and SPTRFA plans. The MSRS State patrol plan, PERA general, the PERA police and fire, TRA, DTRFA and SPTRFA plans also include both employer and employee contribution rate increases. Various other provisions including a change in refund interest rate, change in deferred annuities augmentation rate and increased vesting periods are included for some plans as a means to reduce future unfunded liabilities.

- The legislation provides for the administrative consolidation of the closed Minneapolis Employee Retirement Fund (MERF) and the Public Employees Retirement Association (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. 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 Management and Budget. This proposal is expected to either have zero cost or generate budgetary savings. A report detailing the results of the incentive is due to the legislature April 2011.

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

- *Swanson, et al. v. State, Public Employees Retirement Association, Minnesota State Retirement System, Teachers Retirement Association (PERA, MSRS,TRA), et al,* A class action lawsuit was filed in May 2010, against the State's pension funds challenging 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. See Note 19 to the State Financial Statements for the Fiscal Year Ended June 30, 2010, set forth in Appendix I.

For additional information on the State's pension systems, refer to the State Financial Statements in Appendix I. See Footnote 8 – Pension and Investment Trust Funds (see pages I-75 through I-82) and Required Supplementary Information (see pages I-125 through I-126).

Postemployment benefits other than pensions

Postemployment benefits other than pensions are available to certain employees of the State, under terms of their employment contract, upon retirement at age 55. The employees involved are primarily conservation officers, correctional counselors at State correctional facilities, and highway patrol officers. If these employees elect retirement at age 55, the State pays the employer's share of health insurance benefits until the employees reach age 65. As of July 1, 2008, the most recent actuarial valuation, the unfunded actuarial accrued liability was $755 million, and is being amortized over a 30-year amortization period. The estimated annual required contribution for the period ended June 30, 2010 is $127 million.

For additional information on the State's post employment benefits, refer to the State Financial Statements in Appendix I. See Footnote 9 – Termination and Postemployment Benefits (see pages I-83 through I-86).

APPENDIX G

State Debt

Table of Contents

(This page has been left blank intentionally.)

STATE DEBT

STATE GENERAL OBLIGATION LONG-TERM DEBT
(Unaudited, in thousands)

The following schedule sets forth by type, all general obligation debt of the State outstanding as of the date of this Official Statement.

Category	Type	Principal Amount	
1	Building	$ 6,830	
	Transportation	210,645	
	Pollution Control	255	
	Waste Management	65	
	Refunding Bonds	1,633,485	
	Infrastructure Development Bonds	2,490	
	Various Purpose	2,724,925	
	Total Category 1		$4,578,695
2	School Loan	$ 23,935	
	School Loan Refunding	6,070	
	Municipal Energy Building	15	
	Rural Farm Authority	56,000	
	Total Category 2		$86,020
3	Trunk Highway	$ 609,310	
	Trunk Highway Refunding	249,030	
	Total Category 3		$858,340
	Total Outstanding		$ 5,523,055

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.

STATE GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
as of the Date of this Official Statement
($ in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization[1][2]	Previously Issued	Remaining Authorization
Building	1990,Ch.610	$ 270,129.1	$ 270,126.0	$ 3.1
Building	1994,Ch.643	523,874.5	523,849.0	25.5
Building	X1997, Ch. 2	37,432.0	37,335.0	97.0
Building	1999, Ch. 240	439,437.0	438,865.0	572.0
Various Purpose	2000, Ch. 492	527,684.6	519,170.0	8,514.6
Various Purpose	X2001, Ch. 12	116,758.7	115,446.0	1,312.7
Various Purpose	2002, Ch. 374	74,017.0	74,017.0	0.0
Various Purpose	2002, Ch. 393	600,831.8	598,605.0	2,226.8
Various Purpose	X2002, Ch. 1	15,273.0	15,055.0	218.0
Trunk Highway	X2003, Ch. 19, Art.3	400,191.4	399,990.0	201.4
Trunk Highway	X2003, Ch. 19, Art.4	106,026.5	105,700.0	326.5
Various Purpose	2005, Ch. 20	941,297.4	920,079.0	21,218.4
Various Purpose	2006, Ch. 258	1,002,855.2	958,975.0	43,880.2
Various Purpose	X2007, Ch. 2	53,971.7	35,845.0	18,126.7
Trunk Highway	X2007, Ch. 2	20,020.0	19,085.0	935.0
Trunk Highway	2008, Ch. 152	1,783,300.0	393,975.0	1,389,325.0
Transportation	2008, Ch. 152	60,060.0	52,500.0	7,560.0
Various Purpose	2008, Ch. 179	800,869.3	698,947.0	101,922.3
Various Purpose	2008, Ch. 365	105,500.0	91,730.0	13,770.0
Trunk Highway	2009, Ch. 36	40,000.0	5,000.0	35,000.0
Various Purpose	2009, Ch. 93	258,865.0	187,500.0	71,365.0
Trunk Highway	2009, Ch. 93	2,705.0	2,700.0	5.0
Various Purpose	2010, Ch. 189 [3]	1,074,865.0	315,000.0	759,865.0
Trunk Highway	2010, Ch. 189 [3]	32,945.0	12,000.0	20,945.0
Trunk Highway	2010, Ch. 388	100,100.0	0.0	100,100.0
Various Purpose	X2010, Ch. 1	36,790.0	0.0	36,790.0
Totals		$ 9,425,799.4	$ 6,791,494.0	$ 2,634,305.4

X indicates Special Session Laws.

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

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner of Management and Budget 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 of Management and Budget are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) The previous Governor vetoed $361,460,000 of appropriations for various purpose capital projects and $6,500,000 for Trunk Highway projects to be funded from Laws 2010, Chapter 189. The current Governor will request that the bond authorization be reduced to match the appropriations in the 2011 Legislative Session.

Total State General Obligation Bonds Outstanding by Series as of the Date of this Official Statement ($ in thousands)

Bond Issue	Original Principal Various Purpose	Original Principal Trunk Highway	Final Maturity	Interest Rate Range Outstanding	Outstanding Principal 06/30/2010 Various Purpose	Outstanding Principal 06/30/2010 Trunk Highway	Outstanding Principal 2/01/2011 Various Purpose	Outstanding Principal 2/01/2011 Trunk Highway
Series Dated November 1, 2000	255,000	30,000	2010	5.50%	$14,675	$1,500	$-	$-
Series Dated October 1, 2001	330,000	25,000	2011	5.00%	32,700	2,500	18,600	1,250
Series Dated October 1, 2001 (Taxable)	4,000	-	2011	5.60%	2,000	-	2,000	-
Series Dated June 1, 2002	277,405	30,000	2021	5.00%	119,300	18,900	-	-
Series Dated November 1, 2002	267,000	13,000	2022	5.25%	83,550	8,450	-	-
Series Dated June 1, 2003 (Refunding)	391,680	-	2013	4.00% - 5.00%	80,050	-	50,000	-
Series Dated August 1, 2003	296,645	142,500	2023	5.00%	196,145	99,750	-	-
Series Dated August 1, 2003 (Refunding)	20,855	-	2012	5.00%	7,545	-	4,995	-
Series Dated August 1, 2004	219,900	80,100	2024	5.00%	162,300	60,075	-	-
Series Dated November 1, 2004	180,000	40,000	2024	5.00%	131,625	30,000	-	-
Series Dated November 1, 2004 (Refunding)	171,880	-	2024	5.00%	100,830	-	82,785	-
Series Dated October 3, 2005	285,400	111,600	2025	5.00%	220,820	89,280	204,675	83,700
Series Dated October 3, 2005 (Refunding)	160,960	-	2025	5.00%	108,645	-	91,770	-
Series Dated February 1, 2006 (Taxable)	3,000	-	2013	3.50%	3,000	-	3,000	-
Series Dated August 1, 2006	289,450	55,550	2026	5.00%	220,010	42,200	220,010	42,200
Series Dated August 1, 2006 (Taxable)	3,500	-	2013	5.00%	3,500	-	3,500	-
Series Dated November 1, 2006	327,000	73,000	2026	5.00%	266,325	59,320	241,600	54,760
Series Dated April 25, 2007	264,050	-	2018	5.00%	227,505	-	199,440	-
Series Dated August 14, 2007	656,000	14,000	2027	5.00%	582,230	12,420	545,345	11,630
Series Dated August 14, 2007 (Taxable)	8,000	-	2012	5.00% - 5.25%	8,000	-	4,000	-
Series 2008A August 5, 2008	275,000	-	2028	4.625% - 5.00%	239,050	-	239,050	-
Series 2008B August 5, 2008	-	33,500	2028	3.25% - 5.00%	-	29,070	-	29,070
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	145,450	-	128,465	-
Series 2009A January 29, 2009	325,000	-	2028	3.00% - 5.00%	308,275	-	291,550	-
Series 2009B January 29, 2009	-	70,000	2028	3.00% - 4.375%	-	66,100	-	62,200
Series 2009C January 29, 2009 (Taxable)	5,000	-	2013	3.25%	5,000	-	5,000	-
Series 2009D August 26, 2009	192,275	-	2029	2.00% - 5.00%	192,275	-	182,830	-
Series 2009E August 26, 2009	-	80,000	2029	4.00% - 5.00%	-	80,000	-	76,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	297,750	-	295,200	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	2.00% - 5.00%	-	28,360	-	28,360
Series 2009H November 5, 2009	443,000	-	2029	2.00% - 5.00%	443,000		417,000	-
Series 2009I November 5, 2009	-	25,000	2029	2.00% - 5.00%	-	25,000	-	23,500
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%	100,395	-	99,785	-
Series 2010A August 19, 2010	635,000	-	2030	3.00% - 5.00%	-	-	635,000	-
Series 2010B August 19, 2010	-	225,000	2030	4.00% - 5.00%	-	-	-	225,000
Series 2010C August 19, 2010 (Taxable)	5,000	-	2015	3.00%	-	-	5,000	-
Series 2010D September 29, 2010 (Refunding)	687,115	-	2024	1.75% - 5.00%	-	-	687,115	-
Series 2010E September 29, 2010 (Refunding)	-	220,670	2024	2.00% - 5.00%	-	-	-	220,670
Totals for Date:					$ 4,308,950	$ 652,925	$ 4,664,715	$ 858,340

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 this Official Statement
($ in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2011	$ 36,390	$ 106,996	$ 143,386	$ 5,730	$ 17,935	$ 23,665
2012	406,725	211,078	617,803	56,440	36,724	93,164
2013	413,245	193,605	606,850	55,715	34,538	90,253
2014	381,720	175,184	556,904	54,825	32,319	87,144
2015	371,100	157,453	528,553	54,555	29,894	84,449
2016	341,935	140,453	482,388	54,455	27,421	81,876
2017	309,540	124,746	434,286	53,990	24,924	78,914
2018	298,850	110,150	409,000	53,530	22,401	75,931
2019	274,495	96,313	370,808	53,185	19,918	73,103
2020	264,605	83,186	347,791	52,635	17,452	70,087
2021	236,060	70,828	306,888	52,130	15,003	67,133
2022	224,060	59,342	283,402	50,570	12,660	63,230
2023	201,435	48,714	250,149	47,710	10,381	58,091
2024	187,905	39,047	226,952	47,105	8,173	55,278
2025	174,530	30,219	204,749	39,985	6,238	46,223
2026	150,420	22,374	172,794	32,670	4,646	37,316
2027	125,095	15,445	140,540	24,685	3,337	28,022
2028	111,020	9,781	120,801	21,490	2,374	23,864
2029	69,800	5,198	74,998	19,435	1,495	20,930
2030	54,260	2,400	56,660	16,250	775	17,025
2031	31,525	631	32,156	11,250	225	11,475
	$4,664,715	$1,703,143	$6,367,858	$ 858,340	$328,833	$ 1,187,173

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

- Footnote 10 – Long-Term Commitments (see pages I-87 through I-89)
- Footnote 11 – Operating Lease Agreements (see page I-89)
- Footnote 12 – Long-term Liabilities (see pages I-90 through I-101).

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

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

In Fiscal Year	General Fund	Trunk Highway Fund	All Other Funds*	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

*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.

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.

(The remainder of this page has been left blank intentionally.)

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 November of each year.

On December 22, 2009, Minnesota Management and Budget adopted new Capital Investment Guidelines. These new 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 new 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 new 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 November 2010 revenue forecast and reflects the State 2011 fiscal year.

As of November 30, 2010 MMB is 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: 2.60%

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of state personal income: 4.64%

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2010, 40.7 percent were scheduled to mature within five years and 71.1 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds expected to be outstanding on June 30, 2011, 40.0 percent are scheduled to mature within five years and 70.1 percent are scheduled to mature with ten years.

---

[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 Standing Appropriations," "Lease Purchase Financing for Equipment," and "Lease Purchase Financing for Real Estate" in this Appendix G.

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 2010 valuation, was estimated by the Commissioner of Revenue to be $560,415,000,000. This value is based upon certified abstracts of assessment submitted by local assessors and on file with the Commissioner of Revenue. The values shown on the assessors' abstracts are required by law to be based upon the assessors' judgment of the probable price at which the property could be sold in an open market transaction between a willing buyer and seller, both knowledgeable of the current market, neither being compelled to buy or sell.

MARKET VALUE OF TAXABLE PROPERTY

($ in thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Increase 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	558,252,000	6,163,000	560,415,000	(3.91)

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 instant of time (excluding the principal amount of any bonds or notes that have been refunded) is limited to $5.0 billion. The proceeds of MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the acquisition, construction and rehabilitation of single and multi-family housing.

The MHFA's notes and bonds may be general or limited obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor, and the Governor must include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized, *but is not legally obligated*, to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. The MHFA has never needed to certify a deficiency to the Governor.

The following table lists the principal amounts outstanding as of the date of this Official Statement:

Minnesota Housing Finance Agency
Debt Outstanding as of the Date of this Official Statement

	Number of Series	Final Maturity	Original Principal Amount (in thousands)	Outstanding Principal Amount (in thousands)
General Obligation Bonds*:				
Multifamily Housing Bonds	1	2051	$15,000	$15,000
Rental Housing	26	2047	488,005	150,310
Residential Housing Finance	64	2048	2,191,280	1,615,415
Single Family Mortgage	24	2035	505,215	97,505
General Obligation Subtotals:	115		3,199,500	1,878,230
Other Debt Obligations:				
Homeownership Finance Bonds	3	2041	$332,490	$332,490
Limited Obligation Notes	1	2011	377,110	377,110
Conduit Multifamily Revenue Bonds	1	2036	33,250	30,807
Other Debt Obligation Subtotals	5		742,850	740,407
MHFA Total Debt Outstanding	120		$3,942,350	$2,618,637

* The general obligation bonds are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above. The other debt obligations are general or limited obligations of the MHFA and subject to the MHFA's $5 billion debt limit, but are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation. See "Contingent Liabilities- State Standing Appropriation" in this Appendix G for additional information concerning other debt issued by MHFA.

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

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

Pursuant to this authority the Board of Regents has sold and issued bonds to finance the construction of buildings and structures needed for the University. The amount of such bonds outstanding as of the date of this Official Statement is $1,021,406,818. 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 Standing Appropriation" for additional information concerning other debt issued by the University of Minnesota. The University anticipates issuing $75 million in new money and refunding bonds in mid-February 2011.

Minnesota Office of Higher Education (MOHE). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88. The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000. The loans are made in accordance with MOHE's Guaranteed Student Loan Program instituted pursuant to Part B of Title IV of the Higher Education Act of 1965 as amended. As of the date of this Official Statement, MOHE has $590,100,000 of bonds outstanding payable from the Student Educational Loan Fund II and III. These obligations are payable solely from loan repayments, loan insurance, loan and investment earnings, other money of the MOHE, and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities (MnSCU). The MnSCU was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes the MnSCU to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the State universities within the Minnesota State Colleges and Universities System. As of the date of this Official Statement, the MnSCU has $155,545,000 tax exempt bonds and $19,185,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students for student activities, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guarantees have been issued to date, one for $3,398,403 and the other for $12,820,000. The guarantees are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority (MHEFA). The MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law, as amended, authorizes MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed $1,300,000,000. As of the date of this Official Statement, the MHEFA has $967,136,172 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. Each issue is payable solely from and secured by any reserve funds and a loan repayments obligation 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 $3,040,000 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 $206.1 million in State general obligation bonds to finance certain programs of the RFA and has issued $187.6 million of these bonds, for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of 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 $980,510,000 Clean Water Revolving Fund Revenue Bonds outstanding, $233,580,000 Drinking Water Revolving Fund Revenue Bonds outstanding, and $18,925,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $1,233,015,000. The MPFA's bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at anytime may not exceed $1,500,000,000, excluding bonds issued under Minnesota Statutes, Section 446.087.

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 $6,565,000 of pooled revenue bonds outstanding which are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB has $448,537,284 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. 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. As of the date of this Official Statement, there are $24,275,000 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 and an additional $60,510,000 of revenue bonds in October 2009. As of the date of this Official Statement, there are $116,385,000 of the 911 Revenue Bonds outstanding. The State plans to issue an additional $50,000,000 in 911 Revenue Bonds March 2011

CONTINGENT LIABILITIES

State Standing Appropriations

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

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. As of the date of this Official Statement, there are $73,980,000 of the COP's outstanding.

University of Minnesota. The Minnesota Legislature has approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the "U of M"). In 2006, the legislature appropriated from the General Fund $10.25 million in each of not more than 25 years, beginning in 2008, to the U of M for the payment of revenue bonds issued by the U of M to finance the stadium. The U of M issued $137,250,000 in bonds for the stadium in December 2006, $122,785,000 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 $147,200,000 in bonds for the Biomedical Science Research Facilities in September 2010.

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 23 years, beginning in 2009, to MHFA for the payment of qualified 501(c)(3) bonds issued by MHFA for affordable housing. MHFA issued $13,270,000 in bonds to finance this program in 2009 and an additional $21,750,000 to finance this program pursuant to this Official Statement. See "NATURE OF OBLIGATION AND SOURCE OF PAYMENT" in this Official Statement.

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, $14,822,995 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 $2,975,805 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, $5,645,000 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 sold to finance both of the facilities was $193,105,000, of which $149,260,000 is outstanding as of the date of this Official Statement. In August 2008 the amount of $3,210,000 was defeased thereby reducing the State's liability. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The legislature appropriates an annual rental payment from the General Fund up to $13.5 million per year in each of 20 years, beginning in 2004.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner 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 $519 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 2034, is approximately $11.4 billion. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

Based upon the amount of certificates of indebtedness and capital notes for equipment, certificates of participation and bonds now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $1.9 billion, with the maximum amount of principal and interest payable in any one month being $602 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 $12,055,000 of the bonds are outstanding.

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 G 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 $450.5 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 $33.8 million with the maximum amount of principal and interest payable in any one month being $18.9 million. The State has not had to make any debt service payments on behalf of counties under the program and does not expect to make any payments on behalf of cities or counties in the future. If such payments are made, the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the cities or counties.

APPENDIX H

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

(This page has been left blank intentionally.)

RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	% Change U.S.	% Change Minnesota
1999	279,040	4,873	1.2	1.2
2000	282,172	4,934	1.1	1.3
2001	285,082	4,983	1.0	1.0
2002	287,804	5,017	1.0	0.7
2003	290,326	5,048	0.9	0.6
2004	293,046	5,079	0.9	0.6
2005	295,753	5,107	0.9	0.6
2006	298,593	5,148	1.0	0.8
2007	301,580	5,191	1.0	0.8
2008	304,375	5,231	0.9	0.8
2009	307,007	5,266	0.9	0.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.census.gov/popest.

Data extracted January 2011.

(The remainder of this page has been left blank intentionally.)

EMPLOYMENT MIX OF UNITED STATES AND MINNESOTA FOR 2009
(Thousands of Jobs)

Category	Minnesota	% of Total	U.S.	% of Total
Manufacturing Durables	188.1	6.9	7,309	5.5
Manufacturing Non-Durables	112.0	4.1	4,574	3.4
Mining and Logging	4.9	0.2	700	0.5
Construction	92.8	3.4	6,037	4.5
Trade	406.5	15.0	20,153	15.2
Transportation, Warehousing, Utilities	89.8	3.3	4,796	3.6
Information	54.9	2.0	2,807	2.1
Financial Activities	172.3	6.3	7,758	5.8
Professional and Business Services	306.6	11.3	16,580	12.5
Education and Health Services	453.0	16.8	19,191	14.4
Leisure and Hospitality	237.3	8.7	13,102	9.8
Other Services	115.3	4.2	5,364	4.0
Government	416.6	15.4	22,549	17.1
Agriculture	65.3	2.4	2,103	1.6
Total	2,715.4	100.0	133,023	100.0

Columns may not add due to rounding.

Sources: U.S. non-farm employment - U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota non-farm employment - Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

U.S. agricultural employment - U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/cps.

Minnesota agricultural employment - Unpublished estimate from the Minnesota Department of Employment and Economic Development.

Data extracted January 2011.

(The remainder of this page has been left blank intentionally.)

EMPLOYMENT IN DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2009
(Thousands of Jobs)

Durable Goods	Minnesota	% of Total	U.S.	% of Total
Wood Products	11.2	6.0	361	4.9
Fabricated Metal Products	37.4	19.9	1,318	18.0
Machinery	29.2	15.5	1,029	14.1
Computers and Electronic Products	47.2	25.1	1,136	15.5
Transportation Equipment	9.8	5.2	1,353	18.5
Furniture and Related	8.7	4.6	386	5.3
Medical Equipment and Supplies	15.8	8.4	308	4.2
Other Durables	28.8	15.3	1,418	19.5
Total	188.1	100.0	7,309	100.0

Columns may not add due to rounding.

Sources: U.S. non-farm employment - U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota non-farm employment - Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted January 2011.

EMPLOYMENT IN NON-DURABLE GOODS INDUSTRIES IN UNITED STATES AND MINNESOTA FOR 2009
(Thousands of Jobs)

Non-Durable Goods	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	43.0	38.4	1,459	31.9
Paper Mfg., & Printing and Related	37.2	33.2	931	20.4
Other Non Durables	31.8	28.4	2,184	47.7
Total	112.0	100.0	4,574	100.0

Columns may not add due to rounding.

Sources: U.S. non-farm employment - U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota non-farm employment - Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

Data extracted January 2011.

EMPLOYMENT MIX IN THE UNITED STATES AND MINNESOTA FOR 1990, 2000 AND 2009
(Thousands of Jobs)

	Minnesota					United States				
				%Change					% Change	
Category	**1990**	**2000**	**2009**	**90-00**	**00-09**	**1990**	**2000**	**2009**	**90-00**	**00-09**
Manufacturing Durables	217.2	255.4	188.1	17.6	(26.4)	10,737	10,877	7,309	1.3	(32.8)
Manufacturing Non-Durables	124.2	141.1	112.0	13.6	(20.6)	6,958	6,386	4,574	(8.2)	(28.4)
Mining & Logging	8.4	8.1	4.9	(3.6)	(39.5)	765	599	700	(21.7)	16.9
Construction	77.9	118.8	92.8	52.5	(21.9)	5,263	6,787	6,037	29.0	(11.1)
Trade	362.4	436.1	406.5	20.3	(6.8)	18,451	21,213	20,153	15.0	(5.0)
Transp. Warehousing & Utilities	85.8	103.3	89.8	20.4	(13.1)	4,216	5,012	4,796	18.9	(4.3)
Information	54.3	69.2	54.9	27.4	(20.7)	2,688	3,630	2,807	35.1	(22.7)
Financial Activities	129.3	164.8	172.3	27.5	4.6	6,614	7,687	7,758	16.2	0.9
Professional & Business Services	214.5	319.2	306.6	48.8	(3.9)	10,848	16,666	16,580	53.6	(0.5)
Education & Health Services	241.8	324.5	453	34.2	39.6	10,984	15,108	19,191	37.6	27.0
Leisure & Hospitality	180.5	221.6	237.3	22.4	7.1	9,288	11,862	13,102	27.7	10.5
Other Services	91.3	114.6	115.3	25.5	0.6	4,261	5,168	5,364	21.3	3.8
Government	347.9	407.6	416.6	17.2	2.2	18,415	20,790	22,549	12.9	8.5
Agriculture	103.1	73.4	65.3	(28.8)	(11.0)	3,223	2,464	2,103	(23.5)	(14.7)
Total (including Agriculture)	2,238.6	2,757.7	2,715.4	23.2	(1.5)	112,711	134,250	133,023	19.1	(0.9)

Columns may not add due to rounding.

Sources: U.S. non-farm employment - U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.

Minnesota non-farm employment - Minnesota Department of Employment and Economic Development, www.deed.state.mn.us/lmi.

U.S. agricultural employment - U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/cps.

Minnesota agricultural employment - Unpublished estimate from the Minnesota Department of Employment and Economic Development.

Data extracted January 2011.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1999	$30,562	$28,333	107.9
2000	32,597	30,318	107.5
2001	33,348	31,145	107.1
2002	34,081	31,461	108.3
2003	35,292	32,271	109.4
2004	37,078	33,881	109.4
2005	37,988	35,424	107.2
2006	39,985	37,698	106.1
2007	41,739	39,458	105.8
2008	43,238	40,673	106.3
2009	41,859	39,626	105.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.

Data extracted January 2011.

(The remainder of this page has been left blank intentionally.)

PERSONAL INCOME GROWTH AND RESIDENT POPULATION FOR TWELVE STATE NORTH CENTRAL REGION
1990-2000 and 2000-2009

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Rank 1990-2000	2009 Personal Income (Millions)	2000-2009 Annual Compound Rate of Increase (%)	Regional Rank 2000-2009	2000 Population (Thousands)	2000 Per Capita Personal Income ($)	2000 Regional Rank	2009 Population (Thousands)	2009 Per Capita Personal Income ($)	2009 Regional Rank
Illinois	238,635	405,919	5.46	8	540,995	3.24	9	12,438	32,636	1	12,910	41,904	1
Indiana	97,005	167,276	5.60	6	217,819	2.98	10	6,092	27,460	9	6,423	33,912	12
Iowa	48,250	79,920	5.18	10	113,166	3.94	5	2,928	27,293	10	3,008	37,623	7
Kansas	44,750	76,684	5.53	7	110,673	4.16	3	2,693	28,477	7	2,819	39,263	5
Michigan	174,296	292,606	5.32	9	342,302	1.76	12	9,955	29,392	3	9,970	34,334	11
Minnesota	86,524	160,833	6.40	1	220,438	3.56	7	4,934	32,597	2	5,266	41,859	2
Missouri	90,177	156,359	5.66	4	215,181	3.61	6	5,606	27,891	8	5,988	35,938	9
Nebraska	28,388	48,998	5.61	5	70,565	4.14	4	1,713	28,598	6	1,797	39,277	4
North Dakota	10,117	16,430	4.97	11	26,344	5.39	1	641	25,624	12	647	40,727	3
Ohio	202,486	326,075	4.88	12	410,799	2.60	11	11,364	28,694	5	11,543	35,590	10
South Dakota	11,206	19,970	5.95	2	31,040	5.02	2	756	26,427	11	812	38,208	6
Wisconsin	88,213	156,603	5.91	3	211,478	3.39	8	5,374	29,139	4	5,655	37,398	8

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.

Data extracted January 2011.

GROWTH OF PERSONAL INCOME BY STATE IN NORTH CENTRAL REGION [1]
2008-2009

Rank	State	Percent Growth
1	Wisconsin	(0.9)
2	North Dakota	(1.0)
3	Iowa	(1.1)
4	Nebraska	(1.3)
5	Ohio	(1.3)
5	Kansas	(1.4)
7	South Dakota	(1.7)
7	Missouri	(1.7)
9	Illinois	(2.4)
10	Indiana	(2.4)
11	Minnesota	(2.5)
12	Michigan	(3.1)
	Region	(2.0)

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi

[1] Refer to H-6 for Personal Income figures.

Data extracted January 2011.

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

State	1990 Employment	2000 Employment	2009 Employment	Percent Increase 90-00	Percent Increase 00-09
Illinois	5,287.6	6,044.8	5,657.6	14.3	(6.4)
Indiana	2,521.9	3,000.0	2,787.2	19.0	(7.1)
Iowa	1,226.3	1,478.4	1,478.2	20.6	0.0
Kansas	1,091.9	1,346.1	1,344.6	23.3	(0.1)
Michigan	3,946.5	4,676.9	3,876.1	18.5	(17.1)
Minnesota	2,135.9	2,684.9	2,650.1	25.7	(1.3)
Missouri	2,345.0	2,748.7	2,688.1	17.2	(2.2)
Nebraska	730.9	910.7	944.4	24.6	3.7
North Dakota	265.8	327.7	366.3	23.2	11.8
Ohio	4,882.3	5,624.7	5,073.6	15.2	(9.8)
South Dakota	288.5	377.9	403.7	31.0	6.8
Wisconsin	2,291.5	2,833.8	2,748.2	23.7	(3.0)
Region	27,014.1	32,054.6	30,018.1	18.7	(6.4)

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://bls.gov/sae/home.html.

Data extracted January 2011.

MINNESOTA AND U.S. UNEMPLOYMENT RATES NOT SEASONALLY ADJUSTED

	Annual Average	
Year	Minnesota %	U.S. %
2000	3.1	4.0
2001	3.8	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.6	5.6
2005	4.2	5.1
2006	4.1	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	8.0	9.3

Month	Minnesota %	U.S. %
2009		
January	8.3	8.5
February	8.6	8.9
March	8.9	9.0
April	8.3	8.6
May	8.0	9.1
June	8.6	9.7
July	8.0	9.7
August	7.8	9.6
September	7.6	9.5
October	7.1	9.5
November	7.0	9.4
December	7.4	9.7
Annual Average	8.0	9.3
2010		
January	8.2	10.6
February	8.0	10.4
March	8.2	10.2
April	6.9	9.5
May	6.4	9.3
June	6.8	9.6
July	6.9	9.7
August	7.0	9.5
September	6.7	9.2
October	6.4	9.0
November	6.6	9.3

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

Data extracted January 2011.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2009	Rank 2008	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Industry Rank
21	21	UnitedHealth Group	87,138,000	59,045,000	3,822,000	Health Care: Insurance and MC	1
30	28	Target	65,357,000	44,533,000	2,488,000	General Merchandisers	2
45	56	Best Buy	45,015,000	15,826,000	1,003,000	Specialty Retailers	4
47	51	Supervalu	44,564,000	17,604,000	(2,855,000)	Food and Drug Stores	4
91	72	Cenex Harvest States	25,729,900	7,869,800	381,400	Wholesalers: Food and Grocery	2
106	95	Minnesota Mining & Mfg. (3M)	23,123,000	27,250,000	3,193,000	Miscellaneous	1
121	129	U.S. Bancorp	19,490,000	281,176,000	2,205,000	Commercial Banks	8
155	193	General Mills	14,691,300	17,874,800	1,304,400	Food Consumer Products	3
160	196	Medtronic	14,599,000	23,661,000	2,169,000	Medical Products & Equipment	1
226	224	Land O'Lakes	10,408,500	4,923,600	209,100	Food Consumer Products	8
231	276	Mosaic	10,298,000	12,676,200	2,350,200	Chemicals	5
244	242	Xcel Energy	9,644,300	25,488,400	680,900	Utilities: Gas & Electric	13
288	348	Ameriprise Financial	7,946,000	113,774,000	722,000	Diversified Financials	6
301	300	C.H. Robinson Worldwide	7,577,200	1,834,200	360,800	Transportation and Logistics	1
340	373	Hormel Foods	6,533,700	3,692,100	342,800	Food Consumer Products	12
342	409	Thrivent Financial for Lutherans	6,514,800	57,752,300	(48,400)	Insurance: Life, Health (mutual)	6
365	403	Ecolab	5,900,600	5,020,900	417,300	Chemicals	12
400	492	Nash Finch	5,212,700	999,500	2,800	Wholesalers: Food and Grocery	3
445	---	St. Jude Medical	4,681,300	6,425,800	777,200	Medical Products & Equipment	6
454	---	Alliant Techsystems	4,583,200	3,593,200	155,100	Aerospace and Defense	13
464	478	PepsiAmericas	4,421,300	5,092,700	181,200	Beverages	3

Source: Fortune Magazine, dated May 3, 2010.

(This page has been left blank intentionally.)

APPENDIX I

STATE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

OLA OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Mr. Steve Sviggum, Commissioner, Minnesota Management and Budget

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2010, which collectively comprise the state's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund and represents 81 percent, 115 percent,[1] and 18 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors.

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

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

[1] The net assets of the Minnesota State Colleges and Universities exceed the total net assets of the state's business-type activities due to a $266 million deficit in the Unemployment Insurance Fund.

Room 140 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web Site: www.auditor.leg.state.mn.us • Through Minnesota Relay: 1-800-627-3529 or 7-1-1

component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets;* Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments;* Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions;* Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;* and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* for the year ended June 30, 2010.

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 20, 2010

This Page Intentionally Left Blank.

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, 2010, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

The focus of Minnesota's financial reporting is on the state as a whole, and on the individual funds that are considered to be major. This reporting focus presents a more comprehensive view of Minnesota's financial activities and financial position, and makes the comparison of Minnesota's government to other governments easier.

The financial section of this annual report has four parts:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements – Nonmajor Funds

The report also includes statistical and economic information, which generally provides a ten-year history of various indicators.

The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements that provide more detailed information to the users of the financial statements.

Government-wide Financial Statements

The government-wide financial statements provide an overall view of the state's operations in a manner similar to a private-sector business. Government-wide financial statements consist of the *statement of net assets* and the *statement of activities* that are prepared using the economic resources measurement focus and the accrual basis of accounting. All current year revenues and expenses are included in the statements regardless of whether the related cash has been received or paid. Revenues and expenses are reported in the statement of activities for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes, accounts receivable, and earned but unused vacation leave). This reporting method produces a view of financial activities and position similar to that presented by most private-sector companies. The statements provide both short-term and long-term information about the state's financial position, which assists readers in assessing the state's economic condition at the end of the fiscal year.

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

The *statement of net assets* presents all of the state's financial resources along with capital assets and long-term obligations. The statement includes all assets and liabilities of the state. *Net assets* is the difference between assets and liabilities and is one method to measure the state's financial condition.

- An increase or decrease in the state's net assets from one year to the next indicates whether the financial position of the state is improving or deteriorating.
- Other indicators of the state's financial condition include the condition of its infrastructure and economic events and trends that affect future revenues and expenses.

The *statement of activities* presents the changes in net assets and reports on the gross and net cost of various activities carried out by the state (governmental, business-type, and component units). These costs are paid by general taxes and other revenues generated by the state. This statement summarizes the cost of providing specific services by the government, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities segregate the activities of the state into three types:

Governmental Activities

The governmental activities of the state include most basic services such as environmental resources, general government, transportation, education, health and human services, and public safety. Most of the costs of these activities are financed by taxes, fees, and federal grants.

Business-type Activities

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

Discretely Presented Component Units

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

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

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

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

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

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

State Fund and Component Unit Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintained 29 individual governmental funds. However, six of these funds were either moved to the General Fund or combined into another fund and one fund was split and a portion of the activity was moved to the General Fund as a result of implementing Governmental Accounting Standards Board

(GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” 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 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the 8 nonmajor enterprise funds and the 7 internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 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 component units in a single column on the statement of net assets. Also, some information on the statement of changes in net assets is aggregated for component units. The component units’ *statements of net assets* and *statement of changes in net assets* provide detail for each major component unit and aggregate the detail for nonmajor component units. Individual nonmajor component unit detail can be found in the combining financial statements included in this report.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Change in Accounting Principles and Prior Period Adjustments

- The state implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” The fiscal year 2009 Statement of Net Assets, and Changes in Net Assets have been restated to reflect these changes for comparison purposes.

- The state also restated fiscal year 2009 to reflect prior period adjustments related to capital assets. See Capital Asset section for further discussion.

Government-wide

- The assets of the state exceeded liabilities at June 30, 2010, by $10.9 billion (presented as *net assets*). Of this amount, a deficit of $2.9 billion was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors or the constitution. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

- The state’s total net assets decreased by $1.2 billion (9.9 percent) during fiscal year 2010. Net assets of governmental activities decreased by $761 million (7.5 percent), while net assets of the business-type activities showed a decrease of $439 million (22.6 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 $2.8 billion, a decrease of $774 million compared to the prior year. Included in the ending fund balance is a General Fund unassigned deficit of $1.5 billion. For discussion on the variances from prior year, see the State Funds Financial Analysis section.

Long-Term Debt

- The state's total long-term liabilities increased by $1.2 billion (17.5 percent) during the current fiscal year. The increase is partially due to an increase in loans for the Unemployment Insurance Fund (enterprise fund) due to a cash advance from the U.S. Treasury for unemployment benefit payments. In addition, the state issued general obligation bonds for trunk highway projects and other various state purposes, revenue bonds for a statewide 911 emergency response communication system, and Certificates of Participation for the statewide accounting and procurement system and an integrated tax system.

Government-wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. The state's combined net assets (governmental and business-type activities) totaled $10.9 billion at the end of 2010, compared to $12.1 billion at the end of the previous year.

Net Assets
June 30, 2010 and 2009
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current Assets	$ 9,109,033	$ 8,465,565	$ 1,341,897	$ 1,233,270	$ 10,450,930	$ 9,698,835
Noncurrent Assets:						
Capital Assets[2]	11,982,234	11,459,985	1,776,280	1,639,442	13,758,514	13,099,427
Other Assets	853,394	753,474	138,734	168,620	992,128	922,094
Total Assets	$ 21,944,661	$ 20,679,024	$ 3,256,911	$ 3,041,332	$ 25,201,572	$ 23,720,356
Current Liabilities	$ 6,384,468	$ 4,899,954	$ 418,899	$ 412,129	$ 6,803,367	$ 5,312,083
Noncurrent Liabilities	6,198,043	5,656,275	1,335,066	687,424	7,533,109	6,343,699
Total Liabilities	$ 12,582,511	$ 10,556,229	$ 1,753,965	$ 1,099,553	$ 14,336,476	$ 11,655,782
Net Assets:						
Invested in Capital Assets, Net of Related Debt[2]	$ 8,947,341	$ 8,488,031	$ 1,293,856	$ 1,243,286	$ 10,241,197	$ 9,731,317
Restricted[1]	3,060,905	2,737,947	509,705	737,400	3,570,610	3,475,347
Unrestricted[1]	(2,646,096)	(1,103,183)	(300,615)	(38,907)	(2,946,711)	(1,142,090)
Total Net Assets	$ 9,362,150	$ 10,122,795	$ 1,502,946	$ 1,941,779	$ 10,865,096	$ 12,064,574

(1) 2009 has been restated to be consistent with 2010 presentation.

(2) 2009 has been restated to reflect the change in accounting principle and prior period adjustments.

The largest portion, $10.2 billion of $10.9 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $3.6 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net asset restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net assets balance represents a deficit in unrestricted net assets of $2.9 billion. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the noncapital portion of net assets for most of its governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities decreased $1.2 billion (9.9 percent) over the course of this fiscal year. This resulted from a $761 million (7.5 percent) decrease in net assets of governmental activities, and a $439 million (22.6 percent) decrease in net assets of business-type activities.

Changes in Net Assets
Fiscal Years Ended June 30, 2010 and 2009
(In Thousands)

	Governmental Activities 2010	Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009	Total Primary Government 2010	Total Primary Government 2009
Revenues:						
Program Revenues:						
Charges for Services [1]	$ 1,231,253	$ 1,189,748	$ 2,489,629	$ 2,263,061	$ 3,720,882	$ 3,452,809
Operating Grants and Contributions [1]	10,164,213	7,754,986	1,958,195	953,318	12,122,408	8,708,304
Capital Grants	206,292	272,736	1,554	4,262	207,846	276,998
General Revenues:						
Individual Income Taxes	6,792,510	7,203,337	-	-	6,792,510	7,203,337
Corporate Income Taxes	539,534	741,049	-	-	539,534	741,049
Sales Taxes	4,379,236	4,338,748	-	-	4,379,236	4,338,748
Property Taxes	746,685	733,899	-	-	746,685	733,899
Motor Vehicle Taxes	997,214	955,785	-	-	997,214	955,785
Fuel Taxes	826,574	758,271	-	-	826,574	758,271
Other Taxes	2,224,237	2,206,648	-	-	2,224,237	2,206,648
Tobacco Settlement	157,924	176,140	-	-	157,924	176,140
Investment/Interest Income	21,242	57,790	8,483	32,306	29,725	90,096
Other Revenues	145,608	95,316	-	630	145,608	95,946
Total Revenues	$ 28,432,522	$ 26,484,453	$ 4,457,861	$ 3,253,577	$ 32,890,383	$ 29,738,030
Expenses:						
Public Safety and Corrections	$ 958,915	$ 944,400	$ -	$ -	$ 958,915	$ 944,400
Transportation [1]	2,468,573	2,064,729	-	-	2,468,573	2,064,729
Agricultural, Environmental and Energy Resources [1]	950,738	828,255	-	-	950,738	828,255
Economic and Workforce Development	715,085	695,314	-	-	715,085	695,314
General Education	8,042,744	7,811,723	-	-	8,042,744	7,811,723
Higher Education	981,859	912,011	-	-	981,859	912,011
Health and Human Services	11,949,235	11,248,700	-	-	11,949,235	11,248,700
General Government	762,238	800,123	-	-	762,238	800,123
Intergovernmental Aid	1,558,453	1,435,897	-	-	1,558,453	1,435,897
Interest	261,802	210,435	-	-	261,802	210,435
State Colleges and Universities	-	-	1,802,527	1,743,609	1,802,527	1,743,609
Unemployment Insurance	-	-	3,038,557	1,865,939	3,038,557	1,865,939
Lottery	-	-	377,025	363,832	377,025	363,832
Other	-	-	222,110	209,070	222,110	209,070
Total Expenses	$ 28,649,642	$ 26,951,587	$ 5,440,219	$ 4,182,450	$ 34,089,861	$ 31,134,037
Excess (Deficiency) Before Transfers	$ (217,120)	$ (467,134)	$ (982,358)	$ (928,873)	$ (1,199,478)	$ (1,396,007)
Transfers	(543,525)	(610,880)	543,525	610,880	-	-
Change in Net Assets	$ (760,645)	$ (1,078,014)	$ (438,833)	$ (317,993)	$ (1,199,478)	$ (1,396,007)
Net Assets, Beginning [1]	$ 10,122,795	$ 11,200,809	$ 1,941,779	$ 2,259,772	$ 12,064,574	$ 13,460,581
Net Assets, Ending	$ 9,362,150	$ 10,122,795	$ 1,502,946	$ 1,941,779	$ 10,865,096	$ 12,064,574

[1] 2009 has been restated to be consistent with 2010 presentation.

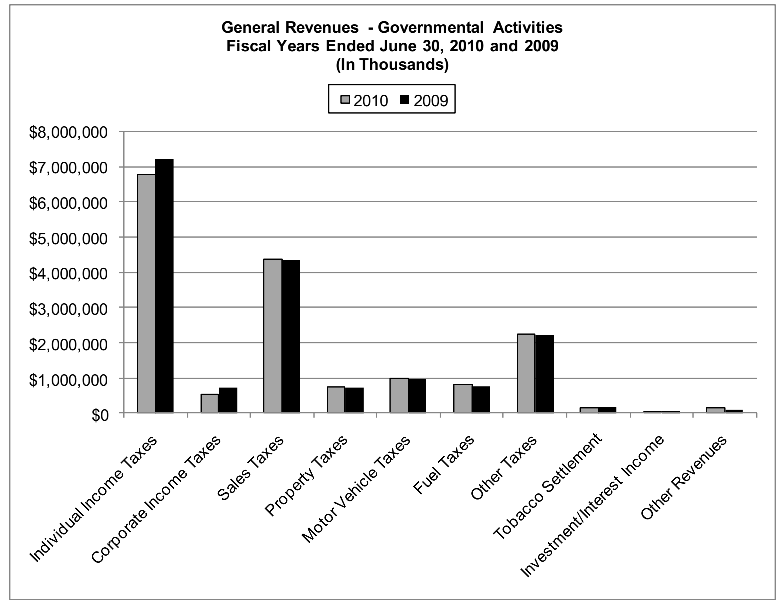
Approximately 50 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 38 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 11 percent of the total revenues. The remaining 1 percent 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.

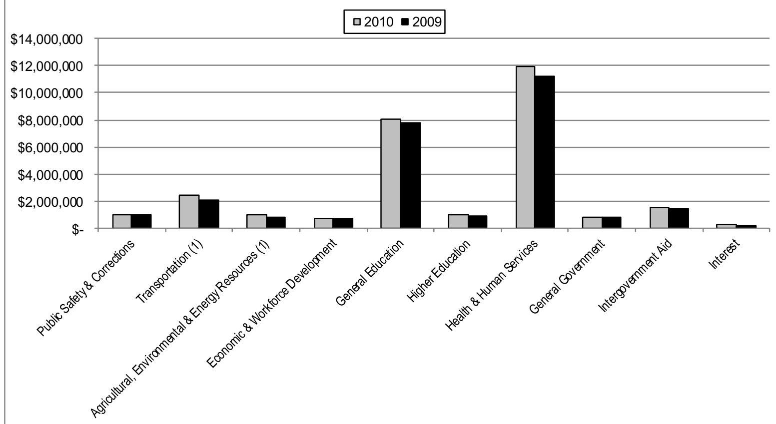
Governmental Activities

Governmental activities decreased the state's net assets by $761 million compared to a decrease of $1.1 billion in the prior year.

Significant increases in revenues were partially offset by decreases in other revenue sources. The increase in federal revenues was primarily attributed to revenue exceeding $2 billion related to the American Recovery and Reinvestment Act (ARRA) compared to approximately $900 million in the prior year. ARRA was designed to provide federal spending to accelerate the nation's economic recovery and preserve and create jobs. Motor vehicle and fuel taxes increased due to tax rate increases and additional sales of vehicles attributed to a federal program, which purchased older vehicles. These increases were partially offset by a decrease in individual income taxes receipts and corporate income taxes receipts resulting from a lower tax base as a result of the deterioration in the economy. Sales tax increased due to a constitutional increase in the sales tax rate that is dedicated to restore, protect and enhance the outdoors, water quality, parks and trails, and arts and cultural heritage. However, this increase was partially offset by the continued deterioration in the economy.



Functional Expenses - Governmental Activities
Fiscal Year Ended June 30, 2010 and 2009
(In Thousands)



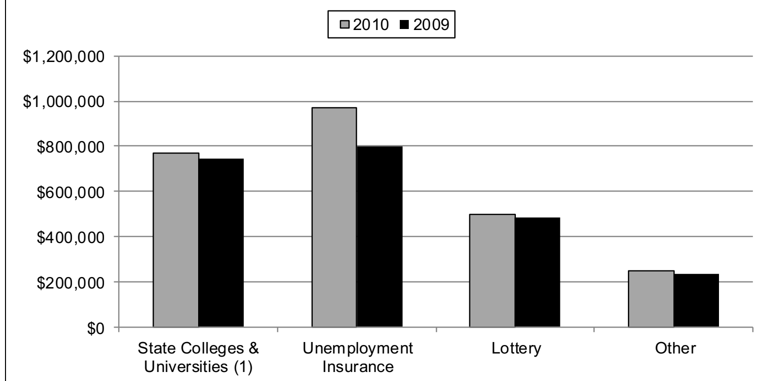
(1) 2009 has been restated to be consistent with 2010 presentation.

The increase in expenses resulted in increases from many functions. Transportation expenses increased due to expansion of highway construction for both state and local projects. These expenses were partially offset by federal revenue including ARRA grants. The additional Agricultural, Environmental and Energy Resources expenses relating to weatherization and energy programs expenses were almost entirely offset by additional federal revenues including ARRA grants. General Education increases related to increases in ARRA grants; thus, expenses were also offset by additional federal revenue. Higher Education grants increase was attributable to the Office of Higher Education spending a larger portion of a reimbursable grant in the first year of the grant period. Health and Human Services expenses increased due to an increase in the number of participants eligible for health care services and food stamps due to the weaker economy. This increase was offset by an increase in operating grants from the federal government. The decrease in General Government expenses related to general operating reductions to help balance the budget. Intergovernmental Aid expenses increase resulted from larger budget reductions in fiscal year 2009 than in fiscal year 2010.

Business-type Activities

The state's proprietary funds net assets decreased by $439 million during the current year. This primarily resulted from a $583 million decrease in net assets in the Unemployment Insurance Fund. This decrease resulted from a significant increase in unemployment benefits due to an increase in the unemployment rate and extended benefit periods as a result of the economic downturn causing an unrestricted net asset deficit of $266 million. The increase in benefits was partially offset by an increase in insurance premiums and nonoperating federal revenue provided by ARRA grants and federally funded extended benefits. The decrease in net assets of the Unemployment Insurance Fund was partially offset by a $180 million increase in net assets in the State Colleges and Universities Fund. The increase in federal grants related to an increase in student Pell Grants and funds received under ARRA. The increase in federal revenue was partially offset by an increase in student financial aid due to an increase in student eligibility and award amounts.

Charges for Services - Business-type Activities
Fiscal Years Ended June 30, 2010 and 2009
(In Thousands)



(1) 2009 has been restated to be consistent with 2010 presentation.

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 $2.8 billion, a decrease of $774 million over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $1.5 billion, a decrease in fund balance of an additional $1.2 billion compared to the prior year. This decrease primarily resulted from the continuing economic downturn, which resulted in revenues insufficient to cover expenditures.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund; however, the additional federal grants related to ARRA grants shifted expenditures from the General Fund to the Federal Fund (special revenue fund). The decreases in both General Government and Agricultural, Environmental and Energy Resources expenditures related to general operating reductions to help balance the budget. Higher Education expenditures increased due to an increase in grants to the Office of Higher Education; however, these increases were offset by a shift of General Fund grants for the University of Minnesota (component unit) to the Federal Fund and reimbursed by ARRA grants. In addition, the decreases in General Education, Health and Human Services, and Public Safety and Corrections expenditures were primarily attributed to shifts of General Fund expenditures to the Federal Fund and reimbursed by ARRA grants. Intergovernmental Aid expenditure increases resulted from larger budget reductions in fiscal year 2009 than in fiscal year 2010.

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 fund's net assets decreased by $439 million during the current year. This primarily resulted from a $583 million decrease in net assets in the Unemployment Insurance Fund, which was offset by an increase of $180 million in net assets of the State Colleges and Universities 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 2010. These are material to understanding changes in the General Fund balance that occurred in fiscal year 2010. Both the Minnesota State Constitution (Article XI, sections 5 and 6) and Minnesota Statues, Section 16A.152, require that the budget be balanced for the biennium. The following includes actions taken by the Minnesota Legislature and the Governor affecting fiscal year 2010.

Actions Establishing the Fiscal Year 2010 Budget

The February 2009 forecast set the baseline for the development of the 2010-2011 biennial budget. This forecast included a projected deficit of $4.57 billion for the 2010-2011 biennium, with $2.29 billion of that deficit projected in fiscal year 2010. The February 2009 forecast included recognition of the recently passed American Recovery and Reinvestment Act (ARRA), which at that time provided $1.359 billion in relief to the General Fund for the 2009-2011 biennium by moving additional Medicaid expenditures to the Federal Fund (special revenue fund).

The 2009 Legislature took action to close the budget gap for the 2010-2011 biennium and passed bills, which the Governor signed, narrowing the projected deficit to $2.7 billion for the biennium ($1.3 billion for 2010). This Legislative action included moving an additional $816 million in spending from the General Fund to the Federal Fund in recognition of the State Fiscal Stabilization Funds received through ARRA grants in fiscal years 2009-2011. The Legislature took additional action during the legislative session, which the Governor vetoed, that would have raised additional revenues to close the remaining budget gap. As a result, the Legislature adjourned with the $2.7 billion gap remaining for the 2010-2011 biennium.

Budget Actions during Fiscal Year 2010

In July of 2009, the Governor took action through the unallotment authority in Minnesota Statute 16A.152 to close the remaining budget gap for the 2010-2011 biennium. The Governor implemented K-12 payment deferrals totaling $1.7 billion, and unallotments and administrative actions totaling an additional $1 billion for a total of $2.7 billion.

At the beginning of the 2010 legislative session, the February 2010 forecast for 2010-2011 biennium included a deficit of $994 million. The deficit projection was based on the legislatively enacted 2010-2011 biennial budget and the Governor's subsequent executive actions. In May 2010, the Minnesota State Supreme Court ruled that the Governor's use of unallotment in July 2009 exceeded the Governor's authority. While certain administrative actions were upheld, the unallotments were reversed and the size of the deficit grew from $994 million to $3.4 billion.

At the end of the 2010 legislative session, the $3.4 billion deficit was solved largely through one-time means, leaving a General Fund budgetary balance of $5.6 million. Most of the Governor's original unallotments were adopted by the Legislature on a one-time basis. The one-time nature of the 2010-2011 biennium actions, and the scheduled repayment of K-12 shifts and payment delays in the subsequent biennium, resulted in a projected budget shortfall in the 2012-2013 biennium of $5.8 billion.

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 2010 with a balance of $74.6 million and for the 2010-2011 biennium, the General Fund is balanced on a budgetary basis. However, it is likely that the state's General Fund will continue to show deficits on a GAAP basis over the 2010-2011 biennium.

On December 2, 2010, Minnesota Management and Budget released the forecast for the 2010-2011 and the 2012-2013 bienniums. Based on the forecast, the state's financial outlook has remained consistent since the end of legislative session and the General Fund is projected to end the 2010-2011 biennium with a surplus of $399 million. However, the 2012-2013 biennium is projecting a deficit of $6.2 billion. Both state statutes and the state constitution require a balanced budget for the 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, 2010, was $16.4 billion, less accumulated depreciation of $2.6 billion, resulting in a net book value of $13.8 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures 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, 2010 and 2009
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Capital Assets not Depreciated:						
Land	$ 2,058,634	$ 2,073,170	$ 85,134	$ 81,879	$ 2,143,768	$ 2,155,049
Buildings, Structures, Improvements	28,081	52,799	-	-	28,081	52,799
Construction in Progress	292,833	251,943	166,444	154,867	459,277	406,810
Development in Progress	34,151	-	-	-	34,151	-
Infrastructure	7,634,894	7,323,111	-	-	7,634,894	7,323,111
Easements (1)	245,575	112,163	-	-	245,575	112,163
Art and Historical Treasures	1,989	1,989	-	-	1,989	1,989
Total Capital Assets not Depreciated	$ 10,296,157	$ 9,815,175	$ 251,578	$ 236,746	$ 10,547,735	$ 10,051,921
Capital Assets Depreciated:						
Buildings, Structures, Improvements(1)	$ 2,246,617	$ 2,217,019	$ 2,532,752	$ 2,335,301	$ 4,779,369	$ 4,552,320
Infrastructure	149,642	92,789	-	-	149,642	92,789
Internally Generated Computer Software	3,748	-	13,928	-	17,676	-
Easements (1)	4,067	4,028	-	-	4,067	4,028
Library Collections	-	-	48,078	48,526	48,078	48,526
Equipment, Furniture, Fixtures(1)	562,830	543,875	266,171	288,907	829,001	832,782
Total Capital Assets Depreciated	$ 2,966,904	$ 2,857,711	$ 2,860,929	$ 2,672,734	$ 5,827,833	$ 5,530,445
Less: Accumulated Depreciation(1)	1,280,827	1,212,901	1,336,227	1,270,038	2,617,054	2,482,939
Capital Assets Net of Depreciation	$ 1,686,077	$ 1,644,810	$ 1,524,702	$ 1,402,696	$ 3,210,779	$ 3,047,506
Total	$ 11,982,234	$ 11,459,985	$ 1,776,280	$ 1,639,442	$ 13,758,514	$ 13,099,427

(1) Prior year amounts have been restated for the change in accounting principle and prior period adjustment for consistent 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 2009, indicated that the average PQI for principal arterial pavement was 3.3 and 3.1 for all other pavements. The state has maintained a stable condition of pavement over the past five years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2009, indicated that 94 percent of principal arterial system bridges and 90 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.

During fiscal year 2010, the state implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement required retroactive reporting of certain intangible

assets. As a result, the state's beginning balances for nondepreciable easements and depreciable easements increased by $112.2 million and $4.0 million, net of $374 thousand accumulated depreciation, respectively. This resulted in a net change in accounting principle of $115,8 million.

Prior Period Adjustment Governmental Activities: During fiscal year 2010, depreciable buildings and equipment cost increased by $74.3 million, net of $41.9 million accumulated depreciation and $126.8 million, net of $72.0 million accumulated depreciation, respectively. This was primarily due to additional capital assets identified by the Minnesota Department of Transportation partly as a result of changing capitalization thresholds in preparation for converting capital assets into the new statewide accounting system. This resulted in a net prior period adjustment of $87.2 million.

Prior Period Adjustment Business-type Activities: During fiscal year 2010, building cost in the 911 Services Fund (enterprise fund) increased by $49.2 million, net of $5.6 million accumulated depreciation, as a result of recording towers owned by the Minnesota Department of Transportation. This resulted in a net prior period adjustment of $43.6 million.

During the current year, the state placed additional emphasis on bridge maintenance and repair that was not included in the original budget. In addition, there was a shift between costs associated with new roads to a greater focus on improvements to current infrastructure compared to the amounts originally budgeted.

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

Debt Administration

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

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

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

The state also issues revenue bonds, which are payable solely from rentals, revenues, and other income, 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.

Outstanding Bonded Debt and Unamortized Premium June 30, 2010 and 2009 (In Thousands)	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General Obligation	$ 5,103,210	$ 4,667,902	$ 250,353	$ 241,946	$ 5,353,563	$ 4,909,848
Revenue	12,900	13,715	320,779	278,246	333,679	291,961
Certificate of Participation	80,649	-	-	-	80,649	-
Total	$ 5,196,759	$ 4,681,617	$ 571,132	$ 520,192	$ 5,767,891	$ 5,201,809

During fiscal year 2010, the state issued the following bonds:

- $635.3 million in general obligation state various purpose bonds
- $105.0 million in general obligation state trunk highway bonds
- $7.0 million in general obligation Rural Finance Authority bonds
- $398.1 million in state refunding bonds
- $28.4 million in state trunk highway refunding bonds
- $60.5 million in revenue bonds for a statewide 911 emergency response communication system
- $75.0 million in certificate of participation for the statewide systems and integrated tax system

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.

This Page Intentionally Left Blank.

STATE OF MINNESOTA

STATEMENT OF NET ASSETS
JUNE 30, 2010
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 4,306,485	$ 772,491	$ 5,078,976	$ 1,358,129
Investments	1,116,158	31,123	1,147,281	836,719
Accounts Receivable	2,057,048	468,736	2,525,784	419,020
Due from Component Units	12,350	-	12,350	-
Due from Primary Government	-	-	-	71,120
Accrued Investment/Interest Income	20,167	17	20,184	42,170
Federal Aid Receivable	1,449,709	54,658	1,504,367	8,289
Inventories	29,843	20,267	50,110	46,010
Loans and Notes Receivable	21,263	5,880	27,143	209,557
Internal Balances	14,636	(14,636)	-	-
Securities Lending Collateral	62,156	265	62,421	2,196
Other Assets	19,218	3,096	22,314	117,491
Total Current Assets	$ 9,109,033	$ 1,341,897	$ 10,450,930	$ 3,110,701
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 111,594	$ 111,594	$ 259,373
Investments-Restricted	-	-	-	679,120
Accounts Receivable-Restricted	-	-	-	19,778
Due from Primary Government	-	-	-	47,543
Other Assets-Restricted	-	71	71	18,782
Due from Component Units	106,111	-	106,111	-
Investments	-	-	-	3,018,238
Accounts Receivable	421,267	-	421,267	523,926
Loans and Notes Receivable	300,427	27,069	327,496	4,711,012
Depreciable Capital Assets (Net)	1,686,077	1,524,702	3,210,779	4,662,685
Nondepreciable Capital Assets	2,661,263	251,578	2,912,841	554,881
Infrastructure (Not depreciated)	7,634,894	-	7,634,894	-
Other Assets	25,589	-	25,589	11,289
Deferred Loss on Interest Rate Swap Agreements	-	-	-	37,077
Total Noncurrent Assets	$ 12,835,628	$ 1,915,014	$ 14,750,642	$ 14,543,704
Total Assets	$ 21,944,661	$ 3,256,911	$ 25,201,572	$ 17,654,405
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 5,053,616	$ 275,439	$ 5,329,055	$ 300,300
Due to Component Units	36,590	-	36,590	-
Due to Primary Government	-	-	-	37,817
Unearned Revenue	577,013	68,794	645,807	113,936
Accrued Interest Payable	74,272	568	74,840	72,119
General Obligation Bonds Payable	402,265	17,790	420,055	204,584
Loans and Notes Payable	13,954	827	14,781	330,218
Revenue Bonds Payable	845	19,920	20,765	710,174
Claims Payable	88,090	-	88,090	84,832
Compensated Absences Payable	30,894	14,496	45,390	185,919
Workers' Compensation Liability	16,813	2,739	19,552	-
Certificates of Participation Payable	500	-	500	-
Capital Leases Payable	6,984	1,757	8,741	560
Securities Lending Liabilities	62,156	265	62,421	2,196
Other Liabilities	20,476	16,304	36,780	68,607
Total Current Liabilities	$ 6,384,468	$ 418,899	$ 6,803,367	$ 2,111,262
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 114,204
Unearned Revenue-Restricted	-	-	-	31,977
Accrued Interest Payable-Restricted	-	-	-	10,440
Due to Primary Government	-	-	-	106,112
Unearned Revenue	-	-	-	5,334
General Obligation Bonds Payable	4,700,945	232,563	4,933,508	1,473,136
Loans and Notes Payable	27,365	602,193	629,558	4,332
Revenue Bonds Payable	12,055	300,859	312,914	3,667,871
Claims Payable	655,620	-	655,620	598,122
Compensated Absences Payable	263,393	130,479	393,872	63,512
Workers' Compensation Liability	88,444	3,779	92,223	-
Certificates of Participation Payable	80,149	-	80,149	-
Capital Leases Payable	151,191	16,905	168,096	11,395
Funds Held in Trust	-	-	-	222,622
Due to Component Units	18,591	-	18,591	-
Other Liabilities	200,290	48,288	248,578	165,973
Interest Rate Swap Agreements	-	-	-	37,077
Total Noncurrent Liabilities	$ 6,198,043	$ 1,335,066	$ 7,533,109	$ 6,512,107
Total Liabilities	$ 12,582,511	$ 1,753,965	$ 14,336,476	$ 8,623,369

CONTINUED

STATE OF MINNESOTA

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2010
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 8,947,341	$ 1,293,856	$ 10,241,197	$ 3,275,519
Restricted for:				
Debt Service	$ 432,459	$ -	$ 432,459	$ -
Transportation	908,897	-	908,897	-
Public Safety	23,265	-	23,265	-
Environmental Resources	758,937	-	758,937	-
Economic and Workforce Development	103,660	5,878	109,538	-
Arts and Cultural Heritage	16,594	-	16,594	-
School Aid-Nonexpendable	688,891	-	688,891	-
School Aid-Expendable	5,561	-	5,561	-
General Education	79,379	-	79,379	-
Health and Human Services	24,831	16,297	41,128	-
State Colleges and Universities	-	451,277	451,277	-
General Government	18,431	-	18,431	-
Other Purposes	-	36,253	36,253	
Component Units	-	-	-	4,877,004
Total Restricted	$ 3,060,905	$ 509,705	$ 3,570,610	$ 4,877,004
Unrestricted	$ (2,646,096)	$ (300,615)	$ (2,946,711)	$ 878,513
Total Net Assets	$ 9,362,150	$ 1,502,946	$ 10,865,096	$ 9,031,036

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
					PRIMARY GOVERNMENT			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBU- TIONS	CAPITAL GRANTS AND CONTRIBU- TIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
Public Safety and Corrections	$ 958,915	$ 156,139	$ 234,203	$ -	$ (568,573)		$ (568,573)	
Transportation	2,468,573	25,397	754,492	205,125	(1,483,559)		(1,483,559)	
Agricultural, Environmental and Energy Resources	950,738	358,666	386,048	1,167	(204,857)		(204,857)	
Economic and Workforce Development	715,085	49,212	312,052	-	(353,821)		(353,821)	
General Education	8,042,744	21,342	1,631,487	-	(6,389,915)		(6,389,915)	
Higher Education	981,859	3	38,591	-	(943,265)		(943,265)	
Health and Human Services	11,949,235	353,929	6,775,255	-	(4,820,051)		(4,820,051)	
General Government	762,238	266,565	32,085	-	(463,588)		(463,588)	
Intergovernment Aid	1,558,453	-	-	-	(1,558,453)		(1,558,453)	
Interest	261,802	-	-	-	(261,802)		(261,802)	
Total Governmental Activities	$ 28,649,642	$ 1,231,253	$ 10,164,213	$ 206,292	$ (17,047,884)		$ (17,047,884)	
Business-type Activities:								
State Colleges and Universities	$ 1,802,527	$ 771,104	$ 468,757	$ 1,554		$ (561,112)	$ (561,112)	
Unemployment Insurance	3,038,557	972,425	1,489,438	-		(576,694)	(576,694)	
Lottery	377,025	499,271	-	-		122,246	122,246	
Other	222,110	246,829	-	-		24,719	24,719	
Total Business-type Activities	$ 5,440,219	$ 2,489,629	$ 1,958,195	$ 1,554		$ (990,841)	$ (990,841)	
Total Primary Government	$ 34,089,861	$ 3,720,882	$ 12,122,408	$ 207,846	$ (17,047,884)	$ (990,841)	$ (18,038,725)	
Component Units:								
University of Minnesota	$ 3,234,440	$ 1,476,214	$ 954,063	$ 184,845				$ (619,318)
Metropolitan Council	830,055	359,736	206,310	245,206				(18,803)
Housing Finance	467,175	180,172	243,749	-				(43,254)
Others	430,454	125,351	119,044	-				(186,059)
Total Component Units	$ 4,962,124	$ 2,141,473	$ 1,523,166	$ 430,051				$ (867,434)
General Revenues:								
Taxes:								
Individual Income Taxes					$ 6,792,510	$ -	$ 6,792,510	$ -
Corporate Income Taxes					539,534	-	539,534	-
Sales Taxes					4,379,236	-	4,379,236	-
Property Taxes					746,685	-	746,685	-
Motor Vehicle Taxes					997,214	-	997,214	-
Fuel Taxes					826,574	-	826,574	-
Other Taxes					2,224,237	-	2,224,237	204,256
Tobacco Settlement					157,924	-	157,924	-
Unallocated Investment/Interest Income					21,242	8,483	29,725	234,498
Other Revenues					145,608	-	145,608	62,012
State Grants Not Restricted					-	-	-	933,848
Transfers					(543,525)	543,525	-	-
Total General Revenues and Transfers					$ 16,287,239	$ 552,008	$ 16,839,247	$ 1,434,614
Change in Net Assets					$ (760,645)	$ (438,833)	$ (1,199,478)	$ 567,180
Net Assets, Beginning, as Reported					$ 9,919,792	$ 1,898,220	$ 11,818,012	$ 8,457,268
Prior Period Adjustments					87,186	43,559	130,745	-
Change in Accounting Principle					115,817	-	115,817	6,588
Net Assets, Beginning, as Restated					$ 10,122,795	$ 1,941,779	$ 12,064,574	$ 8,463,856
Net Assets, Ending					$ 9,362,150	$ 1,502,946	$ 10,865,096	$ 9,031,036

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,013,175	$ 11,448	$ 2,932,772	$ 3,957,395
Investments	402,698	-	692,114	1,094,812
Accounts Receivable	1,996,042	128,134	351,632	2,475,808
Interfund Receivables	191,531	22,457	219,923	433,911
Due from Component Units	211	-	118,250	118,461
Accrued Investment/Interest Income	14,722	-	5,217	19,939
Federal Aid Receivable	-	1,417,155	32,554	1,449,709
Inventories	-	-	29,578	29,578
Loans and Notes Receivable	274,683	-	47,007	321,690
Deferred Costs	-	-	17,308	17,308
Securities Lending Collateral	23,434	-	38,722	62,156
Investment in Land	-	-	16,008	16,008
Total Assets	$ 3,916,496	$ 1,579,194	$ 4,501,085	$ 9,996,775
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 3,142,635	$ 1,450,399	$ 404,435	$ 4,997,469
Interfund Payables	80,474	71,719	266,918	419,111
Due to Component Units	28,825	3,362	1,618	33,805
Deferred Revenue	1,522,274	53,591	149,575	1,725,440
Accrued Interest Payable	5,100	-	-	5,100
Securities Lending Liabilities	23,434	-	38,722	62,156
Total Liabilities	$ 4,802,742	$ 1,579,071	$ 861,268	$ 7,243,081
Fund Balances:				
Nonspendable	$ 465,601	$ -	$ 718,469	$ 1,184,070
Restricted	173,687	123	2,380,419	2,554,229
Committed	-	-	537,009	537,009
Assigned	-	-	3,920	3,920
Unassigned	(1,525,534)	-	-	(1,525,534)
Total Fund Balances	$ (886,246)	$ 123	$ 3,639,817	$ 2,753,694
Total Liabilities and Fund Balances	$ 3,916,496	$ 1,579,194	$ 4,501,085	$ 9,996,775

The notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 2,753,694
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 7,634,894	
Nondepreciable Capital Assets	2,645,255	
Depreciable Capital Assets	2,883,032	
Accumulated Depreciation	(1,228,810)	
Total Capital Assets		11,934,371
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		1,155,495
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		24,960
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		320,436
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds Payable	$ (4,722,504)	
Bond Premium Payable	(380,706)	
Revenue Bonds Payable	(12,900)	
Certificate of Participation Payable	(73,980)	
Certificate of Participation Premium Payable	(6,669)	
Accrued Interest Payable on Bonds	(69,172)	
Loans and Notes Payable	(23,982)	
Claims Payable	(743,710)	
Workers' Compensation Liability	(105,257)	
Capital Leases Payable	(158,175)	
Compensated Absences Payable	(288,155)	
Net Pension Obligation	(58,689)	
Net Other Post-Employment Benefits Obligation	(110,404)	
Pollution Remediation	(51,127)	
Due to Component Units	(21,376)	
Total Liabilities		(6,826,806)
Net Assets of Governmental Activities		$ 9,362,150

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 6,729,244	$ -	$ -	$ 6,729,244
Corporate Income Taxes	540,504	-	-	540,504
Sales Taxes	4,181,319	-	229,958	4,411,277
Property Taxes	766,830	-	-	766,830
Motor Vehicle Taxes	235,756	-	761,458	997,214
Fuel Taxes	-	-	825,341	825,341
Other Taxes	1,438,940	-	759,858	2,198,798
Tobacco Settlement	164,786	-	-	164,786
Federal Revenues	401	9,437,176	582,879	10,020,456
Licenses and Fees	256,278	846	309,523	566,647
Departmental Services	111,798	11,511	147,291	270,600
Investment/Interest Income	63,127	287	115,058	178,472
Securities Lending Income	183	-	242	425
Other Revenues	334,724	60,769	299,172	694,665
Net Revenues	$ 14,823,890	$ 9,510,589	$ 4,030,780	$ 28,365,259
Expenditures:				
Current:				
Public Safety and Corrections	$ 540,876	$ 177,101	$ 184,006	$ 901,983
Transportation	283,228	368,191	1,764,914	2,416,333
Agricultural, Environmental and Energy Resources	205,116	290,186	423,108	918,410
Economic and Workforce Development	156,781	308,379	290,177	755,337
General Education	6,444,487	1,534,835	59,125	8,038,447
Higher Education	841,752	38,591	101,525	981,868
Health and Human Services	4,384,540	6,663,993	881,025	11,929,558
General Government	633,298	22,163	74,630	730,091
Intergovernment Aid	1,549,199	-	254	1,549,453
Securities Lending Rebates and Fees	56	-	76	132
Total Current Expenditures	$ 15,039,333	$ 9,403,439	$ 3,778,840	$ 28,221,612
Capital Outlay	30,972	54,085	558,679	643,736
Debt Service	45,841	584	631,394	677,819
Total Expenditures	$ 15,116,146	$ 9,458,108	$ 4,968,913	$ 29,543,167
Excess of Revenues Over (Under) Expenditures	$ (292,256)	$ 52,481	$ (938,133)	$ (1,177,908)
Other Financing Sources (Uses):				
General Obligation Bond Issuance	$ -	$ -	$ 722,904	$ 722,904
Certificates of Participation Issuance	-	-	74,980	74,980
Loan Proceeds	5,729	-	-	5,729
Proceeds from Refunding Bonds	-	-	426,505	426,505
Payment to Refunded Bonds Escrow Agent	-	-	(426,505)	(426,505)
Bond Issue Premium	-	-	108,704	108,704
Certificates of Participation Premium	-	-	7,411	7,411
Transfers-In	378,042	5,237	758,098	1,141,377
Transfers-Out	(1,187,744)	(57,748)	(419,061)	(1,664,553)
Capital Leases	-	-	3,356	3,356
Net Other Financing Sources (Uses)	$ (803,973)	$ (52,511)	$ 1,256,392	$ 399,908
Net Change in Fund Balances	$ (1,096,229)	$ (30)	$ 318,259	$ (778,000)
Fund Balances, Beginning, as Reported	$ (641,308)	$ 153	$ 4,168,473	$ 3,527,318
Change in Fund Structure	851,291	-	(851,291)	-
Fund Balances, Beginning, as Restated	$ 209,983	$ 153	$ 3,317,182	$ 3,527,318
Change in Inventory	-	-	4,376	4,376
Fund Balances, Ending	$ (886,246)	$ 123	$ 3,639,817	$ 2,753,694

The notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ (778,000)
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 $100,465 in the current period	543,271
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	(22,072)
Governmental funds do not report net transfers of capital assets between governmental funds and business-type funds	(723)
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	40,360
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used	4,376
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	17,281
Bond and loan proceeds provide current financial resources to governmental funds; however issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(1,346,233)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase	(3,356)
Repayment of bonds and loans are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	821,550
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	(37,099)
Change in Net Assets of Governmental Activities	$ (760,645)

The notes are an integral part of the financial statements.

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUDGETARY BASIS
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 7,042,465	$ 6,720,020	$ 6,530,958
Corporate Income Taxes	447,790	631,300	663,505
Sales Taxes	4,156,973	4,154,834	4,151,036
Property Taxes	769,470	758,740	766,831
Motor Vehicle Taxes	207,796	236,069	236,400
Other Taxes	1,186,968	1,156,905	1,165,582
Departmental Earnings/Licenses and Fees	290,079	287,750	295,590
Investment/Interest Income	10,000	7,700	4,867
Tobacco Settlement	175,189	164,786	164,786
Other Revenues	446,984	395,848	435,106
Net Revenues	$ 14,733,714	$ 14,513,952	$ 14,414,661
Expenditures:			
Public Safety and Corrections	$ 551,736	$ 548,086	$ 529,727
Transportation	235,143	250,301	249,825
Agricultural, Environmental and Energy Resources	184,525	192,566	179,772
Economic and Workforce Development	70,637	68,563	61,695
General Education	6,551,715	5,443,722	5,437,754
Higher Education	849,976	851,036	841,609
Health and Human Services	4,412,729	4,169,855	3,995,079
General Government	1,131,199	684,488	641,046
Intergovernment Aid	1,678,019	1,581,050	1,581,042
Total Expenditures	$ 15,665,679	$ 13,789,667	$ 13,517,549
Excess of Revenues Over (Under) Expenditures	$ (931,965)	$ 724,285	$ 897,112
Other Financing Sources (Uses):			
Transfers-In	$ 303,138	$ 358,000	$ 387,360
Transfers-Out	(897,408)	(1,320,781)	(1,320,781)
Net Other Financing Sources (Uses)	$ (594,270)	$ (962,781)	$ (933,421)
Net Change in Fund Balances	$ (1,526,235)	$ (238,496)	$ (36,309)
Fund Balances, Beginning, as Reported	$ 498,006	$ 498,006	$ 498,006
Prior Period Adjustments	-	-	39,944
Fund Balances, Beginning, as Restated	$ 498,006	$ 498,006	$ 537,950
Budgetary Fund Balances, Ending	$ (1,028,229)	$ 259,510	$ 501,641
Less: Appropriation Carryover	-	-	121,566
Less: Reserved for Long-Term Receivables	-	-	39,509
Less: Budgetary Reserve	-	-	266,000
Undesignated Fund Balances, Ending	$ (1,028,229)	$ 259,510	$ 74,566

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 655,380	$ 23	$ 117,088	$ 772,491	$ 349,090
Investments	31,123	-	-	31,123	21,346
Accounts Receivable	48,109	394,119	26,508	468,736	28,069
Interfund Receivables	25,382	-	2,355	27,737	-
Accrued Investment/Interest Income	-	-	17	17	228
Federal Aid Receivable	19,382	35,276	-	54,658	-
Inventories	13,411	-	6,856	20,267	265
Deferred Costs	725	-	453	1,178	1,910
Loans and Notes Receivable	5,880	-	-	5,880	-
Securities Lending Collateral	265	-	-	265	-
Other Assets	-	-	1,918	1,918	-
Total Current Assets	$ 799,657	$ 429,418	$ 155,195	$ 1,384,270	$ 400,908
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 109,994	$ -	$ 1,600	$ 111,594	$ -
Other Assets-Restricted	71	-	-	71	-
Deferred Costs	-	-	-	-	629
Loans and Notes Receivable	27,069	-	-	27,069	-
Depreciable Capital Assets (Net)	1,439,136	-	85,566	1,524,702	31,855
Nondepreciable Capital Assets	248,400	-	3,178	251,578	-
Total Noncurrent Assets	$ 1,824,670	$ -	$ 90,344	$ 1,915,014	$ 32,484
Total Assets	$ 2,624,327	$ 429,418	$ 245,539	$ 3,299,284	$ 433,392
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 178,436	$ 65,955	$ 31,048	$ 275,439	$ 81,709
Interfund Payables	-	25,829	16,544	42,373	164
Unearned Revenue	62,377	4,976	1,441	68,794	7,068
Accrued Bond Interest Payable	-	-	568	568	-
General Obligation Bonds Payable	17,495	-	295	17,790	-
Loans and Notes Payable	827	-	-	827	5,332
Revenue Bonds Payable	6,995	-	12,925	19,920	-
Workers' Compensation Liability	2,739	-	-	2,739	-
Capital Leases	1,617	-	140	1,757	-
Compensated Absences Payable	13,173	-	1,323	14,496	514
Securities Lending Liabilities	265	-	-	265	-
Other Liabilities	16,257	-	47	16,304	-
Total Current Liabilities	$ 300,181	$ 96,760	$ 64,331	$ 461,272	$ 94,787
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 230,505	$ -	$ 2,058	$ 232,563	$ -
Loans and Notes Payable	3,400	598,793	-	602,193	12,005
Revenue Bonds Payable	179,142	-	121,717	300,859	-
Workers' Compensation Liability	3,779	-	-	3,779	-
Capital Leases	16,372	-	533	16,905	-
Compensated Absences Payable	120,045	-	10,434	130,479	5,618
Other Liabilities	47,137	-	1,151	48,288	546
Total Noncurrent Liabilities	$ 600,380	$ 598,793	$ 135,893	$ 1,335,066	$ 18,169
Total Liabilities	$ 900,561	$ 695,553	$ 200,224	$ 1,796,338	$ 112,956
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,272,489	$ -	$ 21,367	$ 1,293,856	$ 14,589
Restricted for:					
Bond Covenants	$ 57,183	$ -	$ -	$ 57,183	$ -
Debt Service	25,382	-	-	25,382	-
Capital Projects	25,854	-	-	25,854	-
Economic and Workforce Development	-	-	5,878	5,878	-
Health and Human Services	-	-	16,297	16,297	-
Other Purposes	342,858	-	36,253	379,111	-
Total Restricted	$ 451,277	$ -	$ 58,428	$ 509,705	$ -
Unrestricted	$ -	$ (266,135)	$ (34,480)	$ (300,615)	$ 305,847
Total Net Assets	$ 1,723,766	$ (266,135)	$ 45,315	$ 1,502,946	$ 320,436

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 659,596	$ -	$ -	$ 659,596	$ -
Restricted Student Payments, Net	96,695	-	-	96,695	-
Net Sales	-	-	541,129	541,129	13,938
Rental and Service Fees	-	-	176,736	176,736	164,175
Insurance Premiums	-	965,875	24,611	990,486	678,263
Other Income	14,813	6,550	3,624	24,987	10,769
Total Operating Revenues	$ 771,104	$ 972,425	$ 746,100	$ 2,489,629	$ 867,145
Less: Cost of Goods Sold	-	-	368,196	368,196	2,320
Gross Margin	$ 771,104	$ 972,425	$ 377,904	$ 2,121,433	$ 864,825
Operating Expenses:					
Purchased Services	$ 207,292	$ -	$ 35,662	$ 242,954	$ 150,325
Salaries and Fringe Benefits	1,237,709	-	119,267	1,356,976	53,865
Student Financial Aid	65,313	-	-	65,313	-
Unemployment Benefits	-	3,036,515	-	3,036,515	-
Claims	-	-	18,564	18,564	573,531
Depreciation	88,440	-	10,013	98,453	9,647
Amortization	-	-	71	71	609
Supplies and Materials	92,202	-	5,944	98,146	6,316
Repairs and Maintenance	34,811	-	-	34,811	-
Indirect Costs	-	-	6,640	6,640	1,569
Other Expenses	44,544	-	8,081	52,625	2,791
Total Operating Expenses	$ 1,770,311	$ 3,036,515	$ 204,242	$ 5,011,068	$ 798,653
Operating Income (Loss)	$ (999,207)	$ (2,064,090)	$ 173,662	$ (2,889,635)	$ 66,172
Nonoperating Revenues (Expenses):					
Investment Income	$ 7,487	$ 546	$ 1,040	$ 9,073	$ 3,649
Federal Grants Revenues	360,482	-	-	360,482	-
State Grants and Contributions	87,266	-	-	87,266	-
Private Grants	21,009	-	-	21,009	-
Grants and Subsidies	1,554	1,489,438	-	1,490,992	-
Other Nonoperating Revenues	-	-	34	34	-
Interest and Financing Costs	(20,142)	-	(5,271)	(25,413)	(480)
Grants, Aids and Subsidies	(12,074)	(2,042)	(14,700)	(28,816)	-
Other Nonoperating Expenses	-	-	(6,726)	(6,726)	(752)
Gain (Loss) on Disposal of Capital Assets	(677)	-	53	(624)	397
Total Nonoperating Revenues (Expenses)	$ 444,905	$ 1,487,942	$ (25,570)	$ 1,907,277	$ 2,814
Income (Loss) Before Transfers and Contributions	$ (554,302)	$ (576,148)	$ 148,092	$ (982,358)	$ 68,986
Capital Contributions	119,774	-	751	120,525	-
Transfers-In	614,169	-	5,974	620,143	-
Transfers-Out	-	(7,205)	(189,938)	(197,143)	(28,626)
Change in Net Assets	$ 179,641	$ (583,353)	$ (35,121)	$ (438,833)	$ 40,360
Net Assets, Beginning, as Reported	$ 1,544,125	$ 317,218	$ 36,877	$ 1,898,220	$ 280,076
Prior Period Adjustment	-	-	43,559	43,559	-
Net Assets, Beginning, as Restated	$ 1,544,125	$ 317,218	$ 80,436	$ 1,941,779	$ 280,076
Net Assets, Ending	$ 1,723,766	$ (266,135)	$ 45,315	$ 1,502,946	$ 320,436

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 851,332	$ 902,076	$ 747,813	$ 2,501,221	$ 862,693
Receipts from Other Revenues	-	-	3,037	3,037	11,806
Receipts from Repayment of Program Loans	3,572	-	-	3,572	-
Financial Aid Disbursements	(65,635)	-	-	(65,635)	-
Payments to Claimants	-	(3,043,669)	(323,840)	(3,367,509)	(566,064)
Payments to Suppliers	(436,891)	-	(88,202)	(525,093)	(120,506)
Payments to Employees	(1,228,897)	-	(117,522)	(1,346,419)	(53,585)
Payments to Others	-	-	(36,749)	(36,749)	(52,463)
Payments of Program Loans	(3,254)	-	-	(3,254)	-
Net Cash Flows from Operating Activities	$ (879,773)	$ (2,141,593)	$ 184,537	$ (2,836,829)	$ 81,881
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 464,277	$ 1,483,460	$ -	$ 1,947,737	$ -
Grant Disbursements	(12,450)	(1,911)	(15,671)	(30,032)	-
Transfers-In	614,169	-	5,982	620,151	-
Transfers-Out	-	(6,701)	(189,199)	(195,900)	(28,447)
Advances from Other Funds	-	1,144,457	-	1,144,457	-
Repayments of Advances to Other Funds	-	-	-	-	(458)
Repayments of Advances from Other Funds	-	(545,664)	-	(545,664)	(1,125)
Proceeds from Bonds	-	-	66,277	66,277	-
Repayment of Bond Principal	-	-	(13,375)	(13,375)	-
Interest Paid	-	-	(4,642)	(4,642)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,065,996	$ 2,073,641	$ (150,628)	$ 2,989,009	$ (30,030)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 141,413	$ -	$ -	$ 141,413	$ -
Investment in Capital Assets	(223,012)	-	(20,126)	(243,138)	(14,591)
Proceeds from Disposal of Capital Assets	334	-	89	423	1,581
Proceeds from Capital Debt	26,686	-	-	26,686	-
Proceeds from Loans	-	-	-	-	8,449
Capital Lease Payments	(2,484)	-	(70)	(2,554)	-
Repayment of Loan Principal	(1,355)	-	-	(1,355)	(8,964)
Repayment of Bond Principal	(27,804)	-	(1,096)	(28,900)	-
Interest Paid	(21,348)	-	(1,061)	(22,409)	(488)
Net Cash Flows from Capital and Related Financing Activities	$ (107,570)	$ -	$ (22,264)	$ (129,834)	$ (14,013)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 10,978	$ -	$ -	$ 10,978	$ 7,500
Purchase of Investments	(14,024)	-	-	(14,024)	(7,498)
Investment Earnings	5,969	547	1,012	7,528	3,652
Net Cash Flows from Investing Activities	$ 2,923	$ 547	$ 1,012	$ 4,482	$ 3,654
Net Increase (Decrease) in Cash and Cash Equivalents	$ 81,576	$ (67,405)	$ 12,657	$ 26,828	$ 41,492
Cash and Cash Equivalents, Beginning, as Reported	$ 683,798	$ 67,428	$ 106,031	$ 857,257	$ 307,598
Cash and Cash Equivalents, Ending	$ 765,374	$ 23	$ 118,688	$ 884,085	$ 349,090

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (999,207)	$ (2,064,090)	$ 173,662	$ (2,889,635)	$ 66,172
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 88,440	$ -	$ 10,013	$ 98,453	$ 9,647
Amortization	-	-	71	71	609
Miscellaneous Nonoperating Expenses	(419)	-	(5,847)	(6,266)	(605)
Loan Principal Repayments	3,572	-	-	3,572	-
Loans Issued	(3,254)	-	-	(3,254)	-
Provision for Loan Defaults	(50)	-	-	(50)	-
Loans Forgiven	638	-	-	638	-
Change in Valuation of Assets	812	-	-	812	-
Change in Assets and Liabilities:					
Accounts Receivable	11,366	(58,749)	5,023	(42,360)	(2,327)
Inventories	915	-	174	1,089	377
Other Assets	-	-	244	244	(215)
Accounts Payable	6,639	(4,480)	1,774	3,933	57
Compensated Absences Payable	7,412	-	(723)	6,689	94
Unearned Revenues	4,072	(14,278)	(145)	(10,351)	2,339
Other Liabilities	(709)	4	291	(414)	5,733
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 119,434	$ (77,503)	$ 10,875	$ 52,806	$ 15,709
Net Cash Flows from Operating Activities	$ (879,773)	$ (2,141,593)	$ 184,537	$ (2,836,829)	$ 81,881
Noncash Investing, Capital and Financing Activities:					
Transferred/Donated Assets	$ 742	$ -	$ -	$ 742	$ -
Change in Fair Value of Investments	735	-	-	735	-
Capital Assets Purchased on Account	22,834	-	-	22,834	-
Investment Earnings on Account	321	-	-	321	133
Trade-in Allowance for Investment in Capital Assets	-	-	-	-	82
Bond Premium Amortization	1,267	-	-	1,267	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 17,897	$ -	$ 102,071
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,623,586	$ 72,444	$ -
Investments:			
Guaranteed Investment Account	$ 1,251,695	$ -	$ -
Debt Securities	9,961,257	147,067	-
Equity Securities	29,486,524	268,765	-
Mutual Funds	3,148,919	-	-
Total Investments	$ 43,848,395	$ 415,832	$ -
Accrued Interest and Dividends	$ 114,943	$ 1,953	$ -
Securities Trades Receivables (Payables)	(914,378)	(7,443)	-
Total Investment Pool Participation	$ 45,672,546	$ 482,786	$ -
Receivables:			
Accounts Receivable	$ -	$ -	$ 22,149
Interfund Receivables	8,356	-	-
Other Receivables	83,667	-	-
Accrued Interest and Dividends	95	-	-
Total Receivables	$ 92,118	$ -	$ 22,149
Securities Lending Collateral	$ 3,705,733	$ 37,705	$ -
Depreciable Capital Assets (Net)	25,195	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 49,513,918	$ 520,491	$ 124,220
LIABILITIES			
Accounts Payable	$ 26,577	$ 72	$ 124,220
Interfund Payables	8,356	-	-
Accrued Expense	1	-	-
Revenue Bonds Payable	24,350	-	-
Bond Interest	45	-	-
Compensated Absences Payable	2,521	-	-
Securities Lending Liabilities	3,705,733	37,705	-
Total Liabilities	$ 3,767,583	$ 37,777	$ 124,220
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 45,746,335	$ 482,714	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET ASSETS
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 893,583	$ -
Member	1,098,755	-
Contributions From Other Sources	26,436	-
Participating Plans	-	107,551
Total Contributions	$ 2,018,774	$ 107,551
Net Investment Income:		
Investment Income	$ 6,041,203	$ 21,891
Less: Investment Expense	(58,624)	(316)
Net Investment Income	$ 5,982,579	$ 21,575
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 33,282	$ 354
Borrower Rebates	(6,106)	(107)
Management Fees	(4,074)	(21)
Net Securities Lending Revenue	$ 23,102	$ 226
Total Investment Income	$ 6,005,681	$ 21,801
Transfers From Other Funds	$ 23,932	$ -
Other Additions	6,586	-
Total Additions	$ 8,054,973	$ 129,352
Deductions:		
Benefits	$ 3,487,322	$ -
Refunds/Withdrawals	179,355	98,517
Administrative Expenses	36,676	-
Transfers to Other Funds	14,932	-
Total Deductions	$ 3,718,285	$ 98,517
Net Increase (Decrease)	$ 4,336,688	$ 30,835
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 40,555,480	$ 1,292,172
Change in Reporting Entity	13,874	-
Change in Fund Structure	840,293	(840,293)
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 41,409,647	$ 451,879
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 45,746,335	$ 482,714

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2009 and JUNE 30, 2010
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 521,321	$ 155,069	$ 308,164	$ 373,575	$ 1,358,129
Investments	202,014	245,767	73,410	315,528	836,719
Accounts Receivable	12,397	22,798	348,721	35,104	419,020
Due from Other Governmental Units	-	24,646	-	-	24,646
Due from Primary Government	-	63,866	4,469	2,785	71,120
Accrued Investment/Interest Income	18,838	1,651	1,636	20,045	42,170
Federal Aid Receivable	6,414	-	-	1,875	8,289
Inventories	-	23,512	22,451	47	46,010
Deferred Costs	12,927	-	-	3,734	16,661
Loans and Notes Receivable	-	-	10,513	199,044	209,557
Securities Lending Collateral	-	-	2,196	-	2,196
Other Assets	24,026	4,279	44,297	3,582	76,184
Total Current Assets	$ 797,937	$ 541,588	$ 815,857	$ 955,319	$ 3,110,701
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 125,385	$ 54,909	$ 30,903	$ 48,176	$ 259,373
Investments-Restricted	555,003	-	102,210	21,907	679,120
Accounts Receivable-Restricted	-	16,900	-	2,878	19,778
Due from Primary Government-Restricted	-	28,952	-	18,591	47,543
Other Assets-Restricted	-	18,782	-	-	18,782
Investments	-	-	2,918,375	99,863	3,018,238
Accounts Receivable	-	-	151,833	372,093	523,926
Loans and Notes Receivable	2,268,115	48,126	56,096	2,338,675	4,711,012
Depreciable Capital Assets (Net)	1,631	2,367,406	2,291,750	1,898	4,662,685
Nondepreciable Capital Assets	-	280,963	273,139	779	554,881
Other Assets	-	-	5,154	6,135	11,289
Deferred Loss on Interest Swap Agreements	37,077	-	-	-	37,077
Total Noncurrent Assets	$ 2,987,211	$ 2,816,038	$ 5,829,460	$ 2,910,995	$ 14,543,704
Total Assets	$ 3,785,148	$ 3,357,626	$ 6,645,317	$ 3,866,314	$ 17,654,405
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 19,550	$ 87,250	$ 183,223	$ 9,984	$ 300,007
Payable to Other Governmental Units	-	293	-	-	293
Due to Primary Government	-	1,214	5,639	30,964	37,817
Unearned Revenue	-	10,581	75,206	28,149	113,936
Accrued Bond Interest Payable	48,211	3,447	6,276	14,185	72,119
General Obligation Bonds Payable	-	114,563	90,021	-	204,584
Loans and Notes Payable	56,000	-	273,850	368	330,218
Revenue Bonds Payable	653,690	1,185	5,669	49,630	710,174
Claims Payable	-	5,318	27,700	51,814	84,832
Compensated Absences Payable	174	3,003	182,643	99	185,919
Securities Lending Liabilities	-	-	2,196	-	2,196
Other Liabilities	-	560	66,556	2,051	69,167
Total Current Liabilities	$ 777,625	$ 227,414	$ 918,979	$ 187,244	$ 2,111,262
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 58,148	$ 56,056	$ -	$ 114,204
Unearned Revenue-Restricted	-	31,977	-	-	31,977
Accrued Bond Interest Payable-Restricted	-	10,058	-	382	10,440
Due to Primary Government	-	-	34,827	71,285	106,112
Unearned Revenue	1,298	-	4,036	-	5,334
General Obligation Bonds Payable	-	1,079,484	393,652	-	1,473,136
Loans and Notes Payable	-	1,405	-	2,927	4,332
Revenue Bonds Payable	1,994,817	3,949	133,568	1,535,537	3,667,871
Claims Payable	-	10,491	11,445	576,186	598,122
Compensated Absences Payable	1,707	5,443	55,335	1,027	63,512
Funds Held in Trust	87,425	-	135,197	-	222,622
Other Liabilities	151	56,956	116,872	3,389	177,368
Interest Rate Swap Agreements	37,077	-	-	-	37,077
Total Noncurrent Liabilities	$ 2,122,475	$ 1,257,911	$ 940,988	$ 2,190,733	$ 6,512,107
Total Liabilities	$ 2,900,100	$ 1,485,325	$ 1,859,967	$ 2,377,977	$ 8,623,369
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,631	$ 1,631,372	$ 1,639,839	$ 2,677	$ 3,275,519
Restricted-Expendable	883,417	167,019	1,421,163	1,429,545	3,901,144
Restricted-Nonexpendable	-	-	975,860	-	975,860
Unrestricted	-	73,910	748,488	56,115	878,513
Total Net Assets	$ 885,048	$ 1,872,301	$ 4,785,350	$ 1,488,337	$ 9,031,036

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND JUNE 30, 2010
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 467,175	$ 830,055	$ 3,234,440	$ 430,454	$ 4,962,124
Program Revenues:					
Charges for Services	$ 180,172	$ 359,736	$ 1,476,214	$ 125,351	$ 2,141,473
Operating Grants and Contributions	243,749	206,310	954,063	119,044	1,523,166
Capital Grants and Contributions	-	245,206	184,845	-	430,051
Net (Expense) Revenue	$ (43,254)	$ (18,803)	$ (619,318)	$ (186,059)	$ (867,434)
General Revenues:					
Taxes	$ -	$ 204,256	$ -	$ -	$ 204,256
Investment Income	-	22,164	171,673	40,661	234,498
Other Revenues	1,849	97	59,073	993	62,012
Total General Revenues before Grants	$ 1,849	$ 226,517	$ 230,746	$ 41,654	$ 500,766
State Grants Not Restricted	40,734	-	651,350	241,764	933,848
Total General Revenues	$ 42,583	$ 226,517	$ 882,096	$ 283,418	$ 1,434,614
Change in Net Assets	$ (671)	$ 207,714	$ 262,778	$ 97,359	$ 567,180
Net Assets, Beginning, as Reported	$ 885,719	$ 1,664,587	$ 4,515,984	$ 1,390,978	$ 8,457,268
Change in Accounting Principle	-	-	6,588	-	6,588
Net Assets, Beginning, as Restated	$ 885,719	$ 1,664,587	$ 4,522,572	$ 1,390,978	$ 8,463,856
Net Assets, Ending	$ 885,048	$ 1,872,301	$ 4,785,350	$ 1,488,337	$ 9,031,036

The notes are an integral part of the financial statements.

2010 Comprehensive Annual Financial Report
Index of Notes to the Financial Statements

Page

2010 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 seven GASB statements for the fiscal year ended June 30, 2010.

GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets" was issued in June 2007. The statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. It requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Additional information on the impact of implementing this statement is located in Note 6 – Capital Assets.

GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" was issued in June 2008. The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Additional information on the impact of implementing this statement is located in Note 2 – Cash, Investments, and Derivative Instruments.

GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" was issued in February 2009. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement changed the definitions of some governmental fund types as well. As a result of implementing this statement, there were significant changes in the state's fund structure. Funds that did not meet the new special revenue fund definition were moved to the General Fund. This movement included the Environment and Natural Resources, Iron Range Resources and Rehabilitation, Maximum Effort School Loan, Health Impact, and Medical Education and Research funds as well as certain activities within the Miscellaneous Special Revenue Fund. In addition, the Environmental and Remediation funds were combined into one fund called the "Environmental and Remediation Fund." The statement also requires that restricted or committed revenues that are the foundation for a special revenue fund that are initially received in another fund and subsequently distributed to a special revenue fund be recognized as revenue in the special revenue fund expending the revenues. Therefore, transfers from the Highway User Tax Distribution Fund to the Trunk Highway, Municipal State-Aid Street, County State-Aid Highway, and Natural Resources funds were recognized as revenue in the fund expending the revenues, rather than as transfers-in as in prior years. The Highway User Tax Distribution Fund no longer reports the revenue or transfers-out.

GASB Statement No. 55 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued in March 2009. This statement incorporates the hierarchy of GAAP for state and local governments into GASB's authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards" was issued in March 2009. This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards into GASB's authoritative literature. This statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

GASB Statement No. 57 "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" was issued in December 2009. The statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agency multiple-employer other post-employment benefit (OPEB) plans. This statement had no impact on the state.

GASB Statement No. 58 "Accounting and Financial Reporting for Chapter 9 Bankruptcies" was issued in December 2009. The statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement had no impact on the state.

Financial Reporting Entity of the State of Minnesota

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Housing Finance Agency 400 Sibley Street, Suite 300 St. Paul, Minnesota 55101-1998	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55455	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building, Suite E200 332 Minnesota Street St. Paul, Minnesota 55101-1351
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 8300 Norman Center Drive, Suite 1000 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	

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

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

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

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

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

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

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

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

Financial Reporting Structure of the State of Minnesota

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

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the state as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state and 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 Assets, both the governmental and business-type activities are presented on a consolidated basis by column. The statement includes long-term assets and receivables as well as long-term debt and obligations.

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

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

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

Fund Financial Statements

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

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

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

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

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

Classification of Funds

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

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

- General Fund which accounts for all financial resources not accounted for and reported in another fund.
- Special revenue funds which account for revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Capital project funds which account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude capital-related outflows financed by proprietary funds or for assets that will be held in trust.
- Debt Service Fund which accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.
- Permanent Fund which accounts for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state has two major governmental funds. The General Fund is the principal operating fund used to account for most of the general activities of the state. The Federal Fund is the state's only major special revenue fund. It receives and disburses federal government grants, reimbursements, recoveries, and premiums.

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

- Enterprise funds account for activities that charge a fee to external users for goods or services. Activities of enterprise funds are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.
- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include motor pool, central services, central stores, 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, investment trust, and agency fund types are included in this fund category.

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.
- The Agency Fund accounts for resources held in a custodial capacity for various other governmental units, private organizations, or individuals. 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. Revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are reported as deferred revenue until the related commitment arises, at which time revenue is recognized. Expenditures and related liabilities are recognized when fund obligations are incurred, except for debt service, compensated absences, pollution remediation obligations, 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, and investment trust funds are accounted for using the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. The accrual basis of accounting is also used for contributions, benefits, and refunds paid for defined benefit and defined contribution pension plans. Agency funds use the accrual basis of accounting, but do not have a measurement focus because agency funds do not recognize revenues and expenses.

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

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

Cash Equivalents and Investments

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

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

Inventories

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

Securities Lending

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

Restricted Assets

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

Income Tax Credits

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

Grant Expenditures and Liabilities Recognition

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

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

Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Compensated Absences

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

Capital Assets

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

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. 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 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, pollution remediation obligations, net pension and other postemployment benefit obligations, and arbitrage rebate requirements. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

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

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

Deferred Compensation Plan

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

Net Assets/Fund Balances and Fund Balance Classification Policies and Procedures

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

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

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

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

The state's policy is that restricted amounts are spent first when an 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. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

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

Unencumbered appropriation balances generally cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The budget and the state accounting system are maintained essentially on a cash basis with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. The accounting system controls expenditures by appropriation line item as established in the legally adopted appropriation bills. There was one instance in fiscal year 2010 where expenditures exceeded the authorized limits at the legal level of budgetary control. The Tax Court overspent its budget authority by $2,547. The Tax Court plans to seek legislative action to approve the additional expenditures. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

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

Prior Period Adjustments

See Note 6 – Capital Assets for discussion of the prior period adjustments.

Minneapolis Employees Retirement Fund

The Laws of Minnesota, Chapter 359, Article 11, transferred the administration of the Minneapolis Employees Retirement Fund (MERF) to the Public Employees Retirement Association board of directors effective June 30, 2010. During fiscal year 2009, investment activity of MERF was presented in the state's Investment Trust Fund (fiduciary fund). Investment balances as of July 1, 2009, were transferred from the Investment Trust Fund to a pension trust fund (Minneapolis Employees Retirement) managed by the Public Employees Retirement Association board of directors and were reported as a change in fund structure. The additional July 1, 2009, assets and liabilities were reported as a change in reporting entity in the Minneapolis Employees Retirement Fund (pension trust).

Note 2 – Cash, Investments, and Derivative Instruments

Primary Government

Cash and Cash Equivalents

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

Deposits

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

Investments

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

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

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

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

Investment Derivative Instruments

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

The cash inflows, cash outflows, and changes in fair value of investment derivatives are reported as investment income. The June 30, 2010, fair value of investment derivatives are reported as investments.

Synthetic Guaranteed Investment Contract (SGIC): SBI maintains a fully benefit-responsive SGIC for the Supplemental Investment Pool - Fixed Interest Account of the Pension Trust and Investment Trust Funds portfolio. The investment objective of the Fixed Interest Account is to protect investors in defined contribution and deferred compensation plans from loss of their original investment and to provide a competitive interest rate. On June 30, 2010, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $747,887,000 that is $37,692,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool and a guaranteed investment contract with fair values of $214,955,000 and $326,545,000, respectively.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2010:

Primary Government
Derivative Activity for the Year Ended June 30, 2010
By Derivative Type
(In Thousands)

	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	$ 23,370	$ 113	$ -
Fiduciary Activities:			
Futures	$ 15,272	$ (42,397)	$ -
Futures Options Bought	(5)	164	420
Futures Options Written	3,820	(4,338)	(2,433)
FX Forwards	4,633	-	641
TBA Transactions	56,042	906,900	7,332 (1)
Stock Rights/Warrants	2,374	2,615	2,248
	$ 82,136	$ 862,944	$ 8,208

(1) Shown at net unrealized gain.

Credit Risk: Minnesota is exposed to credit risk through the counter parties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counter party, Royal Bank of Scotland, PLC, exposes the state to a maximum loss of $1,526,000 and five others combined expose the state to a maximum loss of $773,000 should these counter parties fail to perform. These counter parties have S&P credit ratings of AA- 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 risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Lehman Aggregate Bond Index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

Credit Risk of Debt Security Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit investments in debt securities to the top four quality ratings categories by a nationally recognized rating agency. The state does not have a credit risk policy that is more stringent than the statutory requirements. The contracts between SBI and investment managers include guidelines or limitations regarding credit risk.

The primary government's investments, excluding pension trust and investment trust funds, as of June 30, 2010, are presented below using the Standard & Poor's (S & P) rating scale.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
As of June 30, 2010
(In Thousands)

			Lower of S & P or Moody S & P Equivalent Rating			
	Fair Value	Weighted Average Maturity (Years)	AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 318,125	0.06	100%	-	-	-
U.S. Agencies	438,765	3.51	100%	-	-	-
Mortgage-backed Securities	261,219	21.42	89%	9%	1%	1%
State or Local Government Bonds	59,713	9.06	95%	4%	-	1%
Corporate Bonds	1,140,652	1.60	31%	68%	1%	-
Commercial Paper	2,508,560	0.14	33%	67%	-	-
Repurchase Agreements	501,614	0.01	-	1%	-	99%
Certificates of Deposit	494,115	0.09	69%	31%	-	-
Total Debt Securities	$ 5,722,763					
Equity Investments:						
Corporate Stock	$ 588,029					
Alternative Equities	8,055					
Total Equity Investments	$ 596,084					
Other Investments:						
Escheat Property	$ 9,961					
Money Market Accounts	4,621					
Total Other Investments	$ 14,582					
Total Investments	$ 6,333,429 (1)					

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

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

Primary Government
Pension Trust and Investment Trust Funds
Investments and Cash Equivalent Investments
As of June 30, 2010
(In Thousands)

	Fair Value	Weighted Average Maturity (Years)	Lower of S & P or Moody S & P Equivalent Rating: AA or Better	BBB to A	BB or Lower	Not Rated
Debt Securities:						
U.S. Treasury	$ 1,971,083	10.19	100%	-	-	-
U.S. Agencies	647,365	9.34	99%	-	-	1%
Mortgage-backed Securities	3,017,023	24.75	79%	8%	9%	4%
TBA Mortgage-backed Securities	959,437	N/A	83%	-	-	17%
State or Local Government Bonds	126,046	21.48	34%	56%	-	10%
Corporate Bonds	3,427,714	9.28	23%	68%	7%	2%
Foreign Country Bonds	20,285	8.59	45%	51%	-	4%
Commercial Paper	1,202,770	0.19	94%	6%	-	-
Asset-backed Securities	389,938	10.74	69%	18%	4%	9%
Certificates of Deposit	224,426	0.12	59%	-	-	41%
Repurchase Agreements	580,836	0.01	10%	66%	-	24%
Futures Options	(2,013)	N/A	-	-	-	100%
Total Debt Securities	$ 12,564,910					
Other Investments:						
Guaranteed Investment Account						
Guaranteed Investment Contract (GIC)	$ 326,545					
Synthetic GIC	710,195					
Short Term Investments Pool	214,955					
Total Guaranteed Investment Account	$ 1,251,695					
State Street Global Investment Pools	257,341					
Mutual Funds	3,148,919					
Total Other Investments	$ 4,657,955					
Equity Investments:						
Corporate Stock	$ 23,349,018					
Alternative Equities	6,404,023					
Stock Rights/Warrants	2,248					
Total Equity Investments	$ 29,755,289					
Total Investments	$ 46,978,154 (1)					

(1) Total investments include cash equivalent investments not included in the investment pools.

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations

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

Corporate Stock

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

The state did not have concentration of credit risk over 5% as of June 30, 2010.

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, 2010.

The following table presents foreign currency risk for pension trust and investment trust funds:

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2010
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 1,710	$ -	$ 319,313
Brazilian Real	199	-	95,813
Canadian Dollar	1,852	2,268	450,337
Euro Currency	5,548	-	1,295,668
Hong Kong Dollar	1,913	-	388,752
Indian Rupee	615	-	158,348
Japanese Yen	8,797	-	1,043,484
New Taiwan Dollar	1,980	-	100,441
Pound Sterling	6,724	18,551	905,712
Singapore Dollar	690	-	83,474
South African Rand	126	-	73,833
South Korean Won	190	-	171,596
Swedish Krona	819	-	106,007
Swiss Franc	528	-	348,488
Other	1,627	-	385,247
Total	$ 33,318	$ 20,819	$ 5,926,513

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, 2010, such investment had an average duration of 8.03 days and an average weighted maturity of 43.2 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, 2010, 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, 2010, were $3,845,017,000 and $3,720,274,000 respectively. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

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

Housing Finance Agency

As of June 30, 2010, Housing Finance Agency (HFA) had $1,403,723,000 of cash, cash equivalents, and investments. As of June 30, 2010, $475,564,000 of deposits and $802,982,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 2.6 – 24.1 years (U.S. Agencies).

HFA cash equivalents included $171,142,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2010, most investment agreement providers had a Standard & Poor's long-term credit rating of „A- or higher' and a Moody's Investors Service long-term credit rating of „A3 or higher.' The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

HFA investments had an estimated fair market value of $757,017,000 as of June 30, 2010. Included in these investments were $10,683,000 in U. S. Treasuries (not rated), plus $332,355,000 in Certificates of Deposit and $366,221,000 in U.S. Agencies having a Standard & Poor's rating of „AAA' and Moody's Investors Services rating of „Aaa'. An additional $36,970,000 in municipal debt investments had a Standard & Poor's rating of „AA' and Moody's Investors Services rating of „Aa'.

HFA had investments in single issuers as of June 30, 2010, excluding investments issued or explicitly guaranteed by the U.S. Government, that were five percent or more of total investments. These investments amounted to $593,446,000 and involved Federal Home Loan Banks and 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, 2010, as Interest Rate Swap Agreements noncurrent liability. The change in fair value for fiscal year 2010 is reported in Deferred Loss on Interest Rate Swap Agreements noncurrent asset.

As of June 30, 2010, HFA had six, six, and two interest rate swap agreements with counterparties USB, AG; Royal Bank of Canada; and Citibank, N.A. for total notional amounts of $146,205,000; $205,390,000; and $80,485,000 having fair values of ($11,199,000), ($20,284,000), and ($5,594,000), respectively. For these counterparties, respectively, the increase (decrease) in fair values for fiscal year ended June 30, 2010, were ($3,806,000), ($4,317,000) and ($1,748,000).

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, UBS, AG; Royal Bank of Canada; and Citibank, N.A. have been rated by Moody's as „Aa3,' „Aaa,' and „A1,' respectively, and by Standard & Poors as „A+,' „AA-,„ and „A+', respectively.

All swaps are pay-fixed with initial notional amounts that matched the original principal amounts and have terms which reduce the notional amounts to approximately follow the anticipated reductions in outstanding principal. HFA has also purchased the cumulative right, generally based upon a 300% 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 there under. 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, 2009, Metropolitan Council (MC), including its discretely presented component unit, had a cash and investment portfolio of $455,745,000. Of this amount, $432,676,000 was subject to rating. Using the Moody's Investors Services rating scale, $260,384,000 of these investments were rated „Aaa' and $97,993,000 were rated „Aa3,' while $74,299,000 were not rated.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $82,931,000 U.S. Treasury and agency investments, MC has a custodial credit risk exposure of $2,502,000 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, 2009. The investment portfolio has an average yield of 1.7 percent, modified duration of 2.9 years, effective duration of 2.2 years, and convexity of -.03.

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

Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2009
(In Thousands)

	Estimated Fair Value
	$ 439,341
Fair Value of Portfolio After Basis Point Increase of:	
50 Points	$ 434,315
100 Points	$ 429,650
150 Points	$ 425,092
200 Points	$ 420,663

MC has used commodity futures as an energy forward pricing mechanism (EFPM) permitted by Minnesota Statutes, Section 473.1293. Statutorily, MC may not hedge more than 100% of the projected consumption of any of its commodities and only up to 23 months into the future. Since 2004, MC has hedged most of its annual diesel fuel consumption and since 2006 its natural gas consumption. The hedging transactions are separate from fuel purchase transactions. For 2009, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2009, MC had 329 New York Mercantile Exchange (NYMEX) heating oil futures contracts (13.8 million gallons) acquired from September 29, 2008, through December 14, 2009, to terminate on dates from January 29, 2010, through November 30, 2011. MC also had 70 natural gas futures contracts acquired from September 22, 2008, through October 20, 2009, to terminate on dates from January 27, 2010, through September 28, 2011.

As of December 31, 2009, the heating oil and natural gas futures contracts had a fair value of ($733,388) and ($959,803), respectively. These values are reported in "Other Assets – Current" and offset in "Accounts Payable – Current."

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

University of Minnesota

As of June 30, 2010, University of Minnesota (U of M), including its discretely presented component units, had $339,067,000 of cash and cash equivalents and $3,093,995,000 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 $290,580,000 and investments of $1,388,586,000.

U of M does not have a policy for custodial risk of deposits. As of June 30, 2010, $2,917,000 of U of M's bank balance of $3,167,000 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 maximize investment return 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, 2010, $695,948,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $684,486,000 was rated AAA
- $10,101,000 was rated BBB
- $1,361,000 was not rated

The securities subject to interest rate risk were comprised of:

- $365,591,000 in government agencies with an average duration of 1.95 years
- $10,101,000 in corporate bonds with an average duration of 0.99 years
- $25,215,000 in mortgage backed securities with an average duration of 2.33 years
- $275,555,000 in cash and cash equivalents with an average duration of 0.04 year
- $19,486,000 in other types of securities (primarily mutual funds) with an average duration of 0.73 years

As of June 30, 2010, U of M had $40,862,000 of equity investments subject to foreign currency risk. The three largest components of this amount are $5,284,000 in Japanese Yen; $17,471,000 in Euro Currency; and $2,683,000 in Pound Sterling.

U of M has entered into six separate pay-fixed, receive-variable interest rate swaps to hedge against the variability of cash flows for budgeting purposes.

Upon implementation of GASB 53, three of the contracts were determined to be ineffective hedges and were terminated effective November 1, 2009, in a restructuring that modified the fixed pay rate and the variable pay reference rates. Termination of the ineffective contracts resulted in retirement of long-term debt of $18,479,000 and recognition of new long-term debt of $13,960,000 for a net gain of $4,519,000.

The three contracts with the new terms are effective hedges with a total notional amount of $301,150,000 and total fair value of ($9,749,000) at June 30, 2010. U of M's exposure to credit risk is measured by the fair value. The contracts have terms requiring the counter parties to post collateral if the fair value reaches a minimum threshold. These counterparties are rated „Aa3,' „Aa1,' and „A1' by Moody's Investors Service.

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

The other three swaps are considered ineffective. At June 30, 2010, their total a fair value was ($20,840,000) and changes in fair value were reported as investment income.

Nonmajor Component Units

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

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2009, or June 30, 2010, as applicable
(In Thousands)

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 3,415	$ 21,907
National Sports Center Foundation	88	-
Office of Higher Education	241,553	-
Public Facilities Authority	139,748	109,851
Rural Finance Authority	25,678	-
Workers' Compensation Assigned Risk Plan	11,269	305,540
Total	$ 421,751	$ 437,298

Note 3 – Disaggregation of Receivables

The following are the components of net accounts receivable as reported in the government-wide Statement of Net Assets as of June 30, 2010:

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2010
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 671,321	$ -	$ -	$ 671,321
Sales and Use	360,782	-	-	360,782
Property	372,604	-	-	372,604
Health Care Provider	209,730	-	97,068	306,798
Highway Users	-	-	79,784	79,784
Child Support	70,907	78,925	-	149,832
Workers' Compensation	-	-	110,798	110,798
Other	310,698	49,209	66,489	426,396
Net Receivables	$ 1,996,042	$ 128,134	$ 354,139	$ 2,478,315

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 394,119	$ -	$ 394,119
Tuition and Fees	48,109	-	-	48,109
Other	-	-	26,508	26,508
Net Receivables	$ 48,109	$ 394,119	$ 26,508	$ 468,736
Total Government-wide Net Receivables				$ 2,947,051

[1]Includes $2,507 Internal Service Funds.

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

- Corporate and Individual Taxes $149,986,000
- Sales and Use Taxes $47,844,000
- Child Support $309,141,000
- Other Receivables $50,976,000

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

- Corporate and Individual Taxes $117,816,000
- Sales and Use Taxes $53,919,000
- Child Support $142,668,000
- Health Care Provider $89,374,000
- Other Receivables $17,490,000

Note 4 – Loans and Notes Receivable

The following tables show loans and notes receivable, net of allowances for possible losses, as of June 30, 2010:

Primary Government
Loans and Notes Receivable
As of June 30, 2010
(In Thousands)

	General Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	$ -	$ -	$ -	$ 32,949
Economic Development	71,333	43,474	-	-
School Districts	111,375	-	-	-
Agricultural, Enviromental and Energy Resources	73,581	932	-	-
Transportation	14,359	2,339	217	-
Other	4,035	-	45	-
Total	$ 274,683	$ 46,745	$ 262	$ 32,949

Component Units
Loans and Notes Receivable
As of June 30, 2010
(In Thousands)

Housing Finance Authority	$ 2,268,115
Metropolitan Council	48,126
University of Minnesota	66,609
Agricultural and Economic Development Board	2,644
Office of Higher Education	733,910
Public Facilities Authority	1,744,034
Rural Finance Authority	57,131
Total	$ 4,920,569

Note 5 – Interfund Transactions

Primary Government

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

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

Primary Government
Interfund Receivables and Payables
As of June 30, 2010
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 70,484
Nonmajor Governmental Funds	106,751
Nonmajor Enterprise Funds	14,132
Internal Service Funds	164
Total Due to General Fund From Other Funds	$ 191,531
Due to the Federal Fund From:	
General Fund	$ 18,003
Nonmajor Governmental Funds	4,401
Unemployment Insurance Fund	53
Total Due to Federal Fund From Other Funds	$ 22,457
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 25,382
Total Due to State Colleges and Universities From Other Funds	$ 25,382
Due to the Nonmajor Enterprise Funds From:	
Nonmajor Enterprise Funds	$ 2,355
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,355
Due to Fiduciary Funds From:	
Fiduciary Funds	$ 8,356
Total Due to Fiduciary Funds From Other Fiduciary Funds	$ 8,356
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 62,471
Federal Fund	1,235
Unemployment Insurance Fund	25,776
Nonmajor Governmental Funds	130,384
Nonmajor Enterprise Funds	57
Total Due to Nonmajor Governmental Funds From Other Funds	$ 219,923

Primary Government
Interfund Transfers
Year Ended June 30, 2010
(In Thousands)

Transfers to the General Fund From:		
Federal Fund	$	50,255
Nonmajor Governmental Funds		199,862
Nonmajor Enterprise Funds		100,631
Internal Service Funds		27,294
Total Transfers to General Fund From Other Funds	$	378,042
Transfers to the Federal Fund From:		
Unemployment Insurance Fund	$	68
Nonmajor Governmental Funds		5,169
Total Transfers to Federal Fund From Other Funds	$	5,237
Transfers to the State Colleges and Universities Fund From:		
General Fund	$	614,169
Nonmajor Governmental Funds – Capital Contributions		119,774
Total Transfers to State Colleges and Universities From Other Funds	$	733,943
Transfers to Fiduciary Funds From:		
General Fund	$	9,000
Fiduciary Funds		14,932
Total Transfers to Fiduciary Funds From Other Funds	$	23,932
Transfers to the Nonmajor Governmental Funds From:		
General Fund	$	559,237
Federal Fund		6,857
Unemployment Insurance Fund		7,137
Nonmajor Governmental Funds		94,256
Nonmajor Enterprise Funds		89,307
Internal Service Funds		1,304
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	758,098
Transfers and Capital Contributions to the Nonmajor Enterprise Funds From:		
General Fund	$	5,338
Federal Fund		636
Government-wide Capital Assets		751
Total Transfers and Capital Contributions to Nonmajor Enterprise Funds From Other Funds	$	6,725
Transfers to Government-wide Capital Assets From:		
Internal Service Funds	$	28
Total Transfers to Government-wide Capital Assets	$	28

Component Units

The following table presents receivables and payables as of June 30, 2010, between the primary government and component units:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2010
(In Thousands)

		Due From Primary Government		Due To Primary Government
Component Units				
Major Component Units:				
Metropolitan Council	$	92,818	$	1,214
University of Minnesota		4,469		40,466
Total Major Component Units	$	97,287	$	41,680
Nonmajor Component Units	$	21,376	$	102,249
Total Component Units	$	118,663	$	143,929
		Due From Component Units		**Due To Component Units**
Primary Government				
Major Governmental Funds:				
General Fund	$	211	$	28,825
Federal Fund		-		3,362
Total Major Governmental Funds	$	211	$	32,187
Nonmajor Governmental Funds	$	118,250	$	1,618
Total Primary Government	$	118,461	$	33,805 (1)

(1) Due to component units on the Government-wide Statement of Net Assets totals $55,181 and includes $21,376 of loans payable to the Public Facilities Authority, a component unit, that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $25,468,000 because Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation use a different fiscal year end than the primary government. The $84,858,000 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 $21,376,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

The following table shows capital asset activity for the primary government:

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2010
(In Thousands)

	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land	$ 2,073,170	$ 114,113	$ (128,649)	$ 2,058,634
Buildings, Structures, Improvements	52,799	11	(24,729)	28,081
Construction in Progress	251,943	103,168	(62,278)	292,833
Development in Progress	-	34,151	-	34,151
Infrastructure	7,323,111	331,676	(19,893)	7,634,894
Easements [1]	112,163	133,412	-	245,575
Art and Historical Treasures	1,989	-	-	1,989
Total Capital Assets not Depreciated	$ 9,815,175	$ 716,531	$ (235,549)	$ 10,296,157
Capital Assets Depreciated:				
Buildings, Structures, Improvements [1]	$ 2,217,019	$ 88,507	$ (58,909)	$ 2,246,617
Infrastructure	92,789	65,111	(8,258)	149,642
Internally Generated Computer	-	3,751	(3)	3,748
Easements	4,028	39	-	4,067
Equipment, Furniture, Fixtures [1]	543,875	50,119	(31,164)	562,830
Total Capital Assets Depreciated	$ 2,857,711	$ 207,527	$ (98,334)	$ 2,966,904
Accumulated Depreciation for:				
Buildings, Structures, Improvements [1]	$ (859,533)	$ (59,405)	$ 25,345	$ (893,593)
Infrastructure	(17,603)	(24,937)	-	(42,540)
Easements [1]	(374)	(95)	-	(469)
Internally Generated Computer	-	(1,658)	-	(1,658)
Equipment, Furniture, Fixtures [1]	(335,391)	(47,276)	40,100	(342,567)
Total Accumulated Depreciation	$ (1,212,901)	$ (133,371)	$ 65,445	$ (1,280,827)
Total Capital Assets Depreciated, Net	$ 1,644,810	$ 74,156	$ (32,889)	$ 1,686,077
Governmental Act. Capital Assets, Net	$ 11,459,985	$ 790,687	$ (268,438)	$ 11,982,234

[1] Prior year amounts have been restated for the change in accounting principle and prior period adjustment.

Art and historical treasures are reported as capital assets that are not depreciated.

Change in accounting principle: During fiscal year 2010, the state implemented GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets." This statement required retroactive reporting of certain intangible assets. As a result, the state's beginning balances for nondepreciable easements increased by $112,163,000 and depreciable easements increased by $4,028,000 with corresponding accumulated depreciation of $374,000. This resulted in a net change in accounting principle of $115,817,000.

Prior Period Adjustment Governmental Activities: During fiscal year 2010, depreciable buildings cost increased by $74,333,000 with corresponding accumulated depreciation of $41,890,000 and equipment cost increased $126,831,000 with corresponding accumulated depreciation $72,088,000 accumulated depreciation. This was primarily due to additional capital assets identified by the Minnesota Department of Transportation partly as a result of changing capital asset capitalization thresholds from statewide thresholds to agency thresholds in preparation for converting capital assets into the new statewide accounting system, which is currently being developed. This resulted in a net prior period adjustment of $87,186,000. These changes have been reflected as an adjustment to beginning balances.

Capital outlay expenditures in the governmental funds totaled $643,736,000 for fiscal year 2010. Donations of general capital assets received during fiscal year 2010 were valued at $1,167,000. Transfers of $262,246,000 were primarily from construction in progress for completed projects, equipment relating to internally generated computer software, and land relating to easements. Permanent School Fund additions were $1,000. The internal service funds additions were $16,908,000, which included both assets purchased and transfers between asset categories for internally generated computer software. Accumulated depreciation related to the transfers is also included as an addition to the accumulated depreciation.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2010, consisted of equipment with a cost of $11,989,000 and buildings with a cost of $180,005,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2010
(In Thousands)

	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 81,879	$ 3,255	$ -	$ 85,134
Construction in Progress	154,867	192,236	(180,659)	166,444
Total Capital Assets not Depreciated	$ 236,746	$ 195,491	$ (180,659)	$ 251,578
Capital Assets Depreciated:				
Buildings, Structures, Improvements [(1)]	$ 2,335,301	$ 197,881	$ (430)	$ 2,532,752
Library Collections	48,526	6,354	(6,802)	48,078
Internally Generated Computer	-	13,932	(4)	13,928
Equipment, Furniture, Fixtures	288,907	13,259	(35,995)	266,171
Total Capital Assets Depreciated	$ 2,672,734	$ 231,426	$ (43,231)	$ 2,860,929
Accumulated Depreciation for:				
Buildings, Structures, Improvements [(1)]	$ (1,035,843)	$ (70,528)	$ 266	$ (1,106,105)
Library Collections	(27,771)	(6,868)	6,802	(27,837)
Internally Generated Computer	-	(6,141)	4	(6,137)
Equipment, Furniture, Fixtures	(206,424)	(18,863)	29,139	(196,148)
Total Accumulated Depreciation	$ (1,270,038)	$ (102,400)	$ 36,211	$ (1,336,227)
Total Capital Assets Depreciated, Net	$ 1,402,696	$ 129,026	$ (7,020)	$ 1,524,702
Business-type Act. Capital Assets, Net	$ 1,639,442	$ 324,517	$ (187,679)	$ 1,776,280
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,737	$ 26	$ -	$ 29,763
Equipment, Furniture, Fixtures	5,512	1,275	(589)	6,198
Total Capital Assets Depreciated	$ 35,249	$ 1,301	$ (589)	$ 35,961
Accumulated Depreciation for:				
Buildings	$ (5,922)	$ (760)	$ -	$ (6,682)
Equipment, Furniture, Fixtures	(4,331)	(338)	585	(4,084)
Total Accumulated Depreciation	$ (10,253)	$ (1,098)	$ 585	$ (10,766)
Total Capital Assets Depreciated, Net	$ 24,996	$ 203	$ (4)	$ 25,195
Fiduciary Funds, Capital Assets, Net	$ 25,425	$ 203	$ (4)	$ 25,624

[(1)] Prior year amounts have been restated for the prior period adjustment.

Prior Period Adjustment Business-type Activities: During fiscal year 2010, building cost in the 911 Services Fund (enterprise fund) increased by $49,215,000, net of $5,656,000 accumulated depreciation, as a result of recording towers owned by the Minnesota Department of Transportation. This resulted in a net prior period adjustment of $43,559,000. These changes have been reflected as an adjustment to beginning balances.

Internally generated computer software and corresponding accumulated depreciation transferred from equipment during the fiscal year ended June 30, 2010.

Depreciation expense was charged to functions/programs of the primary government as follows:

Primary Government
Depreciation Expense
Year Ended June 30, 2010
(In Thousands)

Governmental Activities:		
Public Safety and Corrections	$	19,976
Transportation		29,130
Agricultural, Environmental & Energy Resources		9,733
Economic and Workforce Development		1,569
General Education		4,684
Higher Education		7
Health and Human Services		14,592
General Government		20,774
Internal Service Funds		10,256
Total Governmental Activities	$	110,721
Business-type Activities:		
State Colleges and Universities	$	88,440
Lottery		740
Other		9,344
Total Business-type Activities	$	98,524

Authorizations and commitments as of June 30, 2010, for the largest construction in progress projects consisted of the following:

Primary Government
Project Authorizations and Commitments
As of June 30, 2010
(In Thousands)

	Administration	Transportation
Authorization	$ 132,344	$ 874,956
Expended through June 30, 2010	84,904	516,087
Unexpended Commitment	2,722	290,209
Available Authorization	$ 44,718	$ 68,660

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. These acres totaled 2,520,972 on June 30, 2010.

Component Units

Component unit capital assets consisted of the following as of December 31, 2009, or June 30, 2010, as applicable:

Component Units
Capital Assets
As of December 31, 2009 or June 30, 2010, as applicable
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land and Improvements	$ -	$ 102,294	$ 85,218	$ 779	$ 188,291
Construction in Progress	-	178,669	140,347	-	319,016
Museums and Collections	-	-	47,572	-	47,572
Permanent Easement	-	-	2	-	2
Buildings and Improvements	-	3,126,013	3,064,218	2,407	6,192,638
Equipment	7,950	722,340	785,236	1,872	1,517,398
Capitalized Software	-	-	93,029	-	93,029
Other Intangible Assets	-	-	7,586	-	7,586
Infrastructure	-	-	407,299	-	407,299
Total	$ 7,950	$ 4,129,316	$ 4,630,507	$ 5,058	$ 8,772,831
Less: Accumulated Depreciation	$ 6,319	$ 1,480,947	$ 2,098,644	$ 2,381	$ 3,588,291
Net Total	$ 1,631	$ 2,648,369	$ 2,531,863 (1)	$ 2,677	$ 5,184,540

(1) In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $33,026 as of June 30, 2010.

Note 7 – Disaggregation of Payables

The following are the components of accounts payable as reported in the government-wide Statement of Net Assets as of June 30, 2010:

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2010
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds(1)	Total
School Aid Programs	$ 1,754,067	$ 540,424	$ 248	$ 2,294,739
Tax Refunds	696,223	-	-	696,223
Medical Care Programs	332,249	668,824	96,111	1,097,184
Grants	166,276	160,743	125,228	452,247
Salaries and Benefits	83,785	20,766	57,406	161,957
Vendors/Service Providers	57,748	55,377	172,729	285,854
Other	52,287	4,265	8,860	65,412
Net Payables	$ 3,142,635	$ 1,450,399	$ 460,582	$ 5,053,616

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 122,922	$ -	$ 7,208	$ 130,130
Vendors/Service Providers	47,950	-	5,174	$ 53,124
Other	7,564	65,955	18,666	$ 92,185
Net Payables	$ 178,436	$ 65,955	$ 31,048	$ 275,439
Total Government-wide Net Payables				$ 5,329,055

(1)Includes $56,147 Internal Service Funds.

Note 8 – Pension and Investment Trust Funds

The state performs a fiduciary role for several pension trust funds. For some of these funds, the state contributes as an employer, and 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.

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.

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

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

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

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing "units" in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund's pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2010, 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 those employees of the state, University of Minnesota, and certain other entities not covered by other pension funds. Twenty-seven employers participate in this plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the average salary of the five highest paid successive years of service. Annual benefits increase by at least 2 percent or 2.5 percent if the plan is funded at least 90% of full funding. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

  The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Annual benefits increase by at least 1 percent or 2.5 percent if the plan is funded at least 90% of full funding. 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. Normal retirement age is 55. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. Annual benefits increase Annual benefits increase by at least 1 percent or 2.5 percent if the plan is funded at least 90% of full funding. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

  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. Normal retirement age is 65. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Annual benefits increase by at least 1 percent or 2.5 percent if the plan is funded at least 90% 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. MERF was reported as a component of the Investment Trust Fund (investment trust fund) as of June 30 2009, but legislation was passed to transfer the administration of the fund to PERA. The Actuarial Accrued Liability is 56% funded according to the latest actuarial evaluation. The normal retirement age is 60. 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 at least 1 percent or 2.5 percent if the plan is funded at least 90% of full funding. The plan was closed to new entrants June 30, 1978. 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 Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Approximately 575 employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity formula for the coordinated members is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.5 percent, and for coordinated members, 1.2 and 1.7 percent for service rendered before July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increases will not occur until January 1, 2013, when they will be at least 2 percent or 2.5 percent if the plan is funded at least 90% 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. 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 per year of service 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 responsibility for inmates at Minnesota correctional facilities. Normal retirement age is 55. The annuity is 2.4 percent of average salary for each year of service. Annual benefits increase by at least 2 percent or 2.5 percent if the plan is funded at least 90% of full funding.

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 the remaining active employees have retired, terminated, or elected coverage under another plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C.

The Judicial Retirement Fund (JRF) covers judges of the Supreme Court, district courts, county courts, probate courts, and various court referees. Normal retirement age is 65. The annuity is 2.7 percent of average salary for each year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.80 percent. Annual benefits increase by at least 2 percent or 2.5 percent if the plan is funded at least 90% of full funding.

The Legislative Retirement Fund (LRF) covers some members of the state's House of Representatives and Senate. Legislators newly elected since January 1997 are covered by the Unclassified Employee Retirement Fund (defined contribution fund). Normal retirement age is 62. The annuity ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on length of service. Annual benefits increase by at least 2 percent or 2.5 percent if the plan is funded at least 90% of full funding.

The State Patrol Retirement Fund (SPRF) covers state patrol officers, crime bureau officers, and various conservation officers who perform enforcement duties. Normal retirement age is 55. The annuity is 3.0 percent of average salary for each year of service. Annual benefits increase by at least 1.5 percent or 2.5 percent if the plan is funded at least 90% of full funding.

Statutory Contribution Rates
Year Ended June 30, 2010

	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352	352C	490	3A	352B	352	354
Required Contribution Rate of							
Active Members	7.70%	N/A	8.00%	9.00%	10.40%	4.75%	5.50%
Employer(s)	11.10%	N/A	20.50%	N/A	15.60%	4.75%	5.50%

Multiple Employer Plan
Required Contributions
(In Thousands)

Required Contributions:		SERF	TRF
Employee	2010	$ 113,716	$ 214,909
	2009	$ 108,866	$ 212,043
	2008	$ 99,280	$ 209,592
Employer[1]	2010	$ 115,181	$ 220,538
	2009	$ 107,211	$ 220,268
	2008	$ 96,746	$ 209,717

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

Contribution rates are statutorily determined.

Single Employer Plan Disclosures
As of June 30, 2010
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 47,825	$ 12,335	$ 7,752	$ 24,136
Interest on Net Pension Obligation (NPO)[1]	3,983	(678)	(442)	(2,078)
Amortization Adjustment to ARC[1]	(2,720)	489	682	1,478
Annual Pension Cost (APC)	$ 49,088	$ 12,146	$ 7,992	$ 23,536
Contributions	(37,255)	(11,271)	(2,146)	(16,830)
Increase (Decrease) in NPO	$ 11,833	$ 875	$ 5,846	$ 6,706
NPO, Beginning Balance	$ 46,856	$ (8,732)	$ (5,204)	$ (24,451)
NPO, Ending (Asset)	$ 58,689	$ (7,857)	$ 642	$ (17,745)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2010	$ 49,088	$ 12,146	$ 7,992	$ 23,536
	2009	$ 46,729	$ 9,999	$ 4,900	$ 20,454
	2008	$ 45,815	$ 11,769	$ 3,475	$ 16,799
Percentage of APC Contributed	2010	76%	99%	27%	72%
	2009	73%	112%	31%	75%
	2008	69%	92%	69%	83%
Net Pension Obligation (NPO) (End of Year)	2010	$ 58,689	$ (7,857)	$ 642	$ (17,745)
	2009	$ 46,856	$ (8,732)	$ (5,204)	$ (24,451)
	2008	$ 34,285	$ (7,535)	$ (8,587)	$ (29,511)

Schedule of Funding Status
(In Thousands)

	CERF	JRF	LRF	SPRF
Actual Valuation Date[1]	7/1/2009	7/1/2009	7/1/2009	7/1/2009
Actuarial Value of Plan Assets	$ 590,339	$ 147,120	$ 28,663	$ 584,501
Actuarial Accrued Liability	$ 821,250	$ 241,815	$ 90,431	$ 725,334
Total Unfunded Actuarial Liability	$ 230,911	$ 94,695	$ 61,768	$ 140,833
Funded Ratio	72%	61%	32%	81%
Annual Covered Payroll	$ 193,445	$ 39,444	$ 1,963	$ 61,511
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	119%	240%	3147%	229%

[1] The July 1, 2009, Annual Valuation Report is the most recently issued report available.

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

Actuarial Assumptions for Single Employer Plans

- The actuarial cost method used by all plans is the Individual Entry Age Normal Cost Method. The date of actuarial valuation is July 1, 2009.
- The calculation of the actuarial valuation of assets is a market value based formula based on the Unrecognized Asset Return (UAR is actual net return on market value minus net return based on actuarial assumption). The actuarial value of assets is the Market Value of Assets as of June 30, 2009, less: 80 percent UAR for fiscal year 2009; 60 percent UAR for fiscal year 2008; 40 percent UAR for fiscal year 2007; and 20 percent UAR for fiscal year 2006.
- Expected net investment returns for pre-retirement and postretirement are 8.5 percent and 6.0 percent, respectively.
- Minnesota statutory valuation standards do not require an inflation rate assumption to cost the plans. Benefit increases after retirement are accounted for by the 6.0 percent postretirement investment return assumption that is 2.5 percent less than the pre-retirement investment return assumption. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement discount rate is used to account for the one-time adjustment applicable at retirement.
- The amortization method uses level percentage of projected payroll growth, except for the ESOF plan, which uses the level dollar amortization method.
- Projected payroll growth is a level 4.5 percent except for JRF which is a level 4.0 percent.
- The statutory amortization periods for CERF, ESORF, JRF, LRF, and SPRF are through July 1, of 2038, 2017, 2038, 2021, and 2036, respectively.
- The amortization periods are closed.

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. As of June 30, 2009, there were 2,054 members in the plan for Hennepin County.

The Postretirement Health Care Benefits Fund (PHCBF), authorized by Minnesota Statutes, Section 352.98, creates a postretirement health care savings plan or plans, by which public employers and employees may save to cover postretirement health care costs. Contributions to the plan by or on behalf of an employee are held in trust for reimbursement of employee and dependent health-related expenses following retirement from public service. The current plan is based on state employee contributions without any matching provision by the state. A plan participant may request reimbursement until funds accumulated in the participant's account are exhausted. As of June 30, 2009, there were 58,050 members in the plan for 215 employers.

The Unclassified Employee Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state and specified employees of various statutorily designated entities. Statutory contribution rates are 4.75 percent for employee and 6.00 percent for employer. Vesting occurs immediately, and normal retirement age is 55. Annuity is based on age and value of the participant's account. As of June 30, 2009, there were 3,261 members in the plan from 12 employers.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. As of June 30, 2009, there were 7,182 members in the plan from approximately 1,000 units of government.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between $6,000 and $15,000. Statutes allow additional employer and employee contributions under specific circumstances. Vesting occurs immediately, and normal retirement is age 55. Total current membership in the plan is approximately 11,700.

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, 2010
(In Thousands)

	HCSRF	PHCBF	UERF	DCF	CURF
Employee Contributions	$ 514	$ 90,445	$ 4,472	$ 1,480	$ 34,047
Employer Contributions	$ 515	N/A	$ 6,333	$ 1,582	$ 40,341

The Minnesota State Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457 of the Internal Revenue Code and Minnesota Statutes, Section 352.96. The plan is composed of employee pre-tax contributions. Employers do not contribute to this plan. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan. The plan has 87,003 participants from approximately 500 employers.

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. As of July 1, 2009, the investments of the Minneapolis Employees Retirement Plan were transferred from the Investment Trust Fund (investment trust fund) to MERF defined benefit plan under the administration of PERA. Additional information on the transfer is located in Note 1 – Summary of Significant Accounting and Reporting Policies.

Component Units

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

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

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

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

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Faculty members who meet a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation. In addition, Minnesota Statutes, Section 136F.481, authorized MnSCU to implement an early separation incentive program in fiscal year 2010. Approximately 250 former faculty members and staff currently receive this benefit. The cost of the benefits was $4,330,000 during fiscal year ended June 30, 2010, with a remaining liability as of June 30, 2010, of $6,819,000.

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 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% 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, 2008, there were approximately 2,400 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age of 65. As of July 1, 2008, there were approximately 950 correctional and law enforcement retirees receiving an explicit rate subsidy. The state does not issue a separate financial report for its OPEB plan.

Funding Policy

The contribution requirement of plan members and the state are established and may be amended by the state legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2010, the state contributed $33.1 million to the plan. Plan members receiving benefits through the implicit rate subsidy contributed $17.1 million through their average required contribution of $447 per month for retiree-only coverage and $1,315 for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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% discount rate. For year ending June 30, 2010, the state's ARC is $75,483,000.

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, 2010
(In Thousands)

Annual Required Contributions (ARC)[1]	$ 75,483
Interest on Net OPEB Obligation (NOO)[1]	4,058
Amortization Adjustment to ARC[1]	(3,229)
Annual OPEB Cost (Expense)	$ 76,312
Contributions	(33,096)
Increase in NOO	$ 43,216
NOO, Beginning Balance	$ 83,363
NOO, Ending[2]	$ 126,579

[1]Components of annual OPEB cost.

[2]Governmental Activities and Business-type Activities include $110,950 and $15,482, respectively. Remaining amounts are included in Fiduciary Funds.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2009, and 2008 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 76,312	43%	$ 126,579
June 30, 2009	$ 73,706	38%	$ 83,363
June 30, 2008	$ 66,282	43%	$ 37,658

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $755 million. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $2.8 billion, and the ratio of the UAAL to the covered payroll was 27 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, 2008.
- Expected investment return is 4.75 percent based on the estimated long-term investment yield on the general assets of the state.
- Projected salary increases are a level 4.0 percent.
- The annual health care cost trend rate is 8.41 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 $70.8 million as of December 31, 2009, for this purpose. The annual required contribution for 2009 was $29.8 million or 11.3 percent of annual covered payroll. As of December 31, 2009, 2008 and 2007, the net OPEB obligation was $44.4 million, $29.6 million and $14.5 million respectively. The actuarial accrued liability (AAL) for benefits was $311.9 million as of December 31, 2009, all of which was unfunded. The covered payroll was $263.1 million, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 118.5 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, 2010, was $19.7 million or 1.7 percent of annual covered payroll. As of June 30, 2010, the net OPEB obligation was $33.5 million. The actuarial accrued liability (AAL) for benefits was $88.9 million as of June 30, 2010, all of which was unfunded. The covered payroll was $1.2 billion, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 7.5 percent.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, gas taxes, motor vehicle registration revenues, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2010, were as follows:

Primary Government
Encumbrances
As of June 30, 2010
(In Thousands)

	General Fund	Other Funds	Total
Restricted for:			
Arts and Cultural Heritage	$ -	$ 2,899	$ 2,899
Public Safety	-	1,723	1,723
Transportation	-	572,369	572,369
Environmental	12,233	79,723	91,956
Economic and Workforce Development	16,831	10,238	27,069
Health and Human Services	-	2,140	2,140
General Education	-	332	332
General Government	-	1,653	1,653
Capital Projects	-	825,462	825,462
Committed to:			
Public Safety	-	1,005	1,005
Transportation	-	5	5
Environmental	-	6,430	6,430
Economic and Workforce Development	-	2,175	2,175
Health and Human Services	-	2,828	2,828
General Education	-	32	32
General Government	-	133	133
Assigned to:			
Public Safety	15,363	-	15,363
Transportation	4,655	-	4,655
Environmental	25,037	-	25,037
Economic and Workforce Development	18,098	-	18,098
Health and Human Services	32,971	-	32,971
General Education	3,021	-	3,021
Higher Education	1,359	-	1,359
General Government	4,307	-	4,307
Intergovernment Aid	10,215	-	10,215
Capital Projects	-	1,715	1,715
Total Primary Government	$ 144,090	$ 1,510,862	$ 1,654,952

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 October 2010, the Petrofund has reimbursed eligible applicants approximately $406,000,000 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, 2012, are between $425,000,000 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 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, enforcement, and cost recovery actions.

In addition to the general portion of the fund, two dedicated accounts are held within the fund. The first account is the dry cleaner environmental response and reimbursement account. Money in the account may be used for environmental response actions at dry cleaning facilities and sites as well as related administrative costs. The second account, the metropolitan landfill contingency action trust account, consists of revenue deposited from twenty-five percent of the metropolitan solid waste landfill fee. Money in the 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 it is determined that the operator/owner will not take the necessary actions as directed by the 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 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 $124,138,000 for construction and renovation of college and university facilities.

Component Units

As of June 30, 2010, the Housing Finance Agency (HFA) had committed approximately $417,000,000 for the purchase or origination of future loans or other housing assistance.

Metropolitan Council enters into contracts for various purposes such as transit services and construction projects. As of December 31, 2009, unpaid commitments for Metro Transit Bus services were approximately $127,000,000. Future commitments for Metro Transit Light Rail were approximately $19,600,000, while future commitments for Metro Transit Commuter Rail were approximately $13,500,000. Finally, future commitments for Regional Transit and Environmental Services were approximately $97,700,000 and $107,900,000, respectively.

University of Minnesota (U of M) has construction projects in progress with an estimated completion cost of $190,000,000. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2010, Public Facilities Authority (PFA) had committed approximately $314,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $24,000,000 for grants.

Note 11 – Operating Lease Agreements

Operating Leases

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

Lease expenditures for the fiscal year ended June 30, 2010, totaled approximately $84,985,031 and $20,499,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2009, totaled approximately $612,000 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
2011	$ 79,339	2011	$ 13,265	2010	$ 1,194
2012	71,199	2012	14,852	2011	1,045
2013	61,916	2013	10,843	2012	817
2014	46,449	2014	8,167	2013	790
2015	34,752	2015	3,665	2014	446
2016-2020	58,013	2016-2020	13,203	2015-2019	322
2021-2025	8,246	2021-2025	2,830	2020-2024	143
2026-2030	5,265	2026-2030	-	2025-2029	143
2031-2035	86	2031-2035	-	2030-2034	143
2036-2040	-	2036-2040	-	2035-2039	90
Total	$ 365,265	Total	$ 66,825	Total	$ 5,133

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2010, and the changes during fiscal year 2010:

Primary Government
Long-Term Liabilities
Year Ended June 30, 2010
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 4,667,902	$ 1,258,113	$ 822,805	$ 5,103,210	$ 402,265
Loans	53,658	8,449	20,788	41,319	13,954
Revenue Bonds	13,715	-	815	12,900	845
Claims	764,977	75,167	96,434	743,710	88,090
Pollution Remediation	38,641	21,326	8,840	51,127	20,476
Compensated Absences	287,463	244,476	237,652	294,287	30,894
Workers' Compensation	95,172	28,262	18,177	105,257	16,813
Certificates of Participation	-	82,391	1,742	80,649	500
Capital Leases	161,629	3,356	6,810	158,175	6,984
Net Pension Obligation	46,856	49,088	37,255	58,689	-
Net Other Postemployment Obligation	72,114	66,356	27,520	110,950	-
Due to Component Unit	19,465	5,729	3,818	21,376	2,785
Total	$ 6,221,592	$ 1,842,713	$ 1,282,656	$ 6,781,649	$ 583,606
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 241,946	$ 26,686	$ 18,279	$ 250,353	$ 17,790
Loans	5,582	1,144,457	547,019	603,020	827
Revenue Bonds	278,246	66,277	23,744	320,779	19,920
Compensated Absences	144,113	29,399	28,537	144,975	14,496
Workers' Compensation	5,164	4,051	2,697	6,518	2,739
Capital Leases	20,324	892	2,554	18,662	1,757
Net Other Postemployment Obligation	11,249	9,701	5,468	15,482	-
Total	$ 706,624	$ 1,281,463	$ 628,298	$ 1,359,789	$ 57,529

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

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

		Governmental Activities			
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	Total
Liabilities For:					
General Obligation Bonds	$ 4,450,285	$ 652,925	$ -	$ 250,353	$ 5,353,563
Loans	-	23,982	17,337	603,020	644,339
Revenue Bonds	-	12,900	-	320,779	333,679
Claims	16,469	727,241	-	-	743,710
Pollution Remediation	-	51,127	-	-	51,127
Compensated Absences	119,566	168,589	6,132	144,975	439,262
Workers' Compensation	84,914	20,343	-	6,518	111,775
Certificates of Participation	80,649	-	-	-	80,649
Capital Leases	154,619	3,556	-	18,662	176,837
Net Pension Obligation	58,689	-	-	-	58,689
Net Other Postemployment Benefit Obligation	110,404	-	546	15,482	126,432
Due to Component Unit	-	21,376	-	-	21,376
Total	$ 5,075,595	$ 1,682,039	$ 24,015	$ 1,359,789	$ 8,141,438

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

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

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 402,265	$ 217,895	$ 17,790	$ 11,267	$ 420,055	$ 229,162
2012	394,828	199,191	17,817	10,424	412,645	209,615
2013	403,206	180,317	17,009	9,578	420,215	189,895
2014	371,923	161,487	16,927	8,749	388,850	170,236
2015	361,648	144,030	16,512	7,927	378,160	151,957
2016-2020	1,435,708	495,812	74,402	28,113	1,510,110	523,925
2021-2025	964,838	202,530	55,752	11,766	1,020,590	214,296
2026-2030	388,088	33,448	23,162	1,897	411,250	35,345
Total	$ 4,722,504	$ 1,634,710	$ 239,371	$ 89,721	$ 4,961,875	$ 1,724,431
Bond Premium	380,706	-	10,982	-	391,688	-
Total	$ 5,103,210	$ 1,634,710	$ 250,353	$ 89,721	$ 5,353,563	$ 1,724,431

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

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 845	$ 546	$ 19,920	$ 14,179	$ 20,765	$ 14,725
2012	880	511	16,135	13,458	17,015	13,969
2013	915	475	17,200	12,833	18,115	13,308
2014	955	438	17,825	12,068	18,780	12,506
2015	995	396	18,570	11,269	19,565	11,665
2016-2020	5,670	1,254	94,050	43,065	99,720	44,319
2021-2025	2,640	120	83,645	21,434	86,285	21,554
2026-2030	-	-	38,895	5,549	38,895	5,549
2031-2035	-	-	6,393	501	6,393	501
Total	$ 12,900	$ 3,740	$ 312,633	$ 134,356	$ 325,533	$ 138,096
Bond Premium	-	-	8,146	-	8,146	-
Total	$ 12,900	$ 3,740	$ 320,779	$ 134,356	$ 333,679	$ 138,096

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

	Governmental Activities		Business-type Activities [(1)]		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 16,739	$ 2,906	$ 827	$ 205	17,566	3,111
2012	14,312	768	576	161	14,888	929
2013	8,826	580	454	125	9,280	705
2014	10,757	441	404	99	11,161	540
2015	2,335	344	323	83	2,658	427
2016-2020	6,076	874	1,214	226	7,290	1,100
2021-2025	2,119	392	429	29	2,548	421
2026-2030	1,531	111	-	-	1,531	111
Total	$ 62,695	$ 6,416	$ 4,227	$ 928	$ 66,922	$ 7,344

(1) Loan to the Unemployment Insurance Enterprise Fund of $598,793 is not included.

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
2011	$ 6,984	$ 7,807	$ 1,757	$ 944	$ 8,741	$ 8,751
2012	6,840	7,536	1,697	916	8,537	8,452
2013	7,029	7,240	1,349	795	8,378	8,035
2014	7,313	6,930	1,386	734	8,699	7,664
2015	7,147	6,582	1,320	664	8,467	7,246
2016-2020	41,321	26,994	6,670	2,365	47,991	29,359
2021-2025	51,766	15,450	3,043	781	54,809	16,231
2026-2030	29,775	2,571	1,079	246	30,854	2,817
2031-2035	-	-	361	14	361	14
Total	$ 158,175	$ 81,110	$ 18,662	$ 7,459	$ 176,837	$ 88,569

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activites	
	Principal	Interest
2011	$ 500	$ 3,311
2012	7,925	3,291
2013	8,245	2,974
2014	8,575	2,644
2015	8,920	2,301
2016 - 2020	39,815	5,049
Total	$ 73,980	$ 19,570
Premium on Certificates of Participation	6,669	-
Total	$ 80,649	$ 19,570

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 2010, 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, 2010
(In Thousands)

General Fund	$ 435,434
Special Revenue Funds:	
Trunk Highway Fund	$ 70,542
Natural Resources Fund	9
Miscellaneous Special Revenue Fund	318
Total Special Revenue Funds	$ 70,869
Capital Projects Funds:	
Building Fund	$ 2,831
Transportation	204
Total Capital Project Funds	$ 3,035
Total Transfers to Debt Service Fund	$ 509,338

General Obligation Bond Issues

On August 26, 2009, the state issued $598,385,000 general obligation bonds, Series 2009D through Series 2009G:

- Series 2009D for $192,275,000 in state various purpose bonds and Series 2009E for $80,000,000 state trunk highway bonds were issued at true interest rates of 3.40 percent and 3.41 percent, respectively.

- Series 2009F for $297,750,000 in state various purpose refunding bonds were issued at a true interest rate of 2.53 percent. Proceeds were used for a current refunding of $27,475,000 general obligation bonds and to advance refund $262,250,000 general obligation bonds. The state decreased its debt service cash flows by $14,405,000 and realized net present value savings and economic gain of $27,343,000.

- Series 2009G for $28,360,000 in state trunk highway refunding bonds were issued at a true interest rate of 2.52 percent. Proceeds were used to advance refund $27,500,000 general obligation bonds. The state decreased its debt service cash flows by $2,809,000 and realized net present value savings and an economic gain of $2,712,000.

On October 22, 2009, the state issued $575,395,000 general obligation bonds, Series 2009H through Series 2009K:

- Series 2009H for $443,000,000 in state various purpose bonds and Series 2009I for $25,000,000 state trunk highway bonds were issued at a true interest rate of 3.24 percent and 3.35 percent, respectively.

- Series 2009J for $7,000,000 in taxable state bonds were issued at a true interest rate of 3.02 percent.

- Series 2009K for $100,395,000 in state various purpose refunding bonds were issued at a true interest rate of 3.29 percent to advance refund $92,225,000 general obligation bonds. The state increased its debt service cash flows by $7,248,000, but realized a net present value savings and economic gain of $4,567,000.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

Primary Government
General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2010 Outstanding Amount	Refunded Bond Call Date
August 26, 2009	$ 140,580	$ 136,750	$ 136,750	November 1, 2010
August 26, 2009	157,285	153,000	153,000	October 1, 2011
October 23, 2009	100,395	92,225	92,225	November 1, 2012
	$ 398,260	$ 381,975	$ 381,975	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2010. 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, 2010
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 698	$ 65,300	5.00 - 5.62
State Operated Community Services	-	2,353	5.00
State Transportation	22,560	194,133	5.00 - 5.62
Waste Management	-	145	5.00 - 5.50
Water Pollution Control	-	4,975	5.00 - 5.62
Maximum Effort School Loan	-	65,770	5.00 - 5.25
Rural Finance Authority	23,500	66,500	5.00 - 5.60
Refunding Bonds	-	1,058,355	4.00 - 5.00
Municipal Energy Building	-	75	5.00
Trunk Highway	1,771,838	652,925	3.25 - 5.25
Various Purpose	1,643,920	2,851,344	5.00 - 5.62
Total	$ 3,462,516	$ 4,961,875	

Certificates of Participation

On August 18, 2009, the state issued $74,980,000 of certificates of participation (C.O.P.s) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds are funding the development of the statewide financial and procurement system and the state's integrated tax accounting system. The C.O.P.s 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 C.O.P.s 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).

Capital Leases

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

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of $23,982,000 were from local government entities to finance certain trunk highway projects. In addition, $21,376,000 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 include unpaid cash advances of $598,793,000 by the U.S. Treasury for unemployment benefit payments of the Unemployment Insurance Fund (enterprise fund). These cash advances are interest-free through December 31, 2010, and authorized by Section 1201 of the Social Security Act. Repayments will be funded by future Unemployment Insurance benefit premiums. The advance will continue to increase until the insurance benefit premiums exceed the benefits paid. The remaining business-type activities loans are loans to purchase equipment and loans from energy companies to improve energy efficiencies in the colleges and universities.

Revenue Bonds Payable

On July 26, 2006, $15,145,000 of revenue bonds were issued to provide grants to school districts located in the state's taconite assistance area (as defined in statute) and for bond administrative costs. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the Commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. To repay the bonds, the Iron Range Resources and Rehabilitation Agency has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling $22,809,000 for fiscal year 2010, have averaged about one third of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. The interest rates on the bonds are 4.00% (7 years) and 4.50% (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014, are subject to optional redemption. For fiscal year 2010, principal and interest paid by the Iron Range Resources and Rehabilitation Agency on the bonds was $1,394,000. The total principal and interest remaining to be paid as of June 30, 2010, is $16,640,000, payable through November 2021.

The state is authorized by Minnesota Statutes, Section 403.275, and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, $35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. On November 13, 2008, $42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. On October 22, 2009, $60,510,000 in revenue bonds were issued at a true interest rate of 3.17 percent. 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, 2010, is $154,529,000, payable through June 2025. Principal and interest paid during fiscal year 2010 and total 911 fee revenues were $18,017,000 and $60,229,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $300,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 2.00 to 6.50 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 16 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $269,707,000. Principal and interest paid during fiscal year 2010 and total customer net revenues were $16,941,000 and $101,311,000, 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 52 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,492,000. Principal and interest paid and total customer net revenues during fiscal year 2010 were $204,000 and $400,000, respectively. These revenue bonds have a variable interest rate of 2.50 to 5.75 percent.

Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $253,000. Principal and interest paid and total customer net revenues during fiscal year 2010 were $82,000 and $228,000, respectively. These revenue bonds have a fixed interest rate of 6.00 percent.

On November 1, 2000, $16,000,000 in revenue bonds were issued for financing expansion of the Giants Ridge Recreational Area at a true interest rate of 7.48 percent. In addition, $3,710,000 in bonds were refunded. The original refunded bonds have been eliminated, and the new advance refunding bonds have been added to the Giants Ridge Fund (enterprise fund). The Iron Range Resources and Rehabilitation Agency has pledged the gross revenues from the operation of the Giants Ridge Recreational Facilities, including green fees and ski lift ticket receipts, to repay the debt. The debt service on these bonds is payable solely from these sources. The total principal and interest remaining to be paid on the bonds as of June 30, 2010, is $19,008,000, payable through November 2025. Principal and interest paid during fiscal year 2010 and net Giants Ridge Fund available revenues were $1,673,000 and $4,184,000, respectively.

Giants Ridge
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2010 Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 2,475	November 1, 2025

Pollution Remediation

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, 2010, were $51,127,000. Of this total, $33,592,000 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.

Claims

Municipal solid waste landfill liability of $220,310,000 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.

Claims of $39,600,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

The remaining claim amount of $483,800,000 is for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00%) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2050 for supplementary benefits and 2036 for second injuries.

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $294,287,000 and $144,975,000, respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental activities and business-type activities liability for workers' compensation of $105,257,000 and $6,518,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2010, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2010, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling $29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. The revenue bonds have a variable interest rate of 5.38 to 6.00 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds. The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2010, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was $2,071,000. The total principal and interest remaining to be paid as of June 30, 2010, is $ 42,104,000, payable through 2030.

Long-Term Debt Repayment Schedule Fiduciary Funds Revenue Bonds – SERF, TRF, and PERF (In Thousands)		
Year Ended June 30	Principal	Interest
2011	$ 675	$ 1,412
2012	700	1,376
2013	750	1,338
2014	775	1,297
2015	825	1,254
2016-2020	4,925	5,509
2021-2025	6,725	3,891
2026-2030	8,975	1,677
Total	$ 24,350	$ 17,754

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2010, net of unamortized premium, was $2,648,507,000. On June 30, 2010, HFA owed $56,000,000 against an advance from a line of credit.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had $1,194,047,000 in general obligation bonds outstanding, net of unamortized premium, and $5,134,000 of revenue bonds outstanding on December 31, 2009.

University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2010, the principal amount of revenue bonds outstanding was $139,237,000 and the principal amount of general obligation bonds outstanding was $483,673,000.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2010, the principal amount of revenue bonds outstanding was $7,360,000.

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, 2010, the outstanding principal of revenue bonds was $590,100,000.

Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2010, net of unamortized premium, was $987,707,000.

Component Units General Obligation Bonds Major Component Units (In Thousands)				
	MC[1]		U of M	
Year Ended	Principal	Interest	Principal	Interest
2011	$ 114,563	$ 41,692	$ 90,021	$ 46,526
2012	94,216	38,262	228,316	21,763
2013	73,285	35,075	6,526	8,217
2014	67,624	32,380	6,776	7,972
2015	68,859	29,915	7,046	7,700
2016-2020	383,495	110,177	38,841	34,381
2021-2025	284,246	45,234	46,443	24,325
2026-2030	88,945	6,760	49,216	9,947
2031-2035	-	-	10,488	1,347
	$ 1,175,233	$ 339,495	$ 483,673	$ 162,178
Unamortized Discounts/Premiums and Issuance Costs	18,814	-	-	-
Total	$ 1,194,047	$ 339,495	$ 483,673	$ 162,178

[1]MC fiscal year ends December 31.

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

Year Ended	HFA Principal	HFA Interest	MC(1) Principal	MC(1) Interest	U of M(2) Principal	U of M(2) Interest
2011	$ 653,690	$ 81,005	$1,185	$199	$ 5,669	$ 6,341
2012	49,215	78,283	1,245	138	5,564	6,086
2013	59,690	76,105	1,305	81	5,769	5,840
2014	53,715	73,873	1,365	27	5,789	5,590
2015	51,255	71,736	-	-	5,389	5,331
2016-2020	278,190	326,000	-	-	30,954	22,659
2021-2025	304,910	267,454	-	-	39,064	14,546
2026-2030	401,885	198,973	-	-	41,039	4,323
2031-2035	442,920	117,859	-	-	-	-
2036-2040	319,895	34,973	-	-	-	-
2041-2045	18,465	2,804	-	-	-	-
2046-2050	13,025	528	-	-	-	-
	$2,646,855	$ 1,329,593	$ 5,100	$ 445	$139,237	$ 70,716
Unamortized Discounts/Premiums and Issuance Costs	1,652	-	34	-	-	-
Total	$2,648,507	$ 1,329,593	$ 5,134	$ 445	$139,237	$ 70,716

(1)MC fiscal year ends December 31.
(2)Does not include foundation issued bonds.

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

Year Ended	AEDB Principal	AEDB Interest	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2011	$ 795	$ 393	$ -	$ 4,668	$ 48,835	$ 44,875
2012	835	352	-	4,668	59,465	44,016
2013	885	307	-	4,668	59,705	41,182
2014	925	261	-	4,668	62,710	38,224
2015	970	210	-	4,667	66,180	35,116
2016-2020	2,665	459	-	23,338	352,320	124,199
2021-2025	285	10	-	23,338	244,815	43,759
2026-2030	-	-	-	23,338	51,475	4,625
2031-2035	-	-	53,500	23,338	-	-
2036-2040	-	-	366,600	13,948	-	-
2041-2045	-	-	170,000	1,743	-	-
	$ 7,360	$ 1,992	$ 590,100	$ 132,382	$ 945,505	$ 375,996
Unamortized Discounts/Premiums and Issuance Costs	-	-	-	-	42,202	-
Total	$ 7,360	$ 1,992	$ 590,100	$ 132,382	$ 987,707	$ 375,996

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 has entered into six separate interest rate swaps. All of these are pay-fixed, receive-variable interest rate swaps which are intended to change U of M's variable interest rate bonds to synthetic fixed-rate bonds. See Note 2 – Cash, Investments, and Derivative Instruments.

Office of Higher Education

The interest rates on all of the bonds are reset periodically. The rates on all of the bonds, except the taxable Series 2008A bonds and the tax-exempt Series 2008B bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1 percent; 17 percent; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25 percent. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14 percent; or the three month average of the three-month T-Bill plus an applicable spread of 1.25 percent. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15 percent and 12 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.

Bond Defeasances

On December 1, 2009, Housing Finance Agency issued $157,910,000 of Residential Housing Finance Bonds, 2009 Series DEF, a portion of which defeased $52,910,000 of HFA's outstanding Single Family Mortgage Bonds, 1995 Series M, 1996 Series JK, 1997 Series ABC, 1997 Series IJKL, 1998 Series AB, 1998 Series CDE, 1999 Series BCD, 2000 Series ABC, and 2000 Series IJ. The trust account assets and the liability for the defeased bonds were not included in HFA's financial statements as of June 30, 2010.

In prior years, U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $166,600,000 outstanding as of June 30, 2010. 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, 2010.

Public Facilities Authority had $345,500,000 of various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2010.

Pollution Remediation Obligations

For the fiscal year ended June 30, 2010, the U of M's pollution remediation liability totaled $2,712,000.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2010
(In Thousands)

	Minnesota State Colleges and Universities				
	Revenue Fund	Vermilion Modular Housing	Itasca Residence Halls	Giants Ridge	911 Services
Condensed Statement of Net Assets					
Assets:					
Current Assets	$ 65,732	$ 153	$ (4)	$ 6,626	$ 41,028
Restricted Assets	107,519	141	273	1,600	-
Notes Receivable	2,400	-	-	-	-
Capital Assets	204,855	830	3,546	21,265	54,530
Total Assets	$ 380,506	$ 1,124	$ 3,815	$ 29,491	$ 95,558
Liabilities:					
Current Liabilities	$ 21,157	$ 187	$ 101	$ 1,577	$ 13,951
Noncurrent Liabilities	185,327	155	2,027	10,788	111,639
Total Liabilities	$ 206,484	$ 342	$ 2,128	$ 12,365	$ 125,590
Net Assets:					
Invested in Capital Assets, Net of Related Debt	$ 91,306	$ 675	$ 1,433	$ 11,248	$ -
Restricted	82,716	64	273	-	-
Unrestricted	-	43	(19)	5,878	(30,032)
Total Net Assets	$ 174,022	$ 782	$ 1,687	$ 17,126	$ (30,032)
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets					
Operating Revenues - Customer Charges	$ 101,311	$ 228	$ 400	$ 4,083	$ 60,229
Depreciation Expense	(10,755)	(36)	(119)	(1,159)	(5,707)
Other Operating Expenses	(71,426)	(123)	(215)	(5,889)	(7,290)
Operating Income (Loss)	$ 19,130	$ 69	$ 66	$ (2,965)	$ 47,232
Nonoperating Revenues (Expenses):					
Interest Income	$ 865	$ -	$ 9	$ 101	$ 274
Private Grants	657	-	-	-	-
Interest Expense	(7,723)	(16)	(124)	(856)	(4,227)
Other	(13)	-	-	(29)	(14,700)
Transfers-In (Out)	-	-	-	4,547	(65,075)
Change in Net Assets	$ 12,916	$ 53	$ (49)	$ 798	$ (36,496)
Beginning Net Assets	161,106	729	1,736	16,328	(37,095)
Prior Period Adjustment	-	-	-	-	43,559
Ending Net Assets	$ 174,022	$ 782	$ 1,687	$ 17,126	$ (30,032)
Condensed Statement of Cash Flows					
Net Cash Provided (Used) By:					
Operating Activities	$ 25,845	$ 101	$ 147	$ (1,931)	$ 52,931
Net Cash Provided Concapital Activities	657	-	-	-	-
Noncapital Financing Activities	-	-	-	4,547	(33,286)
Capital and Related Financing Activities	(62,092)	(82)	(204)	(3,017)	(15,859)
Investing Activities	1,276	-	9	72	274
Net Increase (Decrease)	$ (34,314)	$ 19	$ (48)	$ (329)	$ 4,060
Beginning Cash and Cash Equivalents	$ 165,932	$ 140	$ 291	$ 6,702	$ 31,889
Ending Cash and Cash Equivalents	$ 131,618	$ 159	$ 243	$ 6,373	$ 35,949

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

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

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

Note 15 – Contingent Liabilities

Primary Government

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

Primary Government
Contingent Liabilities
(In Thousands)

Fund	Liability as of	Unfunded Liability
St. Paul Teachers Retirement Fund	June 30, 2009	$ 404,360
Duluth Teachers Retirement Fund	June 30, 2009	$ 85,556
Local Police and Fire Fund [1]	December 31, 2009	$ 193,120

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

Component Units

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

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

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

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2009, was approximately $3 million.

Note 16 – Equity

Restricted Net Assets – Government-wide Statement of Net Assets

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

Primary Government
Restricted Net Asset Balances
As of June 30, 2010
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted For:				
Debt Service	$ 432,459	$ -	$ -	$ 432,459
Public Safety	-	23,179	86	23,265
Transportation	871,241	37,656	-	908,897
Environmental Resources	134,594	613,228	11,115	758,937
Economic and Workforce Development	-	103,284	6,254	109,538
Arts and Cultural Heritage	16,594	-	-	16,594
School Aid - Nonexpendable	688,891	-	-	688,891
School Aid - Expendable	5,561	-	-	5,561
General Education	-	76,695	2,684	79,379
Health & Human Services	-	23,493	17,635	41,128
State Colleges and Universities	-	-	451,277	451,277
General Government	-	17,869	562	18,431
Other Purposes	-	-	36,253	36,253
Total Restricted Net Assets	$ 2,149,340	$ 895,404	$ 525,866	$ 3,570,610

Fund Balances – Primary Government

The following table identifies governmental fund balances of the primary government in greater detail than is presented on the face of the financial statements:

Primary Government
Fund Balances
As of June 30, 2010
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ -	$ -	$ 29,578	$ 29,578
Trust Fund Principal	465,601	-	-	465,601
Permanent Fund Principal	-		688,891	688,891
Restricted for:				
Arts and Cultural Heritage	-		16,594	16,594
Public Safety	-		23,182	23,182
Transportation	-		920,055	920,055
Environmental	35,288	123	339,640	375,051
Economic and Workforce Development	66,842		62,011	128,853
Health and Human Services	-		21,630	21,630
General Education	71,557		7,787	79,344
General Government			18,430	18,430
Debt Service			764,447	764,447
Capital Projects			201,082	201,082
Permanent Fund			5,561	5,561
Committed to:				
Public Safety			40,966	40,966
Transportation			591	591
Environmental			55,736	55,736
Economic and Workforce Development			172,434	172,434
Health and Human Services			257,490	257,490
General Education			365	365
General Government			9,427	9,427
Assigned to:				
Capital Projects			3,920	3,920
Unassigned:	(1,525,534)			(1,525,534)
Total Fund Balances	$ (886,246)	$ 123	$ 3,639,817	$ 2,753,694

Deficit Equity Balances

A $30,032,000 deficit total net asset balance in the 911 Services Fund (enterprise fund) is a result of revenue bonds issued for grants and improvements to the state's emergency communication system. The deficit will be resolved through future 911 fee revenues.

A $944,000 deficit total net asset balance in the Behavioral Services Fund (enterprise fund) occurred during fiscal year ended June 30, 2010. This fund's operations are currently being evaluated to determine future options.

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 $4,000,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature.

The liability coverage is up to the statutory limit (tort claims cap) of $500,000 bodily injury and property damage per person, and $1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides $10,000,000 excess of a $1,000,000 retention to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction.

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

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

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

Tort Claims

State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature. Tort claims brought outside Minnesota state jurisdiction and in Federal court have unlimited liability exposure.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including work place safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,800,000.

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 $912,018 greater than coverage during the fiscal year ended June 30, 2010.

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, 2010, was 3,258 members and their dependents. The members of the pool include 21 school districts, 32 cities/townships, 2 counties, and 12 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums and will reinsure for claims through its administrators/managed care organizations for stop-loss coverage for claims in excess of $100,000.

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

The following tables present changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2009, and 2010:

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 6/30/09	$ 9,001	$ 5,896	$ 5,556	$ 9,341
Fiscal Year Ended 6/30/10	$ 9,341	$ 8,185	$ 2,877	$ 14,649
Tort Claims				
Fiscal Year Ended 6/30/09	$ -	$ 1,111	$ 1,111	$ -
Fiscal Year Ended 6/30/10	$ -	$ 375	$ 375	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/09	$ 101,151	$ 17,842	$ 18,653	$ 100,340
Fiscal Year Ended 6/30/10	$ 100,340	$ 32,787	$ 21,355	$ 111,772
State Employee Insurance Plans				
Fiscal Year Ended 6/30/09	$ 41,280	$ 533,762	$ 529,652	$ 45,390
Fiscal Year Ended 6/30/10	$ 45,390	$ 568,346	$ 568,920	$ 44,816

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

	Year Ended June 30 2010	2009
Unpaid Claims and Claim Adjustment Expenses, Beginning	$ 895	$ 975
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	$ 18,788	$ 8,806
Increases (Decreases) in Provision for Insured Events of Prior Years	(316)	(15)
Total Incurred Claims and Claim Adjustment Expenses	$ 18,472	$ 8,791
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 16,848	$ 7,921
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	559	950
Total Payments	$ 17,407	$ 8,871
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$ 1,960	$ 895

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 4.64 percent. The self-insurance retention limit for workers' compensation is $1,800,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly-owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims using a discount rate of 1.5 percent.

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

U of M's medical (health) and dental coverage for faculty and staff is a self-insured program. Under the plan, U of M pays claims, while the administration of the program is handled by independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of the U of M's liability for medical claims, including incurred but not reported claims, is recorded.

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2008, and 2009, or June 30, 2009, and 2010, as applicable:

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 12/31/08	$ 15,931	$ 6,180	$ 6,793	$ 15,318
Fiscal Year Ended 12/31/09	$ 15,318	$ 7,842	$ 7,351	$ 15,809
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/09	$ 9,757	$ 1,011	$ 2,848	$ 7,920
Fiscal Year Ended 6/30/10	$ 7,920	$ 2,185	$ 2,287	$ 7,818
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/09	$ 7,374	$ 10,633	$ 3,875	$ 14,132
Fiscal Year Ended 6/30/10	$ 14,132	$ 2,978	$ 4,427	$ 12,683
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/09	$ 16,162	$ 219,327	$ 217,232	$ 18,257
Fiscal Year Ended 6/30/10	$ 18,257	$ 239,781	$ 239,394	$ 18,644

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 transactions, and loan classifications, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two 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, 2010
(In Thousands)

GAAP Basis Fund Balance:	$	(886,246)
Less: Encumbrances		(86,864)
Unassigned Fund Balance	$	(973,110)
Basis of Accounting Differences:		
Revenue Accruals/Adjustments:		
Taxes Receivable	$	(405,000)
Tax Refunds Payable		658,842
Human Services Receivable		(30,214)
Unearned Revenue		10,357
Escheat Asset		(9,961)
Other Receivables		(26,028)
Permanent School Fund Reimbursement		(3,748)
Investments at Market		8,659
Expenditure Accruals/Adjustments:		
Medical Care Programs		322,033
Human Services Grants Payable		56,177
Education Aids		1,707,584
Police and Fire Aid		79,491
Other Payables		753
Other Financial Sources (Uses):		
Transfers-In		(41,291)
Fund Structure Differences:		
Terminally Funded Pension Plans		7,536
Perspective Differences:		
Account with no Legally Adopted Budget		(860,439)
Long-Term Receivables		(39,509)
Appropriation Carryover		(121,566)
Budgetary Reserve	$	(266,000)
Budgetary Basis:		
Undesignated Fund Balance	$	74,566

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, 2010, and June 30, 2011, 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) *35W Bridge Collapse.* On August 1, 2007, the 35W interstate bridge over the Mississippi River collapsed. Thirteen people were killed, and approximately 145 injured. The bridge, which opened in 1967, was designed by a private contractor under contract with the state of Minnesota and was inspected and maintained by the Minnesota Department of Transportation ("MnDOT"). The state has received 186 Notices of Tort Claim arising from the collapse of the 35W bridge. The Minnesota Legislature enacted a Compensation Fund codified in Minnesota Statutes, Section 3.7391 et seq., and appropriated $36,640,000 for payments to representatives of decedents and claimants who were on the 35W bridge at the time of the collapse. A panel of three attorneys determined the amount of payments. All 179 claimants accepted payments from the Compensation Fund and the emergency relief fund in the aggregate amount of about $37 million on the condition that they waived the right to sue the state for additional recovery. However, the majority of those claimants have commenced litigation against the original bridge designer, an engineering firm that inspected the bridge under contract with the state, and a construction company that was performing work on the bridge at the time of the collapse. The state has been third-partied into this litigation which is venued in Hennepin County state court. Although the state's position is that its exposure in this litigation is capped at $1 million, the constitutionality of this cap may be challenged. The state has brought third party claims against the other defendants seeking recovery of the $37 million paid to claimants by the statutory compensation fund, the emergency relief fund and for state's damages associated with the collapse. The state's claim against the construction company performing work on the bridge at the time of the collapse has been settled for $1 million. The state's claim against the company which had performed inspections and analysis of the bridge has been settled for $5 million. The state is pursuing a claim against the company that designed the bridge. The Minnesota Supreme Court is reviewing lower court rulings that would permit the state's claim to proceed.

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

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

b) *ACS State and Local Solutions, Inc. v. State of Minnesota, through its Commissioner of the Department of Human Services* (Ramsey County District Court). In May, 2003, the Minnesota Department of Human Services ("DHS") entered into a software development contract with an entity known as SSi North America. Under the contract, SSi was to develop and deliver a web-based software program known as "HealthMatch," intended to combine and automate certain evaluation and decision-making tasks regarding eligibility for several health care assistance programs administered by DHS. The HealthMatch contract was subsequently assigned to Albion, Inc., which was owned by SSi, and later, the assets of Albion, Inc., including the HealthMatch contract, were purchased by ACS State and Local Solutions, Inc. Initially, the contract was to continue until May, 2005, but as difficulties arose with regard to completion of the software, it was eventually extended to May, 2008. In March, 2008, DHS determined that satisfactory progress toward completion was not being made and terminated the contract. ACS filed suit on September 9, 2008, claiming damages in excess of $50,000 based on breach of contract, quantum meruit (just compensation for work performed), and unjust enrichment. While denying liability, DHS estimates that a decision favorable to plaintiff ACS could result in an impact on the General Fund in excess of $15 million. The court granted in part DHS's motion for summary judgment and dismissed ACS's claims for quantum merit and unjust enrichment. On October 21, 2010, argument was held on ACS's motion for summary judgment on DHS's counter claim. At the present time, the motion is under advisement. The court has set the case on for trial during a three week block beginning on March 14, 2011.

c) *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 mid-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. The legal issues in this appeal are very similar to the legal challenges raised in the MERC appeals below. Alliance challenges the assessment asserting that the Commissioner has failed to correctly determine the market value of the property as defined by Minnesota Statutes, Section 272.03, Subdivision 8. Alliance also challenges Minnesota Rule 8100 to the extent it exceeds the Commissioner's statutory authority arguing that it creates a valuation process which does not value utility property at its fair market value. Alliance also challenges the rule as 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 Clauses of the U.S. Constitution. Alliance also alleges the Commissioner's assessment violates the Commerce Clause of the U.S. Constitution.

d) *Electric Cooperative Assessment Cases* (Minnesota Tax Court). This series of separate appeals filed against the Commissioner of Revenue in Tax Court currently involves 15 electric coops (with likely 7 more to be filed soon for a total of 22 cases). Each electric cooperative has appealed the Commissioner'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 patron's capital account after sale, credited amount is included in taxable sales price), the Department denied each appellant's administrative appeal. The state filed Returns and Answers in 13 of these files on August 9, 2010, with the rest due soon. There are an estimated 44 electric coops in the state who are similarly situated to the 15 (soon to be 22) electric coops who have filed appeals in Tax Court. The 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

e) *The Home Insurance Company v. Special Compensation Fund, and Minnesota Department of Labor and Industry* (Ramsey County District Court). The Home Insurance Company ("Home") seeks a declaration that it is entitled to reimbursement from the Special Compensation Fund (special revenue fund) for certain workers' compensation payments Home has made. Home, which is in liquidation, seeks the reimbursement to which it claims it is entitled under the state's workers' compensation scheme, and without recourse to the General Fund. Defendants Minnesota Department of Labor and Industry and Special Compensation Fund have denied Home's requests for reimbursement, raising various statutory defenses and stating that Home is not entitled to reimbursement under the law. Home claims it is entitled to $21 million in past and future reimbursements. Summary judgment motions of both parties were heard in May 2010. Defendants asked to have Plaintiffs' complaint dismissed. The district court granted partial summary judgment in favor of the plaintiff in the amount of $7,265,246, and denied summary judgment as premature as to future payments on qualifying claims. The state is considering options, including appeal.

f) *Jensen, et al. v. METO, et al.* (U.S District Court). Parents/guardians of several patients/former patients of the Minnesota Extended Treatment Options ("METO") program allege violations of various state and federal constitutional and statutory rights because of alleged misuse of restraints and seclusion of people committed in part because of developmental disabilities and seek class action status, money damages and injunctive relief. A tentative settlement on monetary issues was reached (with the state contributing $2.8 million) but a settlement has not been finalized.

g) *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, and 2010 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. A new rule governs calculation for the 2009 tax year. MERC objects to both the old and new Rules. Specifically, MERC 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.

h) *R.J. Reynolds Tobacco Co. v. Comm'r of Revenue* (Minnesota Tax Court). This is a corporate franchise case where the taxpayer originally reported a $2.9 billion sale from the sale of certain international business operations as business income apportionable to Minnesota which increased its sales factor denominator by the gain amount. The Commissioner excluded gain from the company's sales factor and made no adjustment to the taxable income. The taxpayer objected, arguing that the business income must be represented in the apportionment factors to avoid distortion, or in the alternative, the gain must be deemed non-business income because the taxpayer did not conduct a unitary business with its international operations. The Commissioner rejected both arguments and also allowed only an 80% deduction for dividends received from a foreign subsidiary, rather than a 100% deduction. The Commissioner denied the taxpayer's refund claim asserting that the gain from the sale of trademark assets ($2.6 billion) was non-business income. The amount at issue with this particular taxpayer is $3.2 million plus $1.2 million in a denied refund claim. If the Commissioner's decision is not upheld, the Commissioner estimates that the outcome of this litigation will affect similarly situated taxpayers resulting in a prospective loss of $8 million per year starting in FY 2011, and a retroactive effect of $24 million for FY 2011.

i) *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). A class action lawsuit was filed in May 2010 against the state's pension funds. Plaintiffs are challenging 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. Plaintiffs seek a judicial determination that the legislation violates the contract clause of both the state and federal constitution; that the legislation violates the taking clause of the federal constitution, that the legislation is arbitrary and capricious and violates substantive due process, and that the named individual defendants violated 42 USC. The state Defendants moved for summary judgment with argument scheduled for March 2011.

Note 20 – Subsequent Events

Primary Government

On August 19, 2010, the state sold $635,000,000 of general obligation state various purpose bonds Series 2010A, $225,000,000 of general obligation state trunk highway bonds Series 2010B at a true interest rate of 3.12 percent, and $5,000,000 of general obligation taxable state bonds Series 2010C at a true interest rate of 1.86 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On September 22, 2010, the state secured a line of credit in the maximum amount of $600,000,000 to increase liquidity and assist in managing the fluctuations of forecasted state receipts and disbursements. The extent to which the line of credit is actually utilized to meet cash flow needs will be determined by the variance between estimated and actual receipts and the timing of major payments during any given month. The state has not accessed this line of credit, which expires on June 30, 2011.

On September 29, 2010, the state sold $687,115,000 of general obligation state various purpose refunding bonds Series 2010D at a true interest rate of 2.21 percent, and $220,670,000 of general obligation state trunk highway refunding bonds Series 2010E at a true interest rate of 2.24 percent. These bonds are backed by the full faith and credit and taxing power of the state.

In October 2010, a second special legislative session was held to provide disaster assistance of $80,206,000 for flood and tornado relief.

On November 1, 2010, the Commissioner of Iron Range Resources and Rehabilitation called and redeemed all of the Giants Ridge Recreation Area Series 2000 Bonds in the outstanding principal amount of $10,485,000. In November 2000, the $16,000,000, 25-year revenue bonds were issued to finance the construction of a second golf course and to retire $4,250,000 of the 15-year revenue bonds that had been issued in 1996 to finance a portion of the costs of the first golf course. The early redemption ends any liability that Iron Range Resources might otherwise have for payments in regard to the bonds.

State of Minnesota

2010 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 (Mn/DOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

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

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

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

Established Condition Level

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

Assessed Conditions

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

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
2009	3.25	3.12
2008	3.28	3.15
2007	3.34	3.16

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the bridges under Mn/DOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound, but may have some minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

Rating	Description
Good	If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.
Fair	If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.
Poor	If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

Principal Arterial	2009	2008	2007
Fair to Good	94.0%	93.5%	97.6%

All Other Systems	2009	2008	2007
Fair to Good	90.4%	90.2%	93.2%

Budgeted and Estimated Costs to Maintain

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

		Costs to be Capitalized			Maintenance of System			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2010	$ 128,668	$ 391,274	$ 519,942	$ 14,172	$ 328,573	$ 342,745	$ 862,687
	2009	153,692	357,479	511,171	12,312	250,415	262,727	773,898
	2008	183,449	308,443	491,892	10,836	223,926	234,762	726,654
	2007	148,320	480,900	629,220	63,835	223,476	287,311	916,531
	2006 (1)			773,735			301,852	1,075,587
Actual	2010	$ 142,295	$ 188,096	$ 330,391	$ 71,361	$ 531,980	$ 603,341	$ 933,732
	2009	175,274	257,489	432,763	37,994	408,090	446,084	878,847
	2008	252,306	279,664	531,970	35,341	364,939	400,280	932,250
	2007	150,497	253,040	403,537	15,125	312,567	327,692	731,229
	2006 (1)			451,935			360,835	812,770

(1) Due to system limitations, bridge and pavement costs are combined for the year ended June 30, 2006.

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	2009[1]	7/1/2009	7/1/2009	7/1/2009	7/1/2009
	2008	7/1/2008	7/1/2008	7/1/2008	7/1/2008
	2007	7/1/2007	7/1/2007	7/1/2007	7/1/2007
Actuarial Value of Plan Assets	2009	$ 590,339	$ 147,120	$ 28,663	$ 584,501
	2008	$ 572,719	$ 147,542	$ 39,209	$ 595,082
	2007	$ 559,852	$ 153,562	$ 44,869	$ 617,901
Actuarial Accrued Liability	2009	$ 821,250	$ 241,815	$ 90,431	$ 725,334
	2008	$ 760,363	$ 231,623	$ 86,131	$ 693,686
	2007	$ 708,292	$ 214,297	$ 86,449	$ 673,444
Total Unfunded Actuarial Liability	2009	$ 230,911	$ 94,695	$ 61,768	$ 140,833
	2008	$ 187,644	$ 84,081	$ 46,922	$ 98,604
	2007	$ 148,440	$ 60,735	$ 41,580	$ 55,543
Funded Ratio[2]	2009	72%	61%	32%	81%
	2008	75%	64%	46%	86%
	2007	79%	72%	52%	92%
Annual Covered Payroll	2009	$ 193,445	$ 39,444	$ 1,963	$ 61,511
	2008	$ 194,391	$ 38,296	$ 1,993	$ 60,029
	2007	$ 167,727	$ 36,195	$ 2,380	$ 61,498
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2009	119%	240%	3147%	229%
	2008	97%	220%	2354%	164%
	2007	89%	168%	1747%	90%

[1]The July 1, 2009, Annual Valuation Report is the most recently issued report available.

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

Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit heath care plan.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	2010[1]	7/1/2008
	2009	7/1/2008
	2008	7/1/2006
Actuarial Value of Plan Assets	2010	$ -
	2009	$ -
	2008	$ -
Actuarial Accrued Liability	2010	$ 754,801
	2009	$ 754,801
	2008	$ 659,044
Total Unfunded Actuarial Liability	2010	$ 754,801
	2009	$ 754,801
	2008	$ 659,044
Funded Ratio[2]	2010	0%
	2009	0%
	2008	0%
Annual Covered Payroll	2010	$ 2,785,335
	2009	$ 2,785,335
	2008	$ 2,838,228
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2010	27%
	2009	27%
	2008	23%

[1]The July 1, 2008, Annual Valuation Report is the most recently issued report available.

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

Public Employees Insurance Program Development Information

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

	Fiscal Year Ended (In Thousands)									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required Contribution and Investment Revenue:										
Earned	$ 18,005	$ 22,149	$ 23,458	$ 22,764	$ 19,177	$ 14,942	$ 13,219	$ 13,439	$ 12,286	$ 25,031
Ceded	1,972	2,243	2,321	2,231	1,736	1,491	1,347	1,298	1,218	2,684
Net Earned	$ 16,033	$ 19,906	$ 21,137	$ 20,533	$ 17,441	$ 13,451	$ 11,872	$ 12,141	$ 11,068	$ 22,347
2. Unallocated Expenses	$ 2,535	$ 2,715	$ 2,528	$ 2,296	$ 1,904	$ 1,638	$ 1,547	$ 1,505	$ 1,534	$ 2,037
3. Estimated claims and Expenses End of Policy Year:										
Incurred	$ 16,550	$ 21,055	$ 19,715	$ 19,466	$ 16,499	$ 12,551	$ 11,206	$ 10,748	$ 9,473	$ 19,350
Ceded	760	2,513	1,570	1,980	1,913	1,382	1,782	380	667	562
Net Incurred	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 13,228	$ 15,824	$ 15,847	$ 15,699	$ 12,909	$ 10,055	$ 8,226	$ 9,403	$ 7,921	$ 16,848
One Year Latter	15,908	18,091	17,572	17,367	14,141	11,282	9,352	10,415	8,482	
Two Years Latter	15,963	18,034	17,579	17,764	14,139	11,301	9,358	10,413		
Three Years Latter	15,963	18,034	17,579	17,764	14,139	11,301	9,358			
Four Years Latter	15,963	18,034	17,579	17,764	14,139	11,301				
Five Years Latter	15,963	18,034	17,579	17,696	14,139					
Six Years Latter	15,963	18,034	17,579	17,696						
Seven Years Latter	15,963	18,034	17,579							
Eight Years Latter	15,963	18,034								
Nine Years Latter	15,963									
5. Re-estimated Ceded Claims and Expenses	$ 760	$ 2,513	$ 1,570	$ 1,980	$ 1,913	$ 1,382	$ 1,782	$ 380	$ 667	$ 562
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 15,790	$ 18,542	$ 18,145	$ 17,486	$ 14,586	$ 11,169	$ 9,424	$ 10,368	$ 8,806	$ 18,788
One Year Latter	15,935	18,114	17,595	17,385	14,152	11,294	9,362	10,425	8,502	
Two Years Latter	15,963	18,034	17,579	17,764	14,139	11,301	9,358	10,413		
Three Years Latter	15,963	18,034	17,579	17,764	14,139	11,301	9,358			
Four Years Latter	15,963	18,034	17,579	17,764	14,139	11,301				
Five Years Latter	15,963	18,034	17,579	17,696	14,139					
Six Years Latter	15,963	18,034	17,579	17,696						
Seven Years Latter	15,963	18,034	17,579							
Eight Years Latter	15,963	18,034								
Nine Years Latter	15,963									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ 173	$ (508)	$ (566)	$ 210	$ (447)	$ 132	$ (66)	$ 45	$ (304)	$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.

3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)

7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.