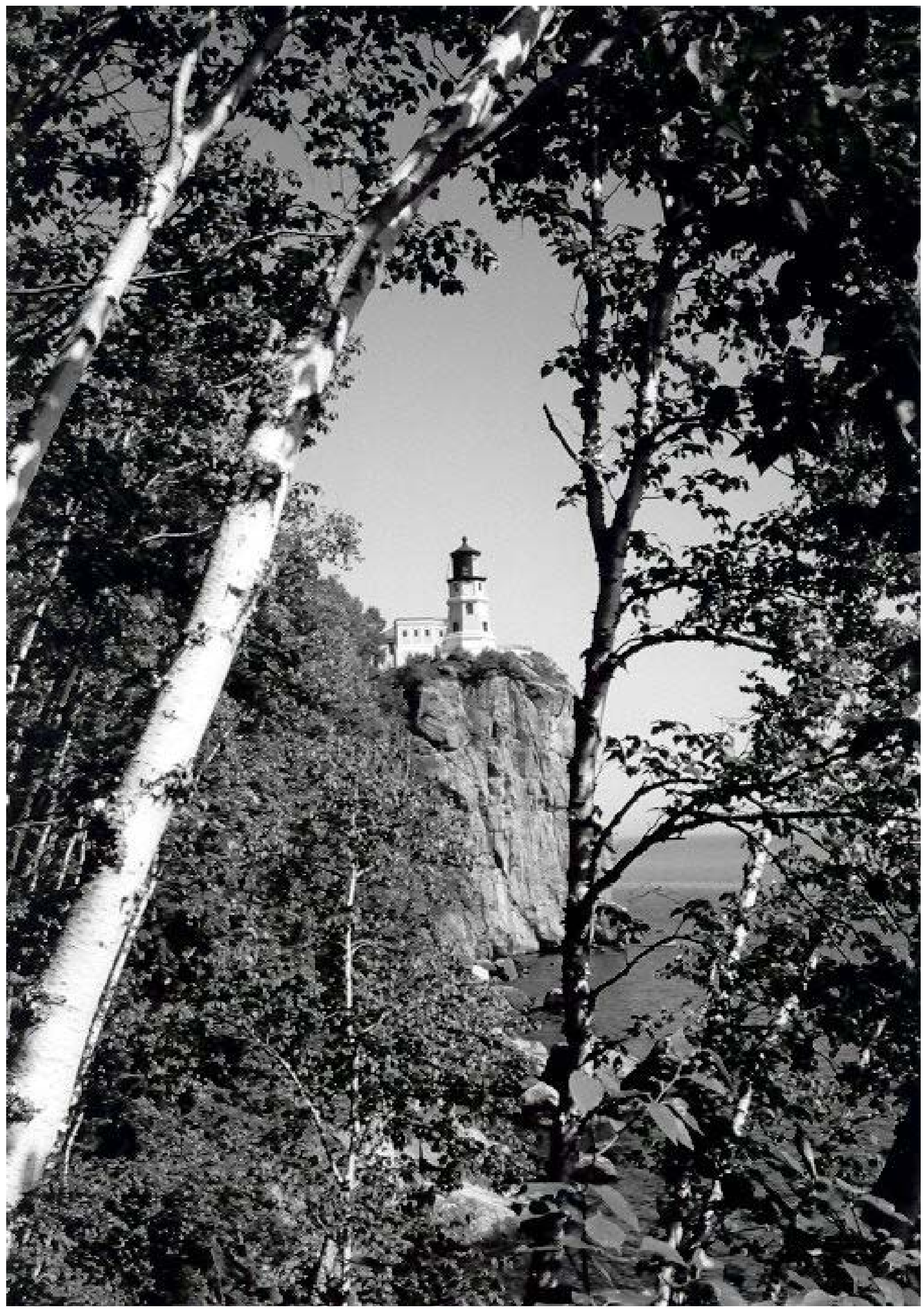
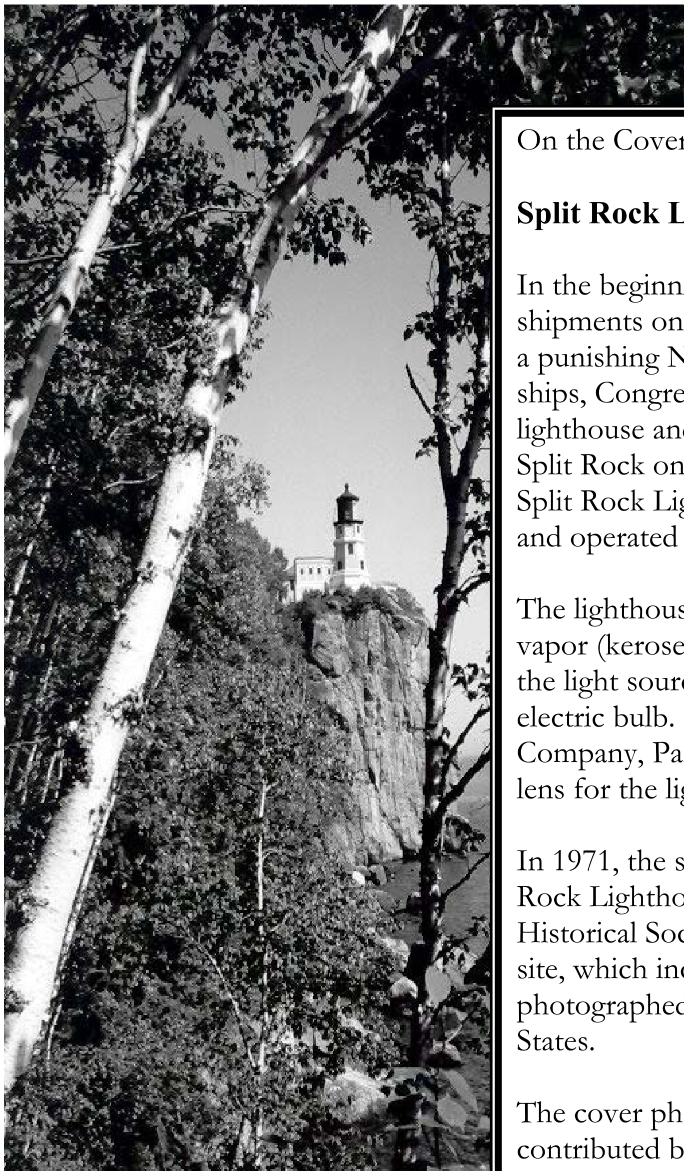
Comprehensive Annual Financial Report

STATE OF
MINNESOTA



For the Year Ended
June 30, 2004



On the Cover:

Split Rock Lighthouse

In the beginning of the 20th century, iron ore shipments on Lake Superior escalated. After a punishing November, 1905 gale damaged 29 ships, Congress appropriated $75,000 for a lighthouse and fog signal in the vicinity of Split Rock on Lake Superior's North Shore. Split Rock Lighthouse was completed in 1910 and operated until 1969.

The lighthouse used an incandescent oil-vapor (kerosene) lamp from 1910-1939 when the light source was changed to a 1,000-watt electric bulb. Barbier, Bernard and Turenne Company, Paris, France manufactured the lens for the lighthouse.

In 1971, the site became part of the Split Rock Lighthouse State Park. The Minnesota Historical Society administers this historic site, which includes one of the most photographed lighthouses in the United States.

The cover photograph was taken and contributed by Shelby R. Richardson.

State of Minnesota

Comprehensive Annual Financial Report

For the Year Ended June 30, 2004

Prepared by the Minnesota Department of Finance
Peggy Ingison, Commissioner
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155

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Minnesota Department of Finance
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1489
651-297-1326

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State of Minnesota

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State of Minnesota

Introduction

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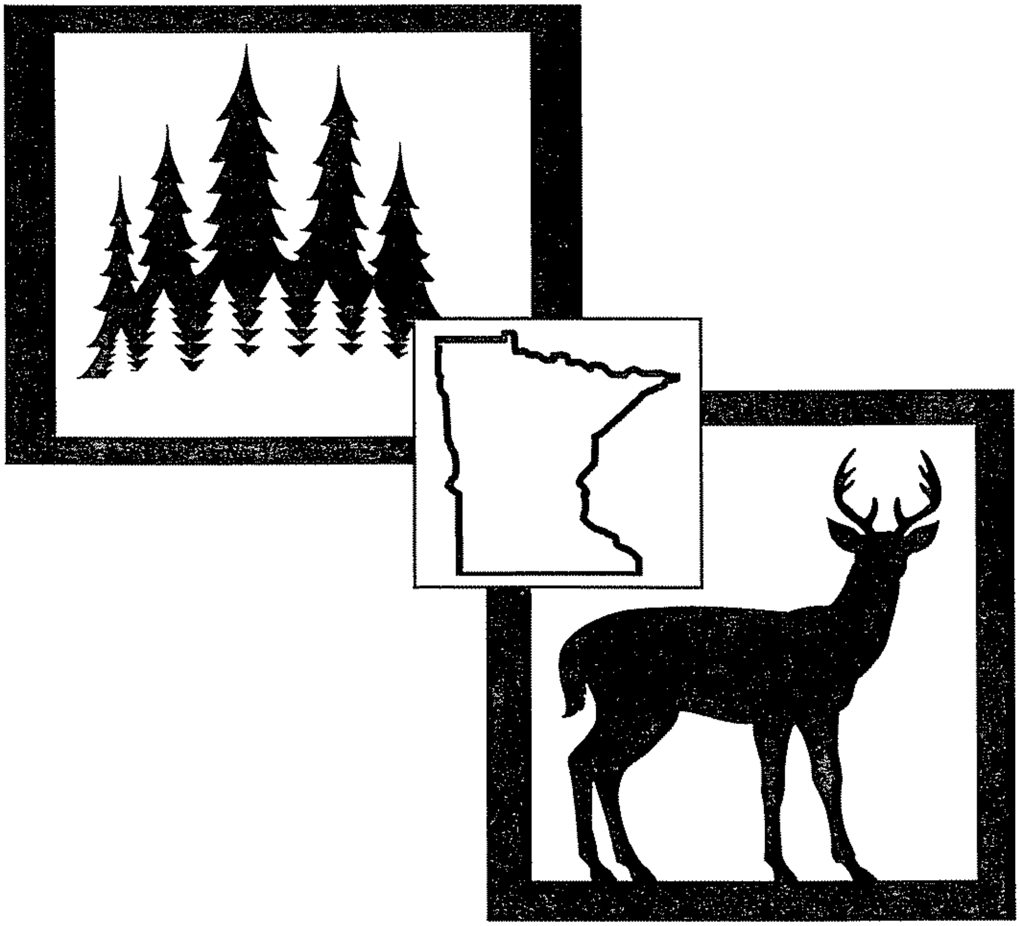

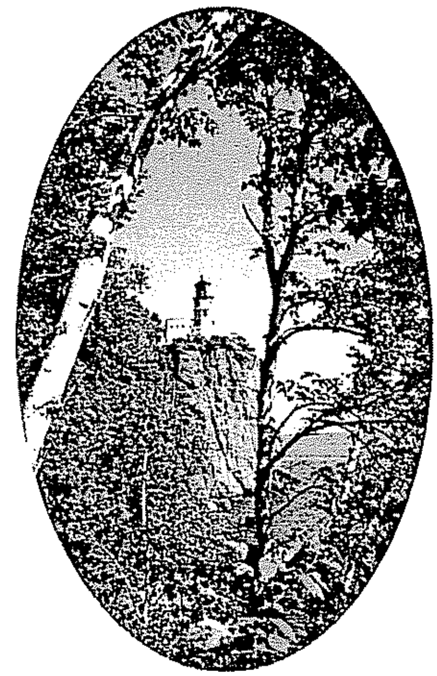

State of Minnesota

Transmittal Letter from the Commissioner of Finance

2004 Comprehensive Annual Financial Report

400 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155
Voice: (651) 296-5900
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November 19, 2004

The Honorable Tim Pawlenty, Governor

Members of the Legislature

In accordance with Minnesota Statutes, Section 16A.50, the Department of Finance is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the state of Minnesota for the fiscal year ended June 30, 2004. This report includes the financial statements for the state, and the disclosures necessary to accurately present the financial condition and results of operations for the year then ended. The report has been prepared in accordance with generally accepted accounting principles (GAAP) for governmental units.

The report is divided into three sections: Introductory, Financial, and Statistical. The introductory section includes this letter, the certificate of achievement, the state's organization chart, and the list of principal officials. The financial section includes the auditor's opinion, the management's discussion and analysis, the basic financial statements, the combining and individual fund statements for nonmajor funds, and the general obligation debt schedules. The Notes to the Financial Statements, in the basic financial statements, are necessary for an understanding of the information included in the statements. The notes include the Summary of Significant Accounting Policies and other necessary disclosure of matters relating to the financial position of the state. The statistical section provides mainly trend data and nonfinancial information useful in assessing a government's financial condition.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The independent Office of the Legislative Auditor has issued an unqualified (clean) opinion on the state of Minnesota's financial statements for the year ended June 30, 2004. The independent auditor's report is located at the front of the financial section of this report.

As a part of the audit of these financial statements, the Office of the Legislative Auditor is conducting a single audit of federal programs. This audit meets the requirements of the federal Single Audit Act and is designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the state's internal controls and legal requirements involving the administration of federal awards for the year ended June 30, 2004. The supplementary report, "Financial and Compliance Report on Federally Assisted Programs" will be available in March 2005.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

Financial Reporting Entity and Responsibilities

The financial reporting entity consists of all the funds of the primary government, as well as its component units. Component units are legally separate organizations for which the state is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's 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 organization is fiscally dependent on the primary government; or the nature and relationship between the primary government and the organization is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Housing Finance Agency, Metropolitan Council, University of Minnesota, Agricultural and Economic Development Board, Higher Education Services Office, Minnesota Partnership for Action Against Tobacco, Minnesota Technology, Inc., National Sports Center Foundation, Public Facilities Authority, Rural Finance Authority, and Workers' Compensation Assigned Risk Plan are component units reported discretely. With the exception of Minnesota Partnership for Action Against Tobacco, the state has either the ability to impose its will over these agencies or provides substantial funding. The state feels that excluding Minnesota Partnership for Action Against Tobacco from the reporting entity would fail to provide a complete overview of tobacco settlement funds.

The Department of Finance is responsible for the Minnesota Accounting and Procurement System (MAPS) and the information warehouse from which these financial statements were prepared. MAPS is maintained primarily on a budgetary basis of accounting. However, certain accrual information is recorded in MAPS. The budgetary basis recognizes revenues and expenditures essentially on a cash basis, except that encumbrances at year-end are considered expenditures. Since this budgetary basis differs from GAAP, adjustments to accounting data are necessary to provide financial statements in accordance with GAAP. These disparate bases result in budgetary fund balances, which often differ significantly from those calculated under GAAP.

The Department of Finance is also responsible for designing and applying the state's system of internal accounting controls. These controls provide reasonable assurance that the state's assets are protected against loss and that the accounting records from which the financial statements are prepared are reliable. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefit derived.

Budget Process - The state's fiscal period is a biennium. The governor's biennial budget is presented to the legislature in January of odd numbered years for the upcoming biennium. The state constitution and statutes require a balanced budget for the biennium. Specific legislative appropriations are required for several funds. These funds include the General, Trunk Highway, Highway User Tax Distribution, State Airports, Remediation, Health Care Access, Minnesota Resources, Natural Resources, Game and Fish, Environmental, and Special Compensation funds.

Budgetary control is provided primarily through the accounting system. Appropriations are established in the accounting system at the amounts provided in the appropriation laws. The accounting system does not permit expenditures in excess of these amounts.

Economic Condition and Outlook

The performance of Minnesota's economy mirrored that of its U.S. counterpart during fiscal 2004. While the state's unemployment rate continued to be well below the national average, the state's performance on other economic measures was mixed. During fiscal 2004, unemployment in Minnesota averaged 4.8 percent, which is a full percentage point below the U.S. average of 5.8 percent. However, payroll employment grew by 1.1 percent in Minnesota, slightly slower than the 1.2 percent growth observed in national payroll employment. Minnesota's manufacturing sector showed some renewed strength with the state's manufacturing firms adding 7,400 jobs during fiscal 2004. Nationally, 121,000 manufacturing jobs were lost during the same time period. At the end of fiscal 2004, Minnesota manufacturing employment was 10.6 percent below that observed at the start of the 2001 recession. Nationally, manufacturing employment was 15.4 percent below pre-recession levels.

Income growth in Minnesota also tracked the U.S. average, growing at an annual rate of 4.5 percent in fiscal 2004, less than 0.1percentage point below the national average. In calendar 2003, Minnesota personal income grew by 3.3 percent and personal income per capita by 2.6 percent. Those growth rates were slightly greater than the U.S. average. Personal income per capita was $34,309 in calendar 2003, more than 8 percent above the national average. Minnesota now ranks eighth among states in per capita personal income.

Growth rates for the Minnesota economy and the U.S. economy during fiscal 2005 are expected to be below those recorded last year as higher interest rates and energy price increases reduce U.S. real Gross Domestic Product (GDP) growth to a more sustainable rate of 3.6 percent in fiscal 2005. Real GDP is now reported to have grown at an annual rate of 4.5 percent during the 2004 fiscal year. Growth at that rate is generally not believed sustainable for the long term. Minnesota payroll employment is projected to grow by 19,000, (0.7 percent) and total wage and salary disbursements by 4.5 percent. The state forecast calls for personal income growth of 4.6 percent in the 2005 fiscal year. Minnesota's manufacturing sector is projected to add about 6,000 jobs during fiscal 2005 even though manufacturing jobs are expected to continue to decline nationally.

Major Program Initiatives

The fiscal year 2004 budget was enacted in June 2003. To meet the constitutional requirements for a balanced budget for the General Fund, material actions were taken to address a $2.44 billion budgetary shortfall projected for fiscal year 2004.

No major tax changes were enacted. The enacted General Fund budget included spending reductions that totaled $1.256 billion, 8.2 percent of total forecast General Fund spending for the fiscal year. A material one-time transfer of $1.029 billion was made from two special revenue funds established with one-time revenues from Minnesota's tobacco litigation settlement. Balances from the Medical Education and Research Fund, as well as the Tobacco Use Prevention Fund, were transferred to the General Fund and the designated funds were eliminated.

Reductions in state aids for General Education were largely accomplished by $415 million of savings through a payment shift and a permanent reduction in expenditures. The first largely affected formula entitlement payments to school districts that are funded in a manner that requires a final payment be made in the following state fiscal year. The payment schedule was modified from an 83 percent payment with a 17 percent settlement in the following year to an 80 percent payment with a 20 percent settlement. This action valued at $165 million, results in increasing year-end liabilities on a GAAP basis. The second component was a permanent change in the percentage of local property taxes receipts calculated in determining state aid payments. This acted to reduce expenditures by $250 million for the year.

Finally, there is a material change in the status of General Fund reserves/designations. These reserves/designations had been depleted in the prior fiscal year as part of budget balancing actions. Provisions enacted in 2003 restored the budgetary designation to $300 million in fiscal year 2004 budget. That amount is scheduled to increase to $621 million in 2005. In addition, current law provides that any future forecast balances first be used to restore $350 million to Cash Flow Account designation, and then to increase the Budget Reserve Account to $653 million. Additional forecast balances occurring in the current biennium are then allocated to reversing the school payment changes.

Financial Information

Debt Administration – Minnesota's credit ratings on general obligation bonds continued at AAA by Standard & Poor's and Fitch Ratings, and Aa1 by Moody's Investors Service.

The state has a debt management policy, which has three goals:

- Maintain/restore AAA/Aaa bond ratings.
- Minimize state borrowing costs.
- Provide a reasonable financing capacity within a prudent debt limit.

The state debt management policy has four guidelines. The first requires that the ratio of budgeted biennial debt service expenditures for general obligation bonded debt, paid by transfers from the General Fund, should not exceed 3.0 percent of total projected biennial General Fund non-dedicated revenues, net of refunds, on a budgetary basis. The ratio of transfers to net non-dedicated revenues for the biennium ending June 30, 2005, is estimated to be 2.2 percent.

The second and third guidelines state that general obligation bonded debt should not exceed 2.5 percent of the total personal income for the state, and also that the total debt of state agencies and the University of Minnesota should not exceed 3.5 percent of total personal income. These ratios were 1.7 percent and 2.8 percent, respectively, based on debt outstanding at June 30, 2004, and estimated personal income for the year ended on that date.

The fourth guideline states that the total amount of state general obligation debt, moral obligation debt, state bond guarantees, equipment capital leases and real estate leases should not exceed 5.0 percent of the total personal income for the state. The ratio was 2.9 percent based on information at June 30, 2004.

Cash Management – The majority of cash is held in the state treasury and commingled in state bank accounts. The cash in individual funds may be invested separately where permitted by statute. However, cash in most funds is invested as a part of an investment pool. Investment earnings of the pools are allocated to the individual funds where provided by statute. Earnings for all other participants are credited to the General Fund.

Minnesota statutes require 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. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

The State Board of Investment manages the majority of the state's investing. Minnesota statutes broadly restrict investment to obligations and stocks of U.S. and Canadian governments, their agencies and their registered corporations, 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.

Risk Management – Minnesota statutes permit the purchase of insurance on state-owned buildings and contents. The Commissioner of the Department of Administration may authorize the purchase of insurance on state properties should it be deemed necessary and appropriate to protect buildings and contents. All losses of state property are self-insured, covered by programs of the Risk Management Fund (an internal service fund), or covered by insurance policies purchased by the Risk Management Fund on behalf of state agencies.

Employees' health and a portion of dental insurance are self-insured. Employees' life and the remaining dental insurance are provided through contracts with outside organizations. Premiums collected for these benefits have been more than sufficient to cover claims submitted.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Minnesota for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the nineteenth consecutive year that the state has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

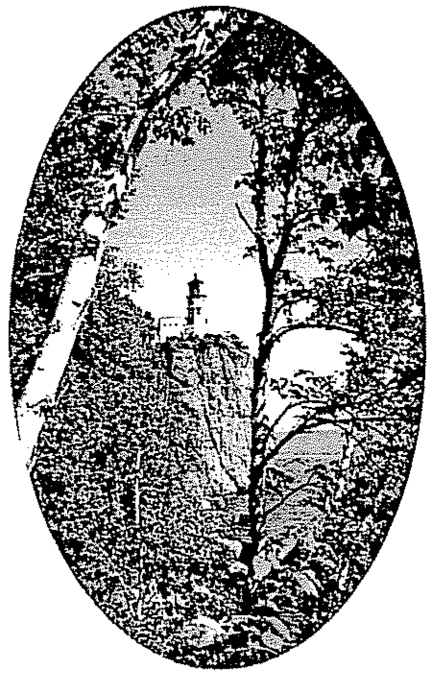
Acknowledgments

Although the Department of Finance accepts final responsibility for this report, staff in many other state agencies and component units provided much of the data. Assistance from these organizations ranged from providing necessary data to actual preparation of financial statements. I appreciate the dedication of the people in the Department of Finance and in other agencies who helped in the preparation of this report, without whose efforts this report would not have been possible.

Sincerely,

Peggy Ingison

Peggy Ingison
Commissioner



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

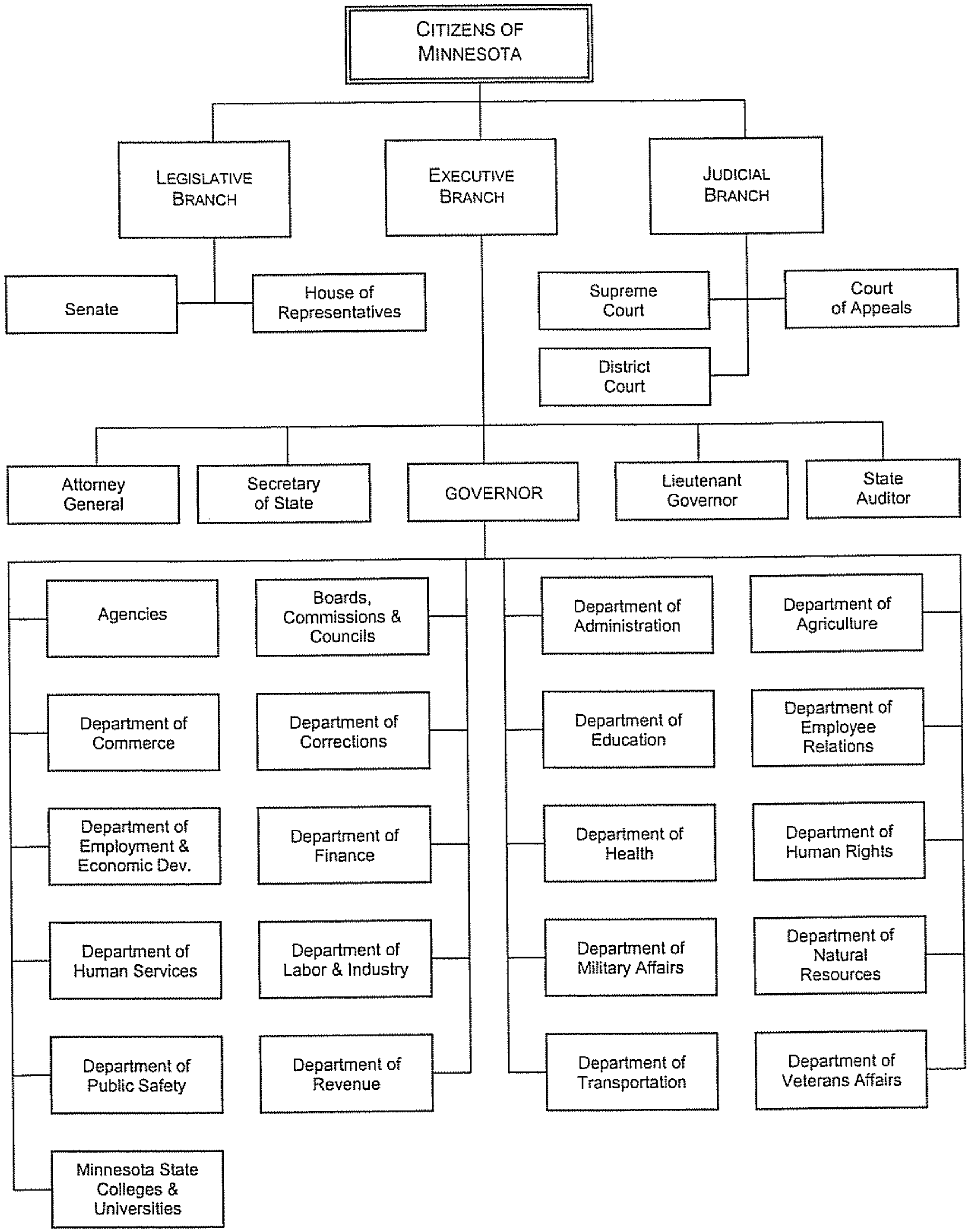
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

State Organization Chart

2004 Comprehensive Annual Financial Report



State Principal Officials

Executive Branch

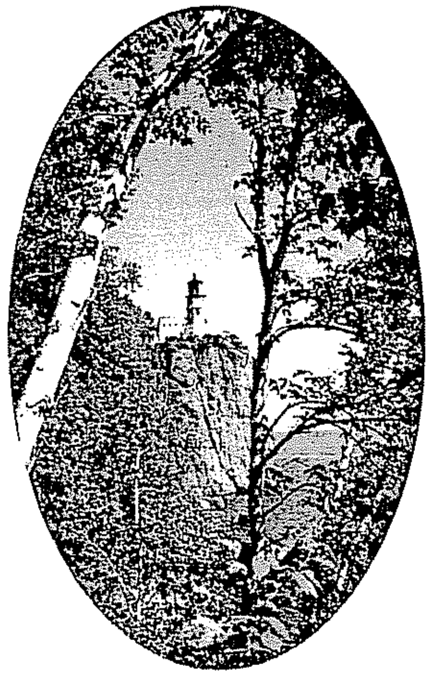
Governor	Tim Pawlenty
Lieutenant Governor	Carol Molnau
Attorney General	Mike Hatch
Secretary of State	Mary Kiffmeyer
State Auditor	Patricia Anderson

Legislative Branch

Speaker of the House of Representatives	Steve Sviggum
President of the Senate	James Metzen

Judicial Branch

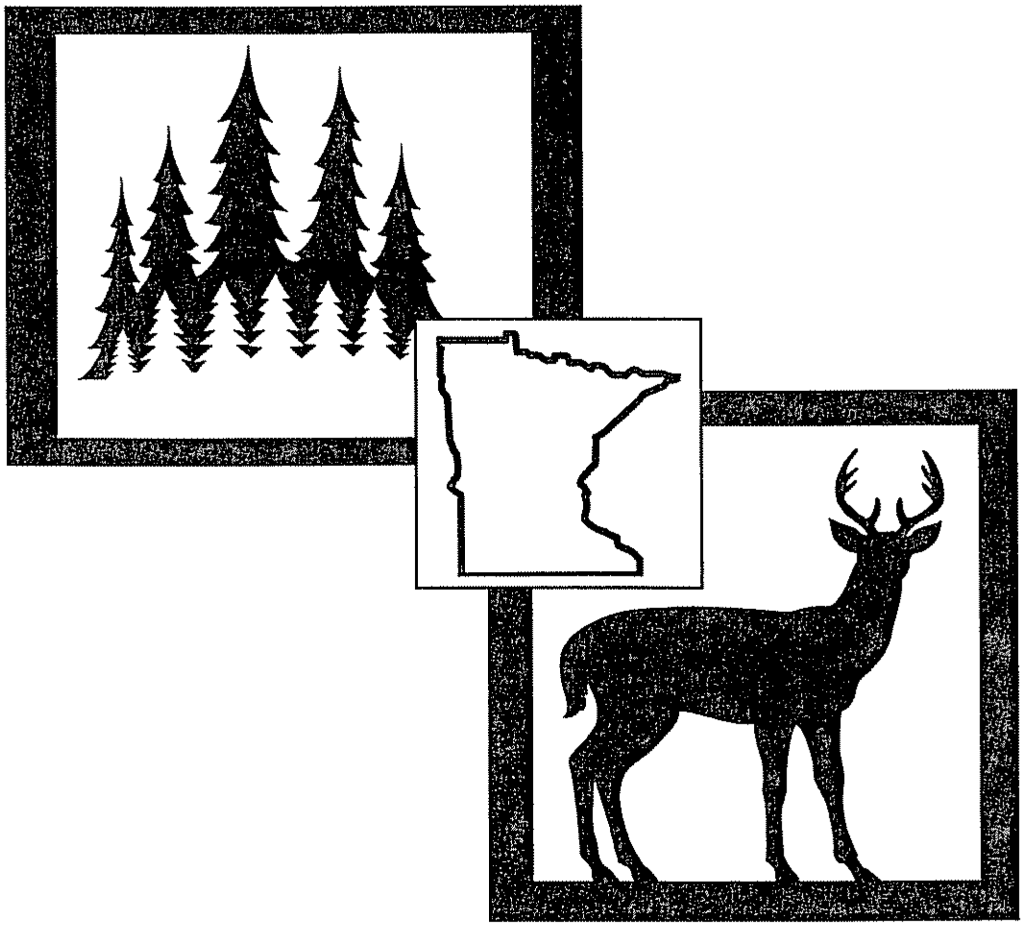
Chief Justice of the Supreme Court	Kathleen Blatz



State of Minnesota

Financial Section

2004 Comprehensive Annual Financial Report



Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2004, which collectively comprise the state's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on those financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 92 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers' Compensation Assigned Risk Plan, National Sports Center Foundation, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. The financial statements of the Minnesota Workers' Compensation Assigned Risk Plan, National Sports Center Foundation, and Minnesota Partnership for Action Against Tobacco, which are discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Minnesota as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the State of Minnesota adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* for the year ended June 30, 2004. This standard establishes additional guidance for determining whether certain organizations should be reported as component units in determining the state's reporting entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the State of Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

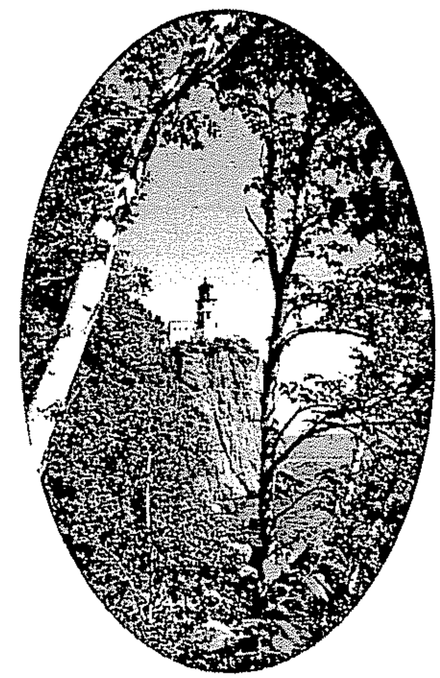
Management's Discussion and Analysis and the other required supplementary information, as listed in the table of contents, are not a required part of the State of Minnesota's basic financial statements, but are supplementary information required by accounting principles generally accepted in the United 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. The Introduction, the combining and individual nonmajor fund financial statements and schedule, and the Statistical Section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedule have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The financial information in the Introduction and Statistical Sections, as listed in the table of contents, has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

James R. Nobles
James R. Nobles
Legislative Auditor

Claudia J. Gudvangen
Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 19, 2004



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, 2004, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

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

The financial section of this annual report has four parts:

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

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

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

Government-wide Financial Statements

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

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

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

- An increase or decrease in the state's net assets from one year to the next indicates whether the financial position of the state is improving or deteriorating.

- Other indicators of the state's financial condition include the condition of its infrastructure, and economic events and trends that affect future revenues and expenses.

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

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

Governmental Activities

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

Business-type Activities

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

Discretely Presented Component Units

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

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

- Agricultural and Economic Development Board
- Higher Education Services Office
- Minnesota Partnership for Action Against Tobacco
- Minnesota Technology, Incorporated
- National Sports Center Foundation
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

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

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

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains 29 individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balances* for the General and Federal funds, which are reported as major funds. Information from the remaining 26 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

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

Proprietary Funds

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

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

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds *statement of net assets* and in the proprietary funds *statement of revenues, expenses, and changes in net assets*. Information from the other 15 funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 17 individual nonmajor fiduciary funds. The state's fiduciary funds are the pension trust funds, the Investment Trust Fund (which accounts for the transactions, assets, liabilities, and fund equity of the external investment pool), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2004, by $8.1 billion (presented as *net assets*). Of this amount, a deficit of $769 million was reported as *unrestricted net assets*. Unrestricted net assets represent the amount available to the state to meet ongoing obligations to citizens and creditors. However, many of the resources have internally imposed designations, such as state statutory language, which limit resource use. These assets are not reported as restricted net assets because the limitations are imposed internally by the state, not externally imposed by sources such as creditors.

- The state's total net assets increased by $207 million (2.6 percent) during fiscal year 2004. Net assets of governmental activities increased by $173 million (2.6 percent), while net assets of the business-type activities showed an increase of $34 million (3.0 percent).

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of $3.0 billion, a decrease of $855 million compared to the prior year. This amount includes an unreserved fund balance of $332 million.

- The General Fund includes a deficit of $448 million in the undesignated unreserved fund balance. The remaining governmental funds reported $200 million of undesignated unreserved fund balance, which is available for spending at the government's discretion and $580 million in designated fund balance.

Long-Term Debt

- The state's total long-term debt obligations decreased by $106 million (1.9 percent) during the current fiscal year. The decrease is primarily due to payment to the escrow agent in the current year of refunding bonds issued in the prior year.

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 $8.103 billion at the end of 2004, compared to $7.897 billion at the end of the previous year. All of the governmental activities and the majority of the business-type activities net assets were either restricted by investment in capital assets or restricted for specific purposes. The remaining unrestricted net assets – resources available for future spending – reported a deficit balance of $769 million.

Net Assets
June 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current Assets	$ 7,875,733	$ 8,265,240	$ 928,778	$ 787,781	$ 8,804,511	$ 9,053,021
Noncurrent Assets:						
Capital Assets	7,826,826	7,197,543	1,072,726	977,480	8,899,552	8,175,023
Other Assets	894,598	782,448	59,424	74,084	954,022	856,532
Total Assets	$ 16,597,157	$ 16,245,231	$ 2,060,928	$ 1,839,345	$ 18,658,085	$ 18,084,576
Current Liabilities	$ 5,135,904	$ 4,698,850	$ 541,660	$ 369,059	$ 5,677,564	$ 5,067,909
Noncurrent Liabilities	4,535,676	4,793,304	341,376	326,685	4,877,052	5,119,989
Total Liabilities	$ 9,671,580	$ 9,492,154	$ 883,036	$ 695,744	$ 10,554,616	$ 10,187,898
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 5,525,157	$ 4,998,667	$ 872,804	$ 812,780	$ 6,397,961	$ 5,811,447
Restricted	2,387,732	2,280,661	86,291	151,812	2,474,023	2,432,473
Unrestricted	(987,312)	(526,251)	218,797	179,009	(768,515)	(347,242)
Total Net Assets	$ 6,925,577	$ 6,753,077	$ 1,177,892	$ 1,143,601	$ 8,103,469	$ 7,896,678

The largest portion, $6.4 billion of $8.1 billion, of the state's net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $2.5 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used.

The remaining net assets balance represents a deficit in unrestricted net assets of $769 million. This deficit does not mean that the state lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net assets; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the non-capital portion of net assets for most governmental activities' special revenue, debt service, and permanent funds as restricted.

The state's combined net assets for governmental and business-type activities increased $207 million (2.6 percent) over the course of this fiscal year. This resulted from a $173 million (2.6 percent) increase in net assets of governmental activities, and a $34 million (3.0 percent) increase in net assets of business-type activities.

Changes in Net Assets
Fiscal Year Ended June 30, 2004
(In Thousands)

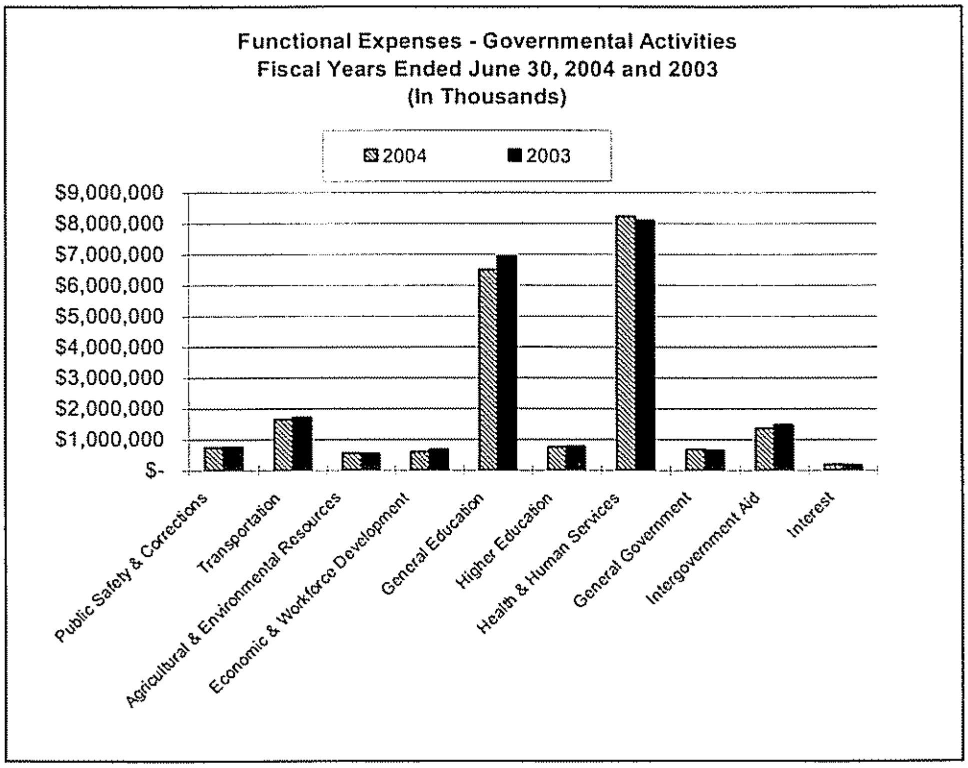
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	$ 1,265,184	$ 1,211,341	$ 2,001,721	$ 1,697,647	$ 3,266,905	$ 2,908,988
Operating Grants and Contributions	5,428,859	5,219,388	312,200	369,481	5,741,059	5,588,869
Capital Grants	269,786	131,632	2,307	2,274	272,093	133,906
General Revenues:						
Individual Income Taxes	5,863,383	5,497,328	-	-	5,863,383	5,497,328
Corporate Income Taxes	643,442	636,214	-	-	643,442	636,214
Sales Taxes	3,911,496	3,924,424	-	-	3,911,496	3,924,424
Property Taxes	608,860	594,094	-	-	608,860	594,094
Motor Vehicle Taxes	587,223	606,137	-	-	587,223	606,137
Fuel Taxes	643,964	656,326	-	-	643,964	656,326
Other Taxes	2,190,491	1,981,468	-	-	2,190,491	1,981,468
Tobacco Settlement	173,173	261,525	-	-	173,173	261,525
Investment/Interest Income	32,712	24,049	16,213	15,697	48,925	39,746
Other Revenues	178,255	203,206	2,417	9,294	180,672	212,500
Total Revenues	$ 21,796,828	$ 20,947,132	$ 2,334,858	$ 2,094,393	$ 24,131,686	$ 23,041,525
Expenses:						
Public Safety and Corrections	$ 731,438	$ 750,143	$ -	$ -	$ 731,438	$ 750,143
Transportation	1,662,402	1,727,604	-	-	1,662,402	1,727,604
Agricultural and Environmental Resources	557,414	541,828	-	-	557,414	541,828
Economic and Workforce Development	591,513	671,469	-	-	591,513	671,469
General Education	6,512,834	6,929,870	-	-	6,512,834	6,929,870
Higher Education	744,112	785,524	-	-	744,112	785,524
Health and Human Services	8,228,552	8,102,781	-	-	8,228,552	8,102,781
General Government	671,908	652,005	-	-	671,908	652,005
Intergovernmental Aid	1,355,683	1,480,533	-	-	1,355,683	1,480,533
Interest	181,323	169,023	-	-	181,323	169,023
State Colleges and Universities	-	-	1,385,817	1,386,493	1,385,817	1,386,493
Unemployment Insurance	-	-	931,659	1,054,281	931,659	1,054,281
Lottery	-	-	287,550	273,884	287,550	273,884
Other	-	-	166,923	153,397	166,923	153,397
Total Expenses	$ 21,237,179	$ 21,810,780	$ 2,771,949	$ 2,868,055	$ 24,009,128	$ 24,678,835
Excess (Deficiency) Before Transfers and Special Item	$ 559,649	$ (863,648)	$ (437,091)	$ (773,662)	$ 122,558	$ (1,637,310)
Transfers	(471,382)	(548,291)	471,382	548,291	-	-
Special Item	-	30,000	-	-	-	30,000
Change in Net Assets	$ 88,267	$ (1,381,939)	$ 34,291	$ (225,371)	$ 122,558	$ (1,607,310)
Net Assets, Beginning	$ 6,753,077	$ 8,180,576	$ 1,143,601	$ 1,365,331	$ 7,896,678	$ 9,545,907
Prior Period Adjustments	84,233	(41,919)	-	-	84,233	(41,919)
Change in Fund Structure	-	(3,641)	-	3,641	-	-
Net Assets, Ending	$ 6,925,577	$ 6,753,077	$ 1,177,892	$ 1,143,601	$ 8,103,469	$ 7,896,678

Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 25 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 2 percent came from other general revenues.

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

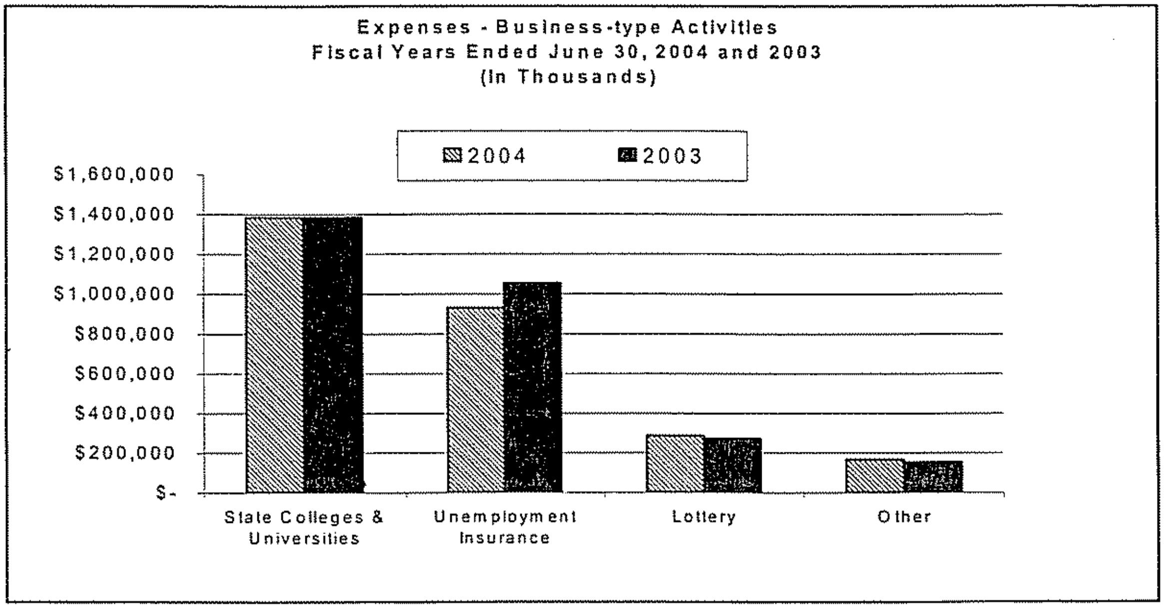
Governmental Activities

Governmental activities increased the state's net assets by $173 million, which primarily resulted from increase in revenues as a result of the strengthening economy following an economic downturn and a reduction of governmental activities expenses. The decrease in expenses is primarily attributable to the decrease in General Education and Intergovernmental Aid expenses. The decrease in General Education expenses was attributable to change in the percentage of local property tax receipts calculated in determining state aid payments, while the decrease in Intergovernmental Aids was a result of the spending reductions made by the 2003 legislature for payments to municipalities and counties.



Business-type Activities

The business-type activities had an increase in net assets of $34 million. This increase was due primarily to a $62 million increase in net assets of the State Colleges and Universities Fund, which was offset by a $37 million decrease in net assets of the Unemployment Insurance Fund. The increase in the State Colleges and Universities Fund net assets resulted from an increase in tuition revenue.



State Funds Financial Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $2.996 billion, a decrease of $855 million in comparison with the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the General Fund was a deficit of $448 million, an increase of $558 million in comparison with the prior year. This improvement resulted for three primary reasons. First, a one-time transfer of $1.029 billion was made to the General Fund to eliminate the Medical Education and Research and Tobacco Use Prevention funds. Second, revenue increased by $734 million which was primarily a result of an increase in sales and income tax receipts due to a rebound of the national economy. Finally, expenditures decreased by $706 million due to actions taken by the 2003 legislature to limit state spending growth as a response to forecasted budget deficits.

General Fund spending for the largest program areas declined from prior year levels primarily as a result of the spending reductions taken by the 2003 legislature. Spending decreased from the prior year for General Education by $316 million (5 percent), Higher Education by $90 million (12 percent), Health and Human Services by $29 million (1 percent), and Intergovernmental Aid by $125 million (8 percent). In addition, General Fund spending decreased due to a change in the percentage of local property tax receipts allocated to the calculation of aids for General Education.

Proprietary Funds

The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The state's proprietary funds net assets increased by $34 million during the current year. This primarily resulted from a $62 million increase in net assets in the State Colleges and Universities Fund due to an increase in tuition revenue, which was offset by a decrease in net assets in the Unemployment Insurance Fund. During fiscal year 2004, the loan payable from the Federal Unemployment Account to cover unemployment benefits in the Unemployment Insurance Fund increased $141 million to $271 million.

General Fund Budgetary Highlights

Based on the February 2004 forecast, the state's financial outlook has improved slightly since the November 2003 forecast and projected very small changes in revenues and expenditures. The February forecast projected a deficit of $160 million for the fiscal year 2004/2005 biennium in absence of legislative or executive action. Both state statutes (M.S. 16A.152) and constitution (Article XI, Section 6) require a balanced budget for the biennium; thus, corresponding reductions in spending and other measures will be made to ensure that the fund balance remains positive as necessary.

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

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2004, was $10.7 billion, less accumulated depreciation of $1.8 billion, resulting in a net book value of $8.9 billion. This investment in capital assets includes land, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

Capital Assets
June 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital Assets not Depreciated:						
Land	$ 1,463,091	$ 1,378,064	$ 72,062	$ 59,664	$ 1,535,153	$ 1,437,728
Buildings, Structures, Improvements	20,039	20,263	-	-	20,039	20,263
Construction in Progress	125,646	198,185	91,245	82,354	216,891	280,539
Infrastructure	5,113,949	4,620,135	-	-	5,113,949	4,620,135
Art and Historical Treasures	100	100	-	-	100	100
Total Capital Assets not Depreciated	$ 6,722,825	$ 6,216,747	$ 163,307	$ 142,018	$ 6,886,132	$ 6,358,765
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 1,544,866	$ 1,393,620	$ 1,579,402	$ 1,454,703	$ 3,124,268	$ 2,848,323
Infrastructure	44,285	41,670	-	-	44,285	41,670
Library Collections	-	-	45,180	42,878	45,180	42,878
Equipment, Furniture, Fixtures	362,009	357,690	282,553	291,045	644,562	648,735
Total Capital Assets Depreciated	$ 1,951,160	$ 1,792,980	$ 1,907,135	$ 1,788,626	$ 3,858,295	$ 3,581,606
Less: Accumulated Depreciation	847,159	812,184	997,716	953,164	1,844,875	1,765,348
Capital Assets Net of Depreciation	$ 1,104,001	$ 980,796	$ 909,419	$ 835,462	$ 2,013,420	$ 1,816,258
Total	$ 7,826,826	$ 7,197,543	$ 1,072,726	$ 977,480	$ 8,899,552	$ 8,175,023

Under GASB Statement No. 34, the state has adopted an alternative process referred to as 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 2,700 bridges that are maintained by the Minnesota Department of Transportation.

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2003, indicated that the average PQI for principal arterial pavement was 3.40 and 3.24 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 2003, indicated that 96 percent of principal arterial system bridges and 97 percent of all other system bridges were in fair to good condition. The state has consistently improved the condition of bridges over the past several years.

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

Debt Administration

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

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

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

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

Outstanding Bonded Debt
June 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation	$ 3,055,496	$ 3,295,545	$ 141,859	$ 125,950	$ 3,197,355	$ 3,421,495
Revenue	-	-	51,410	52,925	51,410	52,925
Total	$ 3,055,496	$ 3,295,545	$ 193,269	$ 178,875	$ 3,248,765	$ 3,474,420

During fiscal year 2004, the state issued the following bonds:

- $297 million in general obligation state various purpose bonds
- $142 million in general obligation state trunk highway bonds
- $3 million in general obligation taxable state various purpose bonds.

In addition to the general obligation bonds noted above, the state issued $21 million of refunding bonds in August 2003.

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Obligations in the notes to the financial statements.

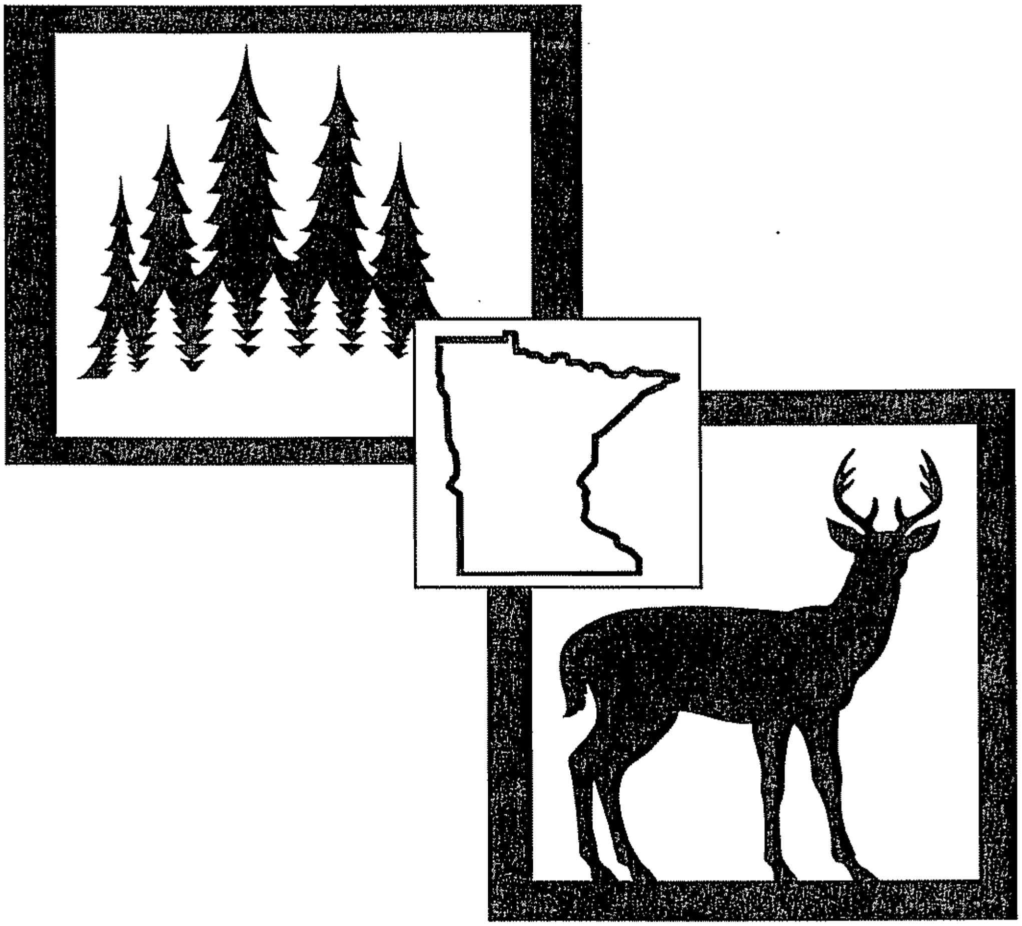
Requests for Information

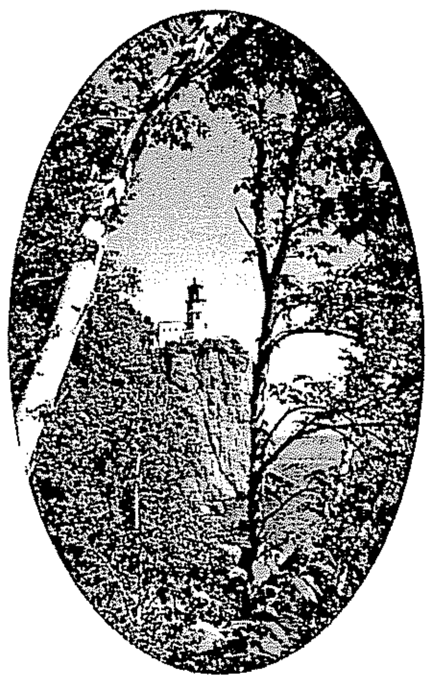
This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives.

Questions about this report or requests for additional financial information should be addressed to the Minnesota Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

Basic Financial Statements

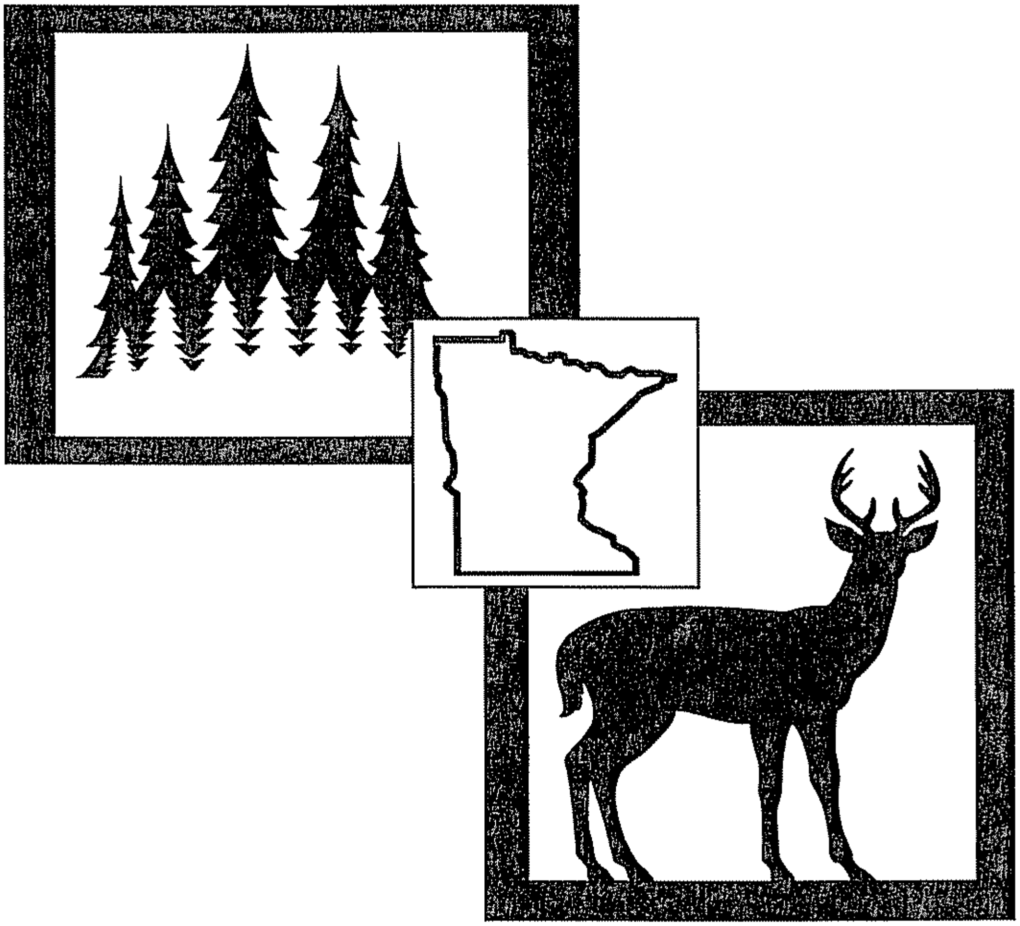
2004 Comprehensive Annual Financial Report





Government-wide Financial Statements

2004 Comprehensive Annual Financial Report



STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 3,809,602	$ 483,136	$ 4,292,738	$ 1,284,896
Investments	973,152	21,769	994,921	890,517
Accounts Receivable	1,616,673	362,953	1,979,626	300,599
Due from Component Units	18,915	-	18,915	-
Due from Primary Government	-	-	-	175,542
Accrued Investment/Interest Income	15,779	18	15,797	34,670
Federal Aid Receivable	698,096	14,170	712,266	903
Inventories	16,163	19,183	35,346	36,484
Loans and Notes Receivable	63,121	9,189	72,310	139,952
Internal Balances	13,506	(13,506)	-	-
Securities Lending Collateral	649,600	28,611	678,211	301,686
Other Assets	1,126	3,255	4,381	48,442
Total Current Assets	$ 7,875,733	$ 928,778	$ 8,804,511	$ 3,213,691
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 26,197	$ 26,197	$ 251,875
Investments-Restricted	-	5,979	5,979	197,652
Accounts Receivable-Restricted	-	-	-	35,143
Due from Primary Government-Restricted	-	-	-	6,343
Other Assets-Restricted	-	115	115	49,040
Due from Component Units	103,432	-	103,432	-
Investments	-	-	-	2,447,982
Accounts Receivable	470,578	-	470,578	404,370
Loans and Notes Receivable	265,116	27,133	292,249	3,057,192
Depreciable Capital Assets (Net)	1,104,001	909,419	2,013,420	3,072,370
Nondepreciable Capital Assets	1,608,876	163,307	1,772,183	892,130
Infrastructure (Not depreciated)	5,113,949	-	5,113,949	-
Other Assets	55,472	-	55,472	16,350
Total Noncurrent Assets	$ 8,721,424	$ 1,132,150	$ 9,853,574	$ 10,430,447
Total Assets	$ 16,597,157	$ 2,060,928	$ 18,658,085	$ 13,644,138
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,472,214	$ 174,417	$ 3,646,631	$ 305,748
Due to Component Units	141,998	-	141,998	-
Due to Primary Government	-	-	-	28,623
Unearned Revenue	425,093	31,947	457,040	146,050
Accrued Bond Interest Payable	40,186	234	40,420	56,880
General Obligation Bonds Payable	249,433	9,492	258,925	321,237
Bond Premium Payable	8,364	-	8,364	-
Loans and Notes Payable	9,852	272,096	281,948	8,358
Revenue Bonds Payable	-	1,575	1,575	308,995
Claims Payable	106,739	-	106,739	95,404
Compensated Absences Payable	16,353	9,900	26,253	57,866
Workers' Compensation Liability	11,976	1,326	13,302	-
Capital Leases Payable	4,096	2,417	6,513	-
Securities Lending Collateral	649,600	28,611	678,211	301,686
Other Liabilities	-	9,645	9,645	9,309
Total Current Liabilities	$ 5,135,904	$ 541,660	$ 5,677,564	$ 1,640,156
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 110,107
Unearned Revenue-Restricted	-	-	-	93,366
Accrued Bond Interest Payable-Restricted	-	-	-	7,478
Due to Primary Government	-	-	-	103,432
Unearned Revenue	-	-	-	70,591
General Obligation Bonds Payable	2,806,063	132,367	2,938,430	1,154,161
Bond Premium Payable	109,255	3,242	112,497	-
Loans and Notes Payable	9,801	3,607	13,408	6,362
Revenue Bonds Payable	-	49,835	49,835	2,716,512
Claims Payable	1,283,665	-	1,283,665	423,269
Compensated Absences Payable	222,333	103,525	325,858	22,055
Workers' Compensation Liability	99,570	3,867	103,437	-
Capital Leases Payable	4,989	12,451	17,440	-
Funds Held in Trust	-	-	-	90,037
Federal Student Loan Financing	-	32,482	32,482	-
Other Liabilities	-	-	-	20,863
Total Noncurrent Liabilities	$ 4,535,676	$ 341,376	$ 4,877,052	$ 4,818,233
Total Liabilities	$ 9,671,580	$ 883,036	$ 10,554,616	$ 6,458,389

CONTINUED

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2004
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 5,525,157	$ 872,804	$ 6,397,961	$ 2,531,260
Restricted for:				
Capital Projects	$ 7,209	$ -	$ 7,209	$ -
Debt Service	318,774	-	318,774	-
Transportation	831,135	-	831,135	-
Environmental Resources	511,319	-	511,319	-
Economic and Workforce Development	44,291	-	44,291	-
School Aid-Nonexpendable	580,341	-	580,341	-
School Aid-Expendable	94,663	-	94,663	-
Unemployment Benefits	-	14,979	14,979	-
State Colleges and Universities	-	71,312	71,312	-
Component Units	-	-	-	4,065,486
Total Restricted	$ 2,387,732	$ 86,291	$ 2,474,023	$ 4,065,486
Unrestricted	$ (987,312)	$ 218,797	$ (768,515)	$ 589,003
Total Net Assets	$ 6,925,577	$ 1,177,892	$ 8,103,469	$ 7,185,749

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBU-TIONS	CAPITAL GRANTS AND CONTRIBU-TIONS
Primary Government:				
Governmental Activities:				
Public Safety and Corrections	$ 731,438	$ 138,359	$ 123,956	$ 9,009
Transportation	1,662,402	15,473	359,620	260,421
Agricultural and Environmental Resources	557,414	187,779	60,001	356
Economic and Workforce Development	591,513	158,788	330,359	-
General Education	6,512,834	33,284	625,380	-
Higher Education	744,112	-	-	-
Health and Human Services	8,228,552	516,539	3,874,378	-
General Government	671,908	214,962	55,165	-
Intergovernment Aid	1,355,683	-	-	-
Interest	181,323	-	-	-
Total Governmental Activities	$ 21,237,179	$ 1,265,184	$ 5,428,859	$ 269,786
Business-type Activities:				
State Colleges and Universities	$ 1,385,817	$ 636,138	$ 179,697	$ 2,051
Unemployment Insurance	931,659	806,185	132,503	-
Lottery	287,550	387,800	-	-
Other	166,923	171,598	-	256
Total Business-type Activities	$ 2,771,949	$ 2,001,721	$ 312,200	$ 2,307
Total Primary Government	$ 24,009,128	$ 3,266,905	$ 5,741,059	$ 272,093
Component Units:				
University of Minnesota	$ 2,077,781	$ 958,932	$ 679,618	$ 132,296
Metropolitan Council	642,289	287,595	160,293	183,303
Housing Finance	344,155	134,464	154,844	-
Others	404,056	154,003	19,123	-
Total Component Units	$ 3,468,281	$ 1,534,994	$ 1,013,878	$ 315,599

General Revenues:
Taxes:
Individual Income Taxes
Corporate Income Taxes
Sales Taxes
Property Taxes
Motor Vehicle Taxes
Fuel Taxes
Other Taxes
Tobacco Settlement
Unallocated Investment/Interest Income
Other Revenues
State Grants Not Restricted
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning, as Reported
Prior Period Adjustments

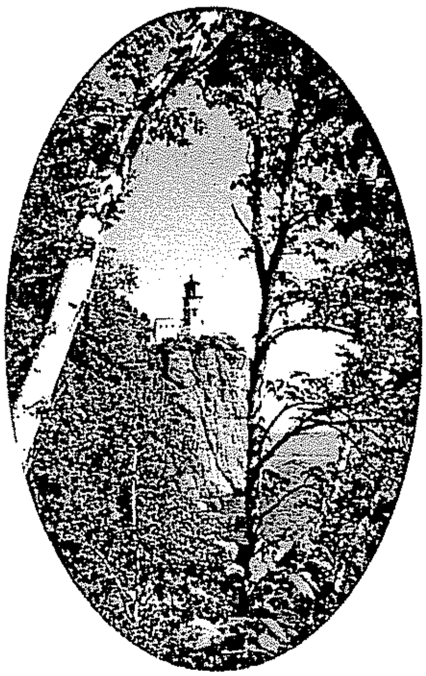
Net Assets, Beginning, as Restated

Net Assets, Ending

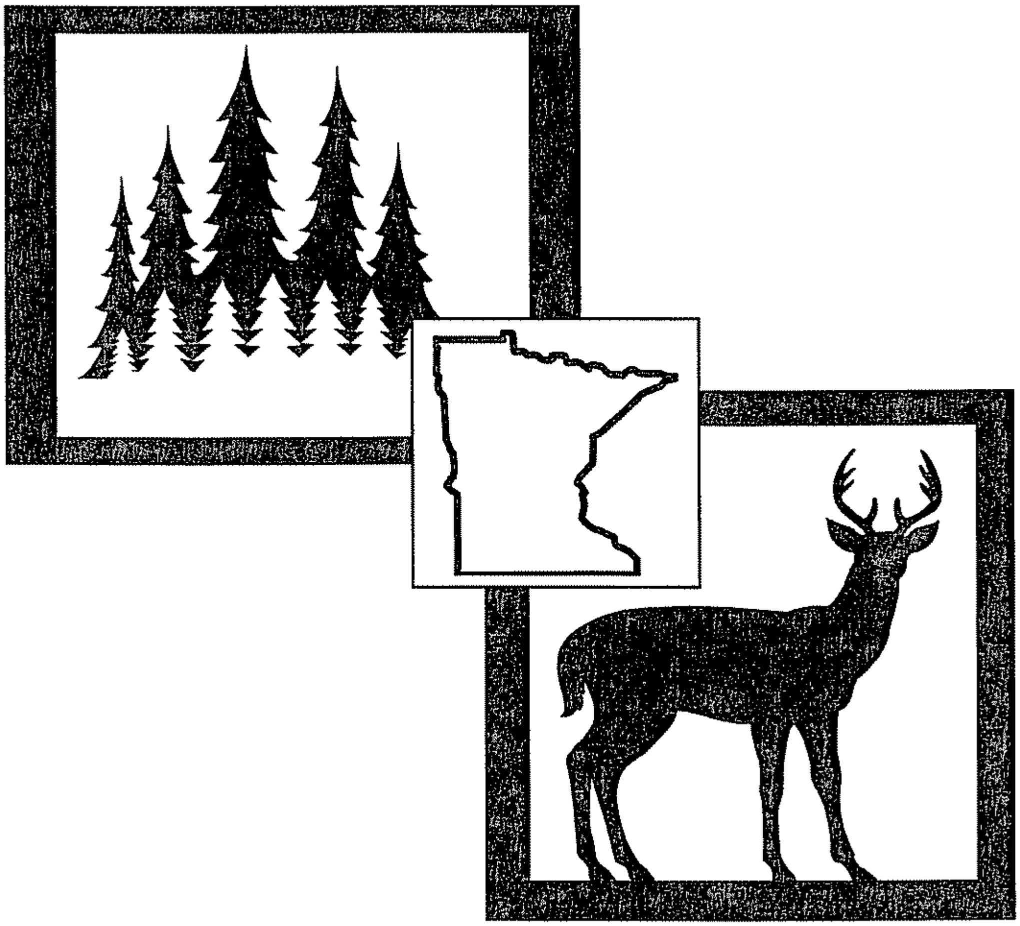
The notes are an integral part of the financial statements.

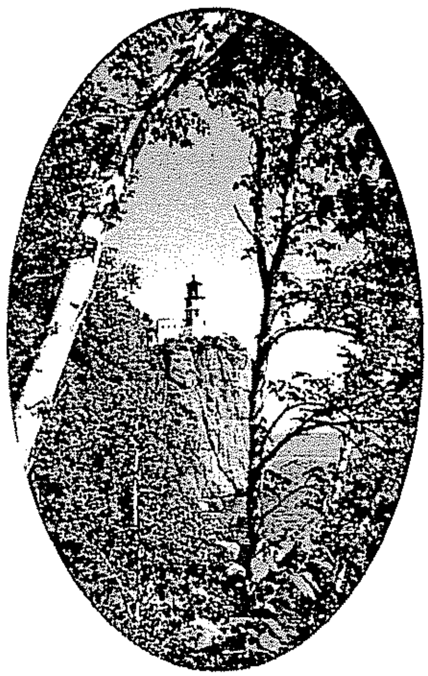
NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (460,114)		$ (460,114)	
(1,026,888)		(1,026,888)	
(309,278)		(309,278)	
(102,366)		(102,366)	
(5,854,170)		(5,854,170)	
(744,112)		(744,112)	
(3,837,635)		(3,837,635)	
(401,781)		(401,781)	
(1,355,683)		(1,355,683)	
(181,323)		(181,323)	
$ (14,273,350)		$ (14,273,350)	
	$ (567,931)	$ (567,931)	
	7,029	7,029	
	100,250	100,250	
	4,931	4,931	
	$ (455,721)	$ (455,721)	
$ (14,273,350)	$ (455,721)	$ (14,729,071)	
			$ (306,935)
			(11,098)
			(54,847)
			(230,930)
			$ (603,810)
$ 5,863,383	$ -	$ 5,863,383	$ -
643,442	-	643,442	-
3,911,496	-	3,911,496	-
608,860	-	608,860	-
587,223	-	587,223	-
643,964	-	643,964	-
2,190,491	-	2,190,491	190,590
173,173	-	173,173	-
32,712	16,213	48,925	88,063
178,255	2,417	180,672	83,059
-	-	-	760,435
(471,382)	471,382	-	-
$ 14,361,617	$ 490,012	$ 14,851,629	$ 1,122,147
$ 88,267	$ 34,291	$ 122,558	$ 518,337
$ 6,753,077	$ 1,143,601	$ 7,896,678	$ 6,667,412
84,233	-	84,233	-
$ 6,837,310	$ 1,143,601	$ 7,980,911	$ 6,667,412
$ 6,925,577	$ 1,177,892	$ 8,103,469	$ 7,185,749



Fund Financial Statements





Major Governmental Funds

General Fund

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

Federal Fund

The fund receives and disburses federal government grants and reimbursements. The fund is administered in accordance with grant agreements between the state and federal agencies.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,465,328	$ 168	$ 2,199,443	$ 3,664,939
Investments	46,830	-	905,503	952,333
Accounts Receivable	1,521,821	227,143	330,378	2,079,342
Interfund Receivables	193,655	4,516	137,725	335,896
Due from Component Units	-	-	122,347	122,347
Accrued Investment/Interest Income	6,742	-	8,713	15,455
Federal Aid Receivable	-	610,566	87,530	698,096
Inventories	-	49	15,202	15,251
Loans and Notes Receivable	51,997	117	276,123	328,237
Advances to Other Funds	4,700	-	-	4,700
Securities Lending Collateral	333,364	-	292,916	626,280
Investment in Land	-	-	15,441	15,441
Total Assets	$ 3,624,437	$ 842,559	$ 4,391,321	$ 8,858,317
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 2,334,115	$ 657,643	$ 428,241	$ 3,419,999
Interfund Payables	36,204	142,523	143,106	321,833
Due to Component Units	101,083	2,591	38,324	141,998
Deferred Revenue	1,147,630	32,709	172,213	1,352,552
Securities Lending Collateral	333,364	-	292,916	626,280
Total Liabilities	$ 3,952,396	$ 835,466	$ 1,074,800	$ 5,862,662
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 65,242	$ -	$ 259,365	$ 324,607
Reserved for Local Governments	-	-	441,027	441,027
Reserved for Trust Principal	-	-	918,428	918,428
Other Reserved Fund Balances	55,264	7,093	917,293	979,650
Total Reserved Fund Balances	$ 120,506	$ 7,093	$ 2,536,113	$ 2,663,712
Unreserved Fund Balances:				
Designated for:				
Special Revenue Funds	$ -	$ -	$ 580,118	$ 580,118
Undesignated, reported in:				
General Fund	(448,465)	-	-	(448,465)
Capital Project Funds	-	-	(62,340)	(62,340)
Special Revenue Funds	-	-	262,630	262,630
Total Unreserved Fund Balance	$ (448,465)	$ -	$ 780,408	$ 331,943
Total Fund Balances	$ (327,959)	$ 7,093	$ 3,316,521	$ 2,995,655
Total Liabilities and Fund Balances	$ 3,624,437	$ 842,559	$ 4,391,321	$ 8,858,317

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, 2004
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 2,995,655
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 5,113,949	
Depreciable Capital Assets	1,858,889	
Nondepreciable Capital Assets	1,593,435	
Accumulated Depreciation	(779,967)	
Total Capital Assets		7,786,306
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		932,376
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		54,775
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		115,443
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds Payable	$ (3,055,496)	
Bond Premium Payable	(117,619)	
Accrued Interest Payable on Bonds	(40,186)	
Claims Payable	(1,390,404)	
Workers' Compensation Liability	(111,546)	
Capital Leases Payable	(9,085)	
Compensated Absences Payable	(234,642)	
Total Liabilities		(4,958,978)
Net Assets of Governmental Activities		$ 6,925,577

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 5,836,790	$ -	$ -	$ 5,836,790
Corporate Income Taxes	648,837	-	-	648,837
Sales Taxes	3,957,995	-	1,241	3,959,236
Property Taxes	599,622	-	-	599,622
Motor Vehicle Taxes	407,275	-	689,615	1,096,890
Fuel Taxes	-	-	651,261	651,261
Other Taxes	1,177,688	-	461,664	1,639,352
Tobacco Settlement	174,266	-	-	174,266
Federal Revenues	83,720	5,084,011	382,875	5,550,606
Licenses and Fees	240,052	-	242,094	482,146
Departmental Services	35,189	18,835	170,673	224,697
Investment/Interest Income	17,022	211	138,107	155,340
Securities Lending Income	2,079	-	2,009	4,088
Other Revenues	294,606	229,153	192,523	716,282
Net Revenues	$ 13,475,141	$ 5,332,210	$ 2,932,062	$ 21,739,413
Expenditures:				
Current:				
Public Safety and Corrections	$ 436,347	$ 104,700	$ 170,841	$ 711,888
Transportation	207,233	214,179	1,226,035	1,647,447
Agricultural and Environmental Resources	181,107	36,231	358,025	575,363
Economic and Workforce Development	126,334	323,035	199,721	649,090
General Education	5,990,207	531,660	(9,234)	6,512,633
Higher Education	674,502	-	70,904	745,406
Health and Human Services	3,580,762	4,052,416	596,375	8,229,553
General Government	512,633	12,144	92,275	617,052
Intergovernment Aid	1,355,474	-	209	1,355,683
Securities Lending Rebates and Fees	1,998	-	1,856	3,854
Total Current Expenditures	$ 13,066,597	$ 5,274,365	$ 2,707,007	$ 21,047,969
Capital Outlay	6,758	16,942	677,672	701,372
Debt Service	19,637	3	418,320	437,960
Total Expenditures	$ 13,092,992	$ 5,291,310	$ 3,802,999	$ 22,187,301
Excess of Revenues Over (Under) Expenditures	$ 382,149	$ 40,900	$ (870,937)	$ (447,888)
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ -	$ -	$ 417,937	$ 417,937
Proceeds from Refunding Bonds	-	-	20,855	20,855
Payment of Refunding Bonds	-	-	(425,715)	(425,715)
Bond Issue Premium	-	-	33,455	33,455
Transfers-In	1,237,824	230	1,992,358	3,230,412
Transfers-Out	(1,016,216)	(41,280)	(2,629,887)	(3,687,383)
Capital Leases	384	-	1,390	1,774
Net Other Financing Sources (Uses)	$ 221,992	$ (41,050)	$ (589,607)	$ (408,665)
Net Change in Fund Balances	$ 604,141	$ (150)	$ (1,460,544)	$ (856,553)
Fund Balances, Beginning, as Reported	$ (932,100)	$ 7,243	$ 4,775,633	$ 3,850,776
Change in Inventory	$ -	$ -	$ 1,432	$ 1,432
Fund Balances, Ending	$ (327,959)	$ 7,093	$ 3,316,521	$ 2,995,655

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, 2004
(IN THOUSANDS)

Net change in fund balances for governmental funds	$ (856,553)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation in the current period	649,604
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	(16,389)
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	10,321
The direct expenses of the appropriate function is used for reporting inventory in the Statement of Activities, but in the Governmental funds the purchases method is used	1,432
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	33,807
Bond proceeds provide current financial resources to governmental funds; however issuing debt is reported as an increase of long-term liabilities in the Statement of Net Assets	(472,247)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is reported as a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability increase	(1,774)
Repayment of bonds is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	678,841
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	61,225
Change in net assets of governmental activities	$ 88,267

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS

YEAR ENDED JUNE 30, 2004

(IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 5,797,788	$ 5,526,900	$ 5,709,585
Corporate Income Taxes	625,200	645,600	628,048
Sales Taxes	4,074,989	4,082,747	4,065,366
Property Taxes	603,103	603,579	599,622
Motor Vehicle Taxes	428,455	421,684	410,647
Other Taxes	1,114,066	1,252,813	1,266,789
Investment/Interest Income	17,300	17,300	15,453
Tobacco Settlement	189,041	168,467	168,467
Other Revenues	551,148	615,082	715,391
Net Revenues	$ 13,401,090	$ 13,334,172	$ 13,579,368
Expenditures:			
Public Safety and Corrections	$ 448,979	$ 438,691	$ 437,424
Transportation	203,724	207,890	206,969
Agricultural and Environmental Resources	197,783	190,062	190,053
Economic and Workforce Development	48,557	99,064	98,269
General Education	5,897,324	5,832,615	5,832,615
Higher Education	709,141	675,972	675,972
Health and Human Services	3,611,127	3,500,285	3,495,194
General Government	544,030	532,873	526,556
Intergovernment Aid	1,394,579	1,375,048	1,375,020
Total Expenditures	$ 13,055,244	$ 12,852,500	$ 12,838,072
Excess of Revenues Over (Under) Expenditures	$ 345,846	$ 481,672	$ 741,296
Other Financing Sources (Uses):			
Transfers-In	$ 1,128,230	$ 1,118,695	$ 1,147,376
Transfers-Out	(1,025,338)	(1,025,338)	(1,025,338)
Net Other Financing Sources (Uses)	$ 102,892	$ 93,357	$ 122,038
Net Change in Fund Balances	$ 448,738	$ 575,029	$ 863,334
Fund Balances, Beginning, as Reported	$ 384,933	$ 384,933	$ 384,933
Prior Period Adjustments	-	-	40,856
Fund Balances, Beginning, as Restated	$ 384,933	$ 384,933	$ 425,789
Budgetary Fund Balances, Ending	$ 833,671	$ 959,962	$ 1,289,123
Less: Appropriation Carryover	-	-	193,922
Less: Budgetary Reserve	300,000	409,677	403,677
Undesignated Fund Balances, Ending	$ 533,671	$ 550,285	$ 691,524

The notes are an integral part of the financial statements.

State Colleges and Universities Fund

The fund accounts for the activities of Minnesota State Colleges and Universities (MnSCU). MnSCU is a system of public two-year colleges and state universities and is the largest system of higher education in the state. While the primary activity of MnSCU is to provide educational services, the fund also includes scholarships, student loans, bookstores, student living activities, research, and long-term debt.

Unemployment Insurance Fund

The fund receives unemployment taxes collected from employers and pays unemployment benefits to eligible individuals.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 400,491	$ 9,553	$ 73,092	$ 483,136	$ 144,663
Investments	21,769	-	-	21,769	20,819
Accounts Receivable	31,485	306,512	24,956	362,953	20,683
Interfund Receivables	14,156	-	467	14,623	27
Accrued Investment/Interest Income	-	-	18	18	324
Federal Aid Receivable	10,958	3,212	-	14,170	-
Inventories	9,609	-	9,574	19,183	912
Deferred Costs	295	-	516	811	1,126
Loans and Notes Receivable	9,189	-	-	9,189	-
Securities Lending Collateral	28,611	-	-	28,611	23,320
Other Assets	-	-	2,444	2,444	-
Total Current Assets	$ 526,563	$ 319,277	$ 111,067	$ 956,907	$ 211,874
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 23,531	$ -	$ 2,666	$ 26,197	$ -
Investments-Restricted	5,979	-	-	5,979	-
Other Assets-Restricted	115	-	-	115	-
Deferred Costs	-	-	-	-	697
Loans and Notes Receivable	27,133	-	-	27,133	-
Depreciable Capital Assets (Net)	875,463	-	33,956	909,419	25,079
Nondepreciable Capital Assets	161,591	-	1,716	163,307	-
Total Noncurrent Assets	$ 1,093,812	$ -	$ 38,338	$ 1,132,150	$ 25,776
Total Assets	$ 1,620,375	$ 319,277	$ 149,405	$ 2,089,057	$ 237,650
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 133,050	$ 15,196	$ 26,171	$ 174,417	$ 64,989
Interfund Payables	-	14,089	14,040	28,129	584
Unearned Revenue	27,030	3,972	945	31,947	4,917
Accrued Bond Interest Payable	-	-	234	234	-
General Obligation Bonds Payable	9,271	-	221	9,492	-
Loans and Notes Payable	1,055	271,041	-	272,096	9,852
Revenue Bonds Payable	1,265	-	310	1,575	-
Workers' Compensation Liability	1,326	-	-	1,326	-
Capital Leases	2,015	-	402	2,417	-
Compensated Absences Payable	8,499	-	1,401	9,900	290
Securities Lending Collateral	28,611	-	-	28,611	23,320
Other Liabilities	8,518	-	1,127	9,645	-
Total Current Liabilities	$ 220,640	$ 304,298	$ 44,851	$ 569,789	$ 103,952
Noncurrent Liabilities:					
General Obligation Bonds Payable	$ 128,746	$ -	$ 3,621	$ 132,367	$ -
Loans and Notes Payable	3,607	-	-	3,607	9,801
Revenue Bonds Payable	34,965	-	14,870	49,835	-
Workers' Compensation Liability	3,867	-	-	3,867	-
Capital Leases	11,750	-	701	12,451	-
Compensated Absences Payable	94,760	-	8,765	103,525	3,754
Advances from Other Funds	-	-	-	-	4,700
Federal Student Loan Financing	32,482	-	-	32,482	-
Other Liabilities	3,242	-	-	3,242	-
Total Noncurrent Liabilities	$ 313,419	$ -	$ 27,957	$ 341,376	$ 18,255
Total Liabilities	$ 534,059	$ 304,298	$ 72,808	$ 911,165	$ 122,207
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 854,354	$ -	$ 18,450	$ 872,804	$ 5,581
Restricted for:					
Unemployment Benefits	$ -	$ 14,979	$ -	$ 14,979	$ -
Donations	7,614	-	-	7,614	-
Perkins Loans	4,078	-	-	4,078	-
Bond Covenants	26,869	-	-	26,869	-
Debt Service	14,156	-	-	14,156	-
Capital Projects	12,439	-	-	12,439	-
Faculty Contracts	4,301	-	-	4,301	-
Legislatively Mandated Purposes	1,855	-	-	1,855	-
Total Restricted	$ 71,312	$ 14,979	$ -	$ 86,291	$ -
Unrestricted	$ 160,650	$ -	$ 58,147	$ 218,797	$ 109,862
Total Net Assets	$ 1,086,316	$ 14,979	$ 76,597	$ 1,177,892	$ 115,443

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, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 556,328	$ -	$ -	$ 556,328	$ -
Net Sales	-	-	423,196	423,196	8,943
Rental and Service Fees	-	-	109,832	109,832	128,228
Insurance Premiums	-	760,275	22,561	782,836	473,659
Federal Revenues	165,993	132,503	-	298,496	-
State Grants	58,016	-	-	58,016	-
Other Income	21,794	45,910	3,809	71,513	6,214
Total Operating Revenues	$ 802,131	$ 938,688	$ 559,398	$ 2,300,217	$ 617,044
Less: Cost of Goods Sold	-	-	290,325	290,325	5,571
Gross Margin	$ 802,131	$ 938,688	$ 269,073	$ 2,009,892	$ 611,473
Operating Expenses:					
Purchased Services	$ 147,363	$ -	$ 20,068	$ 167,431	$ 117,081
Salaries and Fringe Benefits	922,014	-	96,030	1,018,044	41,297
Student Financial Aid	76,014	-	-	76,014	-
Unemployment Benefits	-	918,839	-	918,839	-
Claims	-	-	17,103	17,103	392,169
Depreciation	67,753	-	3,118	70,871	10,111
Amortization	-	-	71	71	85
Supplies and Materials	73,116	-	5,165	78,281	7,084
Repairs and Maintenance	34,466	-	-	34,466	-
Indirect Costs	-	-	9,413	9,413	2,540
Other Expenses	46,436	-	8,757	55,193	13,223
Total Operating Expenses	$ 1,367,162	$ 918,839	$ 159,725	$ 2,445,726	$ 583,590
Operating Income (Loss)	$ (565,031)	$ 19,849	$ 109,348	$ (435,834)	$ 27,883
Nonoperating Revenues (Expenses):					
Investment Income	$ 3,975	$ 11,144	$ 1,087	$ 16,206	$ 1,699
Private Grants	13,704	-	-	13,704	-
Grants and Subsidies	2,051	-	-	2,051	-
Securities Lending Income	177	-	-	177	132
Other Nonoperating Revenues	-	-	735	735	57
Interest and Financing Costs	(9,383)	(12,820)	(1,608)	(23,811)	(867)
Grants, Aids and Subsidies	(9,272)	-	-	(9,272)	-
Securities Lending Rebates and Fees	(170)	-	-	(170)	(127)
Other Nonoperating Expenses	-	-	(2,807)	(2,807)	(3,668)
Gain (Loss) on Disposal of Capital Assets	1,704	-	(30)	1,674	(377)
Total Nonoperating Revenues (Expenses)	$ 2,786	$ (1,676)	$ (2,623)	$ (1,513)	$ (3,151)
Income (Loss) Before Transfers & Contributions	$ (562,245)	$ 18,173	$ 106,725	$ (437,347)	$ 24,732
Capital Contributions	64,792	-	256	65,048	-
Transfers-In	559,631	-	5,295	564,926	-
Transfers-Out	-	(55,625)	(102,711)	(158,336)	(14,411)
Change in Net Assets	$ 62,178	$ (37,452)	$ 9,565	$ 34,291	$ 10,321
Net Assets, Beginning, as Reported	$ 1,024,138	$ 52,431	$ 67,032	$ 1,143,601	$ 105,122
Net Assets, Ending	$ 1,086,316	$ 14,979	$ 76,597	$ 1,177,892	$ 115,443

The notes are an integral part of the financial statements.

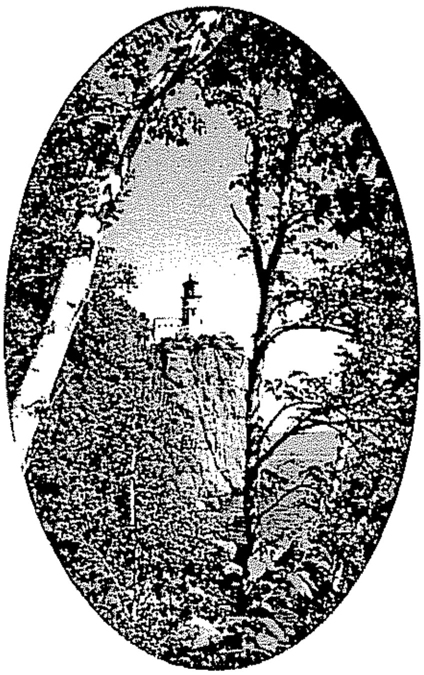
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 583,345	$ 718,743	$ 550,625	$ 1,852,713	$ 611,998
Receipts from Grants	222,493	137,162	-	359,655	-
Receipts from Other Revenue	-	-	1,995	1,995	6,377
Receipts from Repayment of Program Loans	6,968	-	-	6,968	-
Financial Aid Disbursements	(75,273)	-	-	(75,273)	-
Payments to Claimants	-	(938,988)	(16,950)	(955,938)	(385,502)
Payments to Suppliers	(307,417)	-	(97,796)	(405,213)	(154,683)
Payments to Employees	(902,845)	-	(101,831)	(1,004,676)	(40,582)
Payments to Others	-	-	(229,288)	(229,288)	(1,606)
Payments of Program Loans	(8,113)	-	-	(8,113)	-
Net Cash Flows from Operating Activities	$ (480,842)	$ (83,083)	$ 106,755	$ (457,170)	$ 36,002
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 13,704	$ -	$ -	$ 13,704	$ -
Transfers-In	559,631	-	5,295	564,926	-
Transfers-Out	(452)	(46,511)	(104,608)	(151,571)	(14,411)
Advances to Other Funds	-	-	(10)	(10)	-
Advances from Other Funds	-	801,522	-	801,522	5,300
Repayments of Advances from Other Funds	-	(670,659)	-	(670,659)	(6,284)
Interest Paid	-	(3,532)	-	(3,532)	-
Other Nonoperating Expense	(9,272)	-	(3,371)	(12,643)	(4,670)
Net Cash Flows from Noncapital Financing Activities	$ 563,611	$ 80,820	$ (102,694)	$ 541,737	$ (20,065)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 64,793	$ -	$ -	$ 64,793	$ 23
Investment in Capital Assets	(148,150)	-	(3,261)	(151,411)	(8,677)
Proceeds from Disposal of Capital Assets	183	-	195	378	2,339
Proceeds from Capital Debt	24,207	-	-	24,207	-
Proceeds from Insurance Settlement	3,314	-	-	3,314	-
Proceeds from Loans	1,848	-	-	1,848	7,223
Capital Lease Payments	(2,891)	-	(273)	(3,164)	(59)
Repayment of Loan Principal	(1,574)	-	-	(1,574)	(11,863)
Repayment of Bond Principal	(10,476)	-	(522)	(10,998)	-
Interest Paid	(9,755)	-	(1,547)	(11,302)	(828)
Net Cash Flows from Capital and Related Financing Activities	$ (78,501)	$ -	$ (5,408)	$ (83,909)	$ (11,842)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 4,876	$ -	$ 3,467	$ 8,343	$ 4,996
Purchase of Investments	(6,216)	-	-	(6,216)	(5,229)
Investment Earnings	3,985	11,768	1,107	16,860	2,943
Net Cash Flows from Investing Activities	$ 2,645	$ 11,768	$ 4,574	$ 18,987	$ 2,710
Net Increase (Decrease) in Cash and Cash Equivalents	$ 6,913	$ 9,505	$ 3,227	$ 19,645	$ 6,805
Cash and Cash Equivalents, Beginning, as Reported	$ 417,109	$ 48	$ 72,531	$ 489,688	$ 137,858
Cash and Cash Equivalents, Ending	$ 424,022	$ 9,553	$ 75,758	$ 509,333	$ 144,663

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(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)	$ (565,031)	$ 19,849	$ 109,348	$ (435,834)	$ 27,883
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation	$ 67,753	$ -	$ 3,493	$ 71,246	$ 10,111
Amortization	-	-	71	71	85
Loan Principal Repayments	6,968	-	-	6,968	-
Loans Issued	(8,113)	-	-	(8,113)	-
Bad Debt Expense	859	-	-	859	-
Change in Valuation of Assets	(10,866)	-	349	(10,517)	-
Change in Assets and Liabilities:					
Accounts Receivable	(3,419)	(93,861)	(3,715)	(100,995)	6,745
Inventories	(1,468)	-	(200)	(1,668)	183
Other Assets	-	-	1,233	1,233	(353)
Accounts Payable	10,889	(10,996)	(4,698)	(4,805)	(8,663)
Compensated Absences Payable	11,082	-	711	11,793	(64)
Unearned Revenues	8,150	1,925	(660)	9,415	78
Other Liabilities	2,354	-	823	3,177	(3)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 84,189	$ (102,932)	$ (2,593)	$ (21,336)	$ 8,119
Net Cash Flows from Operating Activities	$ (480,842)	$ (83,083)	$ 106,755	$ (457,170)	$ 36,002
Noncash Investing, Capital and Financing Activities:					
Donated Assets	$ 1,134	$ -	$ -	$ 1,134	$ -
Change in Fair Value of Investments	177	-	-	177	-
Capital Assets Acquired Through Leases	5,670	-	-	5,670	-
Capital Assets Purchased on Account	13,523	-	-	13,523	-
Disposal of Capital Assets	2,216	-	-	2,216	1,975
Accrual of Computer Equipment as an Investment in Capital Assets	-	-	-	-	457
Trade-in Allowance for Investment in Capital Assets	-	-	-	-	116
Change in Capital Asset Threshold	-	-	-	-	(2,258)

The notes are an integral part of the financial statements.



Pension Trust Funds

The funds are retirement funds administered by independent boards for which the state performs a fiduciary role.

Investment Trust Fund

The fund provides an investment vehicle for the assets of various public retirement plans and funds.

Agency Fund

This fund accounts for resources held in a custodial capacity for various other governmental units, private organizations, or individuals.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 78,630	$ -	$ 45,614
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,818,920	$ 29,762	$ -
Investments:			
Commercial Paper	$ 49,204	$ 381	$ -
US Treasury Obligations	1,756,162	15,288	-
Mortgage Backed	4,271,989	46,787	-
Corporate Obligations	2,647,156	53,427	-
Foreign and Other Obligations	127,484	1,029	-
Corporate Stocks	24,705,697	298,657	-
Other Equity	3,123,285	-	-
Total Investments	$ 36,680,977	$ 415,569	$ -
Accrued Interest and Dividends	$ 106,520	$ 1,543	$ -
Securities Trades Receivables (Payables)	(1,276,348)	(9,804)	-
Total Investment Pool Participation	$ 38,330,069	$ 437,070	$ -
Receivables:			
Employer Contributions	$ 10,985	$ -	$ -
Member Contributions	6,208	-	-
Accounts Receivable	-	-	8,995
Interfund Receivables	6,559	-	-
Other Receivables	44,582	-	-
Accrued Interest and Dividends	447	-	-
Total Receivables	$ 68,781	$ -	$ 8,995
Securities Lending Collateral	$ 4,198,860	$ 38,412	$ -
Depreciable Capital Assets (Net)	29,882	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 42,706,651	$ 475,482	$ 54,609
LIABILITIES			
Accounts Payable	$ 12,928	$ 73	$ 28,797
Interfund Payables	6,559	-	-
Unearned Revenue	10	-	-
Accrued Expense	41	-	-
Revenue Bonds Payable	27,650	-	-
Bond Interest	79	-	-
Compensated Absences Payable	1,703	-	-
Securities Lending Collateral	4,198,860	38,412	-
Funds Held in Trust	-	-	25,812
Total Liabilities	$ 4,247,830	$ 38,485	$ 54,609
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 38,458,821	$ 436,997	$ -

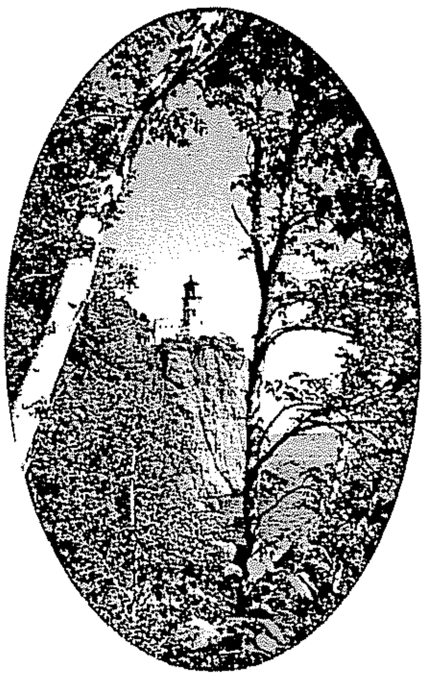
The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST SUPPLEMENTAL RETIREMENT
Additions:		
Contributions:		
Employer	$ 575,418	$ -
Member	745,165	-
Contributions From Other Sources	10,289	-
Participating Plans	-	40,324
Total Contributions	$ 1,330,872	$ 40,324
Net Investment Income:		
Investment Income	$ 5,581,745	$ 53,189
Less: Investment Expense	(49,632)	(237)
Net Investment Income	$ 5,532,113	$ 52,952
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 44,516	$ 293
Borrower Rebates	(28,438)	(207)
Management Fees	(3,739)	-
Net Securities Lending Revenue	$ 12,339	$ 86
Total Investment Income	$ 5,544,452	$ 53,038
Transfers From Other Funds	$ 8,001	$ -
Other Additions	21,396	-
Total Additions	$ 6,904,721	$ 93,362
Deductions:		
Benefits	$ 2,343,326	$ -
Refunds/Withdrawals	793,077	46,031
Administrative Expenses	38,863	-
Transfers to Other Funds	8,001	-
Total Deductions	$ 3,183,267	$ 46,031
Net Increase (Decrease)	$ 3,721,454	$ 47,331
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 34,737,367	$ 389,666
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 38,458,821	$ 436,997

The notes are an integral part of the financial statements.



Housing Finance Agency

The agency provides money for loans and technical assistance for construction and rehabilitation of housing for families of low and moderate incomes.

Metropolitan Council

The council is responsible for coordinating the planning and development of the Twin Cities metropolitan area. The council also operates the metropolitan regional sewage treatment and disposal systems and the public transit system. The Metropolitan Sports Facilities Commission, a component unit of the Council, operates the Hubert H. Humphrey Metrodome sports facility.

University of Minnesota

The multi-campus university provides under-graduate and graduate degrees, advanced research opportunities, and an extension service.

COMPONENT UNIT FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2003 and JUNE 30, 2004
(IN THOUSANDS)

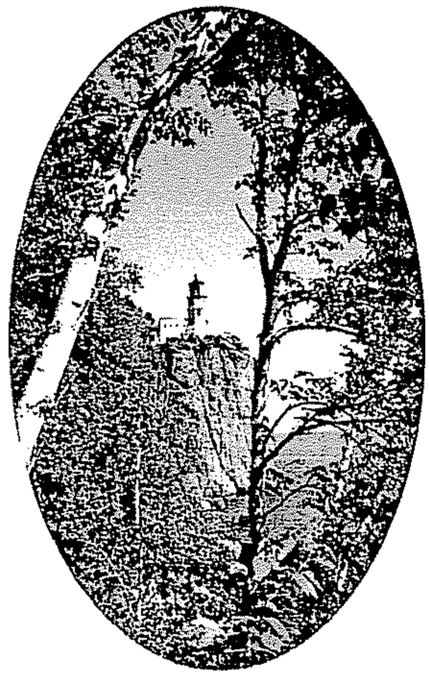
	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 806,447	$ 19,709	$ 153,625	$ 305,115	$ 1,284,896
Investments	225,274	181,336	69,990	413,917	890,517
Accounts Receivable	3,122	22,334	210,886	64,257	300,599
Due from Other Governmental Units	-	6,110	-	-	6,110
Due from Primary Government	-	47,888	127,407	247	175,542
Accrued Investment/Interest Income	11,334	762	4,028	18,546	34,670
Federal Aid Receivable	-	-	-	903	903
Inventories	2,356	15,124	18,968	36	36,484
Deferred Costs	-	-	18,001	4,098	22,099
Loans and Notes Receivable	-	115	13,506	126,331	139,952
Securities Lending Collateral	-	60,339	214,233	27,114	301,686
Other Assets	-	930	18,165	1,138	20,233
Total Current Assets	$ 1,048,533	$ 354,647	$ 848,809	$ 961,702	$ 3,213,691
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 143,982	$ 74,294	$ 802	$ 32,797	$ 251,875
Investments-Restricted	159,809	19,533	-	18,310	197,652
Accounts Receivable-Restricted	-	33,115	-	2,028	35,143
Due from Primary Government-Restricted	-	6,343	-	-	6,343
Other Assets-Restricted	-	49,040	-	-	49,040
Investments	-	-	2,262,113	185,869	2,447,982
Accounts Receivable	-	-	136,725	267,645	404,370
Loans and Notes Receivable	1,413,897	27,565	56,657	1,559,073	3,057,192
Depreciable Capital Assets (Net)	1,774	1,336,185	1,733,805	606	3,072,370
Nondepreciable Capital Assets	-	707,149	182,238	2,743	892,130
Other Assets	-	-	12,671	3,679	16,350
Total Noncurrent Assets	$ 1,719,462	$ 2,253,224	$ 4,385,011	$ 2,072,750	$ 10,430,447
Total Assets	$ 2,767,995	$ 2,607,871	$ 5,233,820	$ 3,034,452	$ 13,644,138
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 16,527	$ 72,449	$ 195,769	$ 17,300	$ 302,045
Payable to Other Governmental Units	-	705	-	-	705
Due to Primary Government	-	-	4,915	23,708	28,623
Unearned Revenue	-	7,629	88,114	50,307	146,050
Accrued Bond Interest Payable	36,283	3,697	2,312	14,588	56,880
General Obligation Bonds Payable	-	76,882	244,355	-	321,237
Loans and Notes Payable	-	-	8,331	27	8,358
Revenue Bonds Payable	262,500	770	855	44,870	308,995
Grants Payable	-	-	-	2,998	2,998
Claims Payable	-	8,782	23,923	62,699	95,404
Compensated Absences Payable	129	2,345	55,357	35	57,866
Securities Lending Collateral	-	60,339	214,233	27,114	301,686
Other Liabilities	-	7,685	1,585	39	9,309
Total Current Liabilities	$ 315,439	$ 241,283	$ 839,749	$ 243,685	$ 1,640,156
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 31,493	$ 78,614	$ -	$ 110,107
Unearned Revenue-Restricted	-	93,366	-	-	93,366
Accrued Bond Interest Payable-Restricted	-	7,478	-	-	7,478
Due to Primary Government	-	-	57,009	46,423	103,432
Unearned Revenue	-	-	70,591	-	70,591
General Obligation Bonds Payable	-	809,972	344,189	-	1,154,161
Loans and Notes Payable	-	-	3,775	2,587	6,362
Revenue Bonds Payable	1,582,089	11,430	8,405	1,114,588	2,716,512
Claims Payable	-	13,013	12,955	397,301	423,269
Compensated Absences Payable	1,216	5,775	14,461	603	22,055
Funds Held in Trust	88,163	-	1,874	-	90,037
Other Liabilities	-	552	17,483	2,828	20,863
Total Noncurrent Liabilities	$ 1,671,468	$ 973,079	$ 609,356	$ 1,564,330	$ 4,818,233
Total Liabilities	$ 1,986,907	$ 1,214,362	$ 1,449,105	$ 1,808,015	$ 6,458,389
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 1,774	$ 1,324,245	$ 1,204,372	$ 869	$ 2,531,260
Restricted-Expendable	779,314	119,298	1,440,502	1,014,219	3,353,333
Restricted-Nonexpendable	-	-	712,153	-	712,153
Unrestricted	-	(50,034)	427,688	211,349	589,003
Total Net Assets	$ 781,088	$ 1,393,509	$ 3,784,715	$ 1,226,437	$ 7,185,749

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2003 AND JUNE 30, 2004
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 344,155	$ 642,289	$ 2,077,781	$ 404,056	$ 3,468,281
Program Revenues:					
Charges for Services	$ 134,464	$ 287,595	$ 958,932	$ 154,003	$ 1,534,994
Operating Grants and Contributions	154,844	160,293	679,618	19,123	1,013,878
Capital Grants and Contributions	-	183,303	132,296	-	315,599
Net (Expense) Revenue	$ (54,847)	$ (11,098)	$ (306,935)	$ (230,930)	$ (603,810)
General Revenues:					
Taxes	$ -	$ 190,590	$ -	$ -	$ 190,590
Investment Income	-	6,337	42,245	39,481	88,063
Other Revenues	686	-	72,195	10,178	83,059
Total General Revenues	$ 686	$ 196,927	$ 114,440	$ 49,659	$ 361,712
State Grants Not Restricted	$ 35,069	$ -	$ 577,648	$ 147,718	$ 760,435
Total General Revenues, Grants	$ 35,755	$ 196,927	$ 692,088	$ 197,377	$ 1,122,147
Change in Net Assets	$ (19,092)	$ 185,829	$ 385,153	$ (33,553)	$ 518,337
Net Assets, Beginning, as Reported	$ 800,180	$ 1,207,680	$ 3,399,562	$ 1,259,990	$ 6,667,412
Net Assets, Ending	$ 781,088	$ 1,393,509	$ 3,784,715	$ 1,226,437	$ 7,185,749

The notes are an integral part of the financial statements.



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2004 Comprehensive Annual Financial Report

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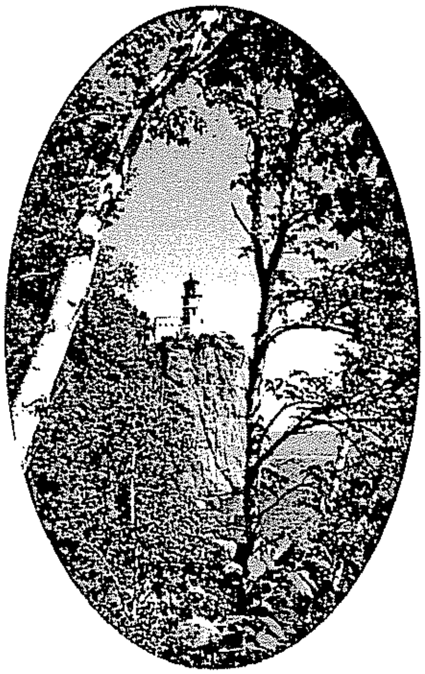


These notes provide disclosures relevant to the basic financial statements on the preceding pages.

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

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

GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" was issued in May 2002. The statement provides additional guidance on determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, the statement requires reporting, as a component unit, an affiliated organization that raises and holds significant economic resources almost entirely for the direct benefit of a governmental unit, its component units, or its constituents. The state implemented this statement during the fiscal year ended June 30, 2004. For 2004, the state as primary government did not have any organization that met the criteria of GASB Statement No. 39. The University of Minnesota (U of M) (major component unit) includes several foundations that meet these criteria.

Financial Reporting Entity of the State of Minnesota

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

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

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

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

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

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

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

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

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

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

- Minnesota Technology, Incorporated (MTI) – MTI fosters long-term economic growth and job creation by stimulating innovation and the development of new products, services, and production processes through technology transfer, applied research, and technical assistance. The state's General Fund provides a significant portion of the funding for MTI.

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

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

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

- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by a six-member board appointed 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. WCARP's fiscal year ends December 31.

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

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

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

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

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

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

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

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

Minnesota Technology, Incorporated
111 3rd Avenue South
Minneapolis, Minnesota 55401

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

Public Facilities Authority
Department of Employment & Economic Development
First National Bank Building
332 Minnesota Street, Suite E200
St. Paul, Minnesota 55101-1351

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

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

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

- Medical Malpractice Joint Underwriting Association – The governor 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.

- State Fund Mutual Insurance Company – The governor appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments.

- Workers' Compensation Reinsurance Association – The governor appoints 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 part of the primary government, also prepare and publish their own financial reports, which may contain differences in presentation resulting from differing reporting emphasis. Copies of these financial reports may be obtained directly from each organization.

State Lottery
2645 Long Lake Road
Roseville, Minnesota 55113

Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, Minnesota 55103

State Board of Investment
60 Empire Drive
Suite 355
St. Paul, Minnesota 55103

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, Minnesota 55103

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, Minnesota 55103

Minnesota State Colleges and Universities
Financial Reporting Unit
500 Wells Fargo Place, 30 East 7th Street
St. Paul, Minnesota 55101

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

Financial Reporting Structure of the State of Minnesota

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

Government-wide Financial Statements

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

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

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

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

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

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures as in the fund financial statements. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reduction of the related liabilities, rather than as expenditures.

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

Fund Financial Statements

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

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

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

Classification of Funds

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

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

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

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

Proprietary Fund Types – These funds focus on determining net income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are used 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. Enterprise funds activities are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.
- Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement or other basis. The activities reported as internal service funds include employee insurance, travel management, risk management, central stores, plant management, central services such as administrative hearings and intertechnologies, which directs and supports the various automated systems of the state.

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

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

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- The Investment Trust Fund provides an investment vehicle for the assets of various public retirement plans and funds.
- The Agency Fund accounts for resources held in a custodial capacity for various other governmental units, private organizations, or individuals.

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

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

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August to be available, and recognizes these receivables as revenues of the current year for fund financial statements prepared on the modified accrual basis. Federal revenues that are earned by incurring obligations are recognized in the same period as the recognition of the obligation with one exception. Trunk Highway Fund expenditures incurred by June 30, 2004, but not converted to Federal funding are reported as state funded expenditures. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

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

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

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

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

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

Revenues – Taxes on property, individual income, and sales, and federal grants are the major revenue sources susceptible to accrual. Tax revenues, excluding property taxes, are recognized in the period they become both measurable and available to finance expenditures of the current period. Measurable means that taxpayer liability is supported by sufficient documentation and can be reasonably estimated. The state's liability for anticipated refunds of such taxes are estimated and recorded as reductions in revenue in the period when the related tax is received. Revenues collected on an advance basis, including certain federal grant revenues to which the state does not yet have legal entitlement, are reported as deferred revenue until the related commitment arises, at which time revenue is recognized.

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

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

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

Cash Equivalents and Investments

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

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

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. For the Trunk Highway Fund (special revenue fund), inventories are valued using the 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, and specific cost methods.

Restricted Assets

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

Securities Lending

Securities on loan for cash collateral and the liabilities resulting from the security lending transactions are reported on the balance sheet. 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.

Income Tax Credits

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

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

Grant Expenditures and Liabilities Recognition

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

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

Compensated Absences

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than $30,000 for equipment and $300,000 for buildings, and an estimated useful life longer than one year.

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions. In accordance with GASB Statement No. 34, depreciation is reported on all assets other than works of art and historical treasures. The state capitol is considered a historical treasure.

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

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

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

See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

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

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

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

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

Deferred Compensation Plan

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

As of February 29, 2004, the State Board of Investment (SBI) ceased managing investments included in the plan. As of June 30, 2004, various outside mutual funds manage the plan's investments. The activity reported in the statement of changes in net assets for the State Deferred Compensation Fund (fiduciary fund) covers the assets of the plan for investments provided by SBI through February 2004. The net assets held in trust as of June 30, 2004, as reported in the statement of net assets for the State Deferred Compensation Fund represent investments transferred to outside management after this date. Investments are reported at fair value. The assets of the plan managed by outside mutual funds are excluded from the state's financial statements because the funds are not under the state's control. The state is not liable for any investment losses under the plan.

Restricted Net Assets

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

Net Assets/Fund Balances

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

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

Budgeting and Budgetary Control

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

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

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

See Note 20 – Budgetary Basis vs GAAP for additional information.

Interfund Activity and Balances

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

See Note 5 – Interfund Transactions for additional information.

Change in Fund Structure

Primary Government

Laws of Minnesota 2003 revised the fund structure of environmental programs and created a new fund to regroup existing programs for correcting known pollution problems. The Remediation Fund was created to account for remediation programs previously reported in the Environmental and Solid Waste funds. The Environmental Fund was restructured to collect revenues related to items such as air and water quality, to fund programs for air and water quality and waste management, and to transfer funds to the Remediation Fund based on operating need. The Solid Waste Fund was eliminated with fund balance transferred to the new Remediation Fund and the restructured Environmental Fund.

Fund Name Change

Within the special revenue fund type, the Northeast Minnesota Economic Protection Fund was renamed the Douglas J. Johnson Economic Protection Trust Fund.

Valuation of School District Loans

Significant changes in the economy have affected school districts' ability to levy debt. These economic changes include increased property values and more favorable interest rates on debt. As a result, the collectibility of school district loans issued by the Maximum Effort School Loan Fund (special revenue fund) was reexamined. During the year ended June 30, 2004, loans previously written off as uncollectible were reinstated as collectible, resulting in negative expenditures of $51,023,000 for the fund.

Deficit Net Assets

The State Printer Fund (internal service fund) reported deficit net assets of $196,000. The operation of state print shops has been discontinued. The state disposed of print shop capital assets prior to June 30, 2004, and is continuing to close out financial activity of the fund.

Note 2 – Cash and Investments

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. While cash in individual funds may be invested separately where permitted by statute, 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. Investment earnings of the primary government's pools are allocated to the individual funds where provided by statute. Earnings for all other participants are credited to the General Fund.

The following table summarizes the state's cash and cash equivalents, including amounts reported as restricted assets at December 31, 2003, or June 30, 2004, whichever is applicable. Warrants outstanding is the amount of negotiable warrants issued by the state, but not presented for collection as of June 30, 2004.

Cash and Cash Equivalents
As of June 30, 2004
(In Thousands)

Carrying Amount	Primary Government	Component Units
Cash in Bank	$ 95,540	$ 63,006
Warrants Outstanding	(147,237)	-
Checks Outstanding	-	(23,788)
Cash on Hand and Imprest Cash	3,166	-
Cash with Fiscal Agent	2,666	10,620
Cash Equivalents:		
Cash Management Investment Pools	7,173,885	133,352
Other	163,841	1,353,581
Total Cash and Cash Equivalents[1]	$ 7,291,861	$ 1,536,771

[1]Includes fiduciary funds of $2,972,926.

Deposits

At June 30, 2004, the primary government's bank balance was $91,392,000. For component units at December 31, 2003, or June 30, 2004, whichever is applicable, the bank balances were $71,817,000. These bank balances were adjusted by items in transit to arrive at the state's cash in bank balance. 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. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Investments

The Minnesota State Board of Investment (SBI) manages the majority of the state's investing. 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. In accordance with Minnesota Statutes, SBI has the authority to enter into, and has entered into, derivative transactions including investment in derivatives of asset-backed and mortgage-backed securities, put and call options, and futures contracts traded on a market or exchange regulated by a governmental agency or by a financial institution regulated by a governmental agency. Investments in asset-backed and mortgage-backed derivatives are made to improve yield. They receive investment cash flows from interest and principal payments on underlying mortgages, and therefore the prices of mortgage derivatives are sensitive to mortgage prepayments caused by changing market conditions. Put options and index futures were used during the year to reduce risk. Any agreements for put and call options or futures contracts may only be entered into with a fully offsetting amount of cash or securities.

The following tables show the primary government's and component units' investments, including cash equivalents, at their carrying and fair values.

Primary Government – Investments
As of June 30, 2004
(In Thousands)

Investment Type		Fair Value
Repurchase Agreements	$	767,067
Commercial Paper		2,987,125
Short-Term Corporate Notes		537,487
U.S. Treasury Obligations		1,902,732
Mortgage Backed		4,541,805
Corporate Obligations		2,921,380
Foreign and Other Obligations		196,433
Corporate Stocks		25,573,911
Other Equity		3,118,965
Total Investments in Risk Category 1	$	42,546,905
Trustee Managed Pools (Not Categorized)	$	2,888,267
Total Investments[1]	$	45,435,172

[1]Includes $37,096,546 for fiduciary funds and $7,337,726 of cash equivalents.

Component Units
Investments at December 31, 2003 or June 30, 2004, As Applicable
(In Thousands)

Investment Type	Risk 1	Risk 2	Fair Value
Repurchase Agreements	$ 125,907	$ 19,533	$ 145,440
Commercial Paper	266,953	-	266,953
Short Term Corporate Notes	37,338	-	37,338
U.S. Treasury Obligations	1,208,485	-	1,208,485
Mortgage Backed	305,665	-	305,665
Corporate Obligations	982,744	-	982,744
Municipal and Other Obligations	66,305	-	66,305
Corporate Stocks	710,399	-	710,399
Other Equity	564,931	-	564,931
Total Investments	$ 4,268,727	$ 19,533	$ 4,288,260
Trustee Managed Pools/Mutual Funds	-	-	734,824
Total Investments[1]	$ 4,268,727	$ 19,533	$ 5,023,084

[1]Includes $1,486,933 of cash equivalents.

Risk category 1 includes securities which are insured or registered or are held by the government or its agent in the government's name. Risk category 2 investments include uninsured and unregistered securities held by the counter party's trust department or agent in the government's name. Investments in risk category 3 include uninsured and unregistered securities held by the counter party or by its trust department or agent, but not in the government's name.

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

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

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

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

Primary Government
Securities Lending Analysis
As of June 30, 2004
(In Thousands)

	Wells Fargo	State Street
Fair Value of Securities on Loan	$ 636,644	$ 4,552,158
Collateral Held	$ 663,622	$ 4,668,704
Average Duration	24 days	52 days
Average Weighted Maturity	24 days	344 days

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

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

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

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, 2004:

Components of Net Receivables
As of June 30, 2004
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 395,918	$ -	$ -	$ 395,918
Sales and Use	322,552	-	-	322,552
Property	283,025	-	-	283,025
Health Care Provider	152,145	-	59,716	211,861
Highway Users	-	-	78,371	78,371
Other	8,216	-	-	8,216
Child Support	180,576	181,258	-	361,834
Workers' Compensation	-	-	110,264	110,264
Other	179,389	45,885	89,936	315,210
Net Receivables	$ 1,521,821	$ 227,143	$ 338,287	$ 2,087,251

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Unemployment Insurance	$ -	$ 306,512	$ -	$ 306,512
Tuition and Fees	31,485	-	-	31,485
Other	-	-	24,956	24,956
Net Receivables	$ 31,485	$ 306,512	$ 24,956	$ 362,953
Total Government-wide Net Receivables				$ 2,450,204

[1]Includes $7,909 Internal Service Funds.

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

- Corporate and Individual Taxes $186,290,000
- Sales and Use Taxes $50,742,000
- Child Support $284,394,000
- Other Receivables $86,095,000

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

- Corporate and Individual Taxes $85,423,000
- Sales and Use Taxes $11,370,000
- Child Support $296,342,000
- Health Care Provider $53,097,000
- Other Receivables $24,346,000

Note 4 – Loans and Notes Receivable

Loans and notes receivable, net of allowances for possible losses, as of June 30, 2004, consisted of the following:

Primary Government
Loans and Notes Receivable
As of June 30, 2004
(In Thousands)

	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds
Student Loan Program	$ -	$ -	$ -	$ 36,322
Economic Development	51,116	42,188	38,680	-
School Districts	-	106,810	-	-
Energy	-	-	2,815	-
Agricultural	384	44,542	-	-
Transportation	-	26,044	-	-
Resources	497	2,010	-	-
Other	-	13,121	30	-
Total	$ 51,997	$ 234,715	$ 41,525	$ 36,322

Component Units
Loans and Notes Receivable
As of June 30, 2004
(In Thousands)

Housing Finance Authority	$ 1,413,897
Metropolitan Council	27,680
University of Minnesota	70,163
Agricultural and Economic Development Board	24,845
Higher Education Services Office	490,176
Public Facilities Authority	1,125,070
Rural Finance Authority	45,313
Total	$ 3,197,144

Note 5 – Interfund Transactions

Primary Government

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

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

Interfund Receivables and Payables
As of June 30, 2004
(In Thousands)

Due to the General Fund From:		
Federal Fund	$	130,156
Nonmajor Governmental Funds		54,307
Nonmajor Enterprise Funds		9,192
Total Due to General Fund From Other Funds	$	193,655
Due to the Federal Fund From:		
Nonmajor Governmental Funds	$	4,516
Total Due to Federal Fund From Other Funds	$	4,516
Due to the State Colleges and Universities Fund From:		
Nonmajor Governmental Funds	$	14,156
Total Due to State Colleges and Universities From Other Funds	$	14,156
Due to Nonmajor Enterprise Funds From:		
Internal Service Funds	$	467
Total Due to Nonmajor Enterprise Funds Other Funds	$	467
Due to Internal Service Funds From:		
Internal Service Funds	$	27
Total Due to Internal Service Funds From Other Funds	$	27
Due to the Fiduciary Funds From:		
Fiduciary Funds	$	6,559
Total Due to Fiduciary Funds From Other Fiduciary Funds	$	6,559
Due to the Nonmajor Governmental Funds From:		
General Fund	$	36,204
Federal Fund		12,367
Unemployment Insurance		14,089
Nonmajor Governmental Funds		70,127
Nonmajor Enterprise Funds		4,848
Internal Services Funds		90
Total Due to Nonmajor Governmental Funds From Other Funds	$	137,725

The Central Motor Pool Fund had an outstanding advance of $4,700,000 from the General Fund as of June 30, 2004. This advance is not expected to be repaid within one year.

Interfund Transfers
Year Ended June 30, 2004
(In Thousands)

Transfers to the General Fund From:		
Federal Fund	$	21,268
Nonmajor Governmental Funds		1,154,372
Nonmajor Enterprise Funds		55,473
Internal Service Funds		6,711
Total Transfers to General Fund From Other Funds	$	1,237,824
Transfers to the Federal Fund From:		
Unemployment Insurance Fund	$	73
Nonmajor Governmental Funds		157
Total Transfers to Federal Fund From Other Funds	$	230
Transfers to the State Colleges and Universities Fund From:		
General Fund	$	559,631
Nonmajor Governmental Funds – Capital Contributions		64,792
Total Transfers to State Colleges and Universities From Other Funds	$	642,423
Transfers to the Fiduciary Funds From:		
Other Fiduciary Funds	$	8,001
Total Transfers to Fiduciary Funds From Other Funds	$	8,001
Transfers to the Nonmajor Governmental Funds From:		
General Fund	$	456,585
Federal Fund		20,012
Unemployment Insurance Fund		55,552
Nonmajor Governmental Funds		1,405,271
Nonmajor Enterprise Funds		47,238
Internal Service Funds		7,700
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	1,992,358
Transfers to the Nonmajor Enterprise Funds From:		
Nonmajor Governmental Funds	$	5,295
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$	5,295

The following one-time transfers to the General Fund are included in the previous table. These transfers were processed as part of the solution to balance the state's budget.

- $573,087,000 from the Medical Education and Research Fund
- $456,344,000 from the Tobacco Use Prevention Fund

Component Units

Receivables and payables at June 30, 2004, between the primary government and component units, are summarized as follows:

Primary Government and Component Units
Receivables and Payables
As of June 30, 2004
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units		
Metropolitan Council	$ 54,231	$ -
University of Minnesota	127,407	61,924
Total Major Component Units	$ 181,638	$ 61,924
Nonmajor Component Units	$ 247	$ 70,131
Total Component Units	$ 181,885	$ 132,055

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ -	$ 101,083
Federal Fund	-	2,591
Total Major Governmental Funds	$ -	$ 103,674
Nonmajor Governmental Funds	$ 122,347	$ 38,324
Total Primary Government	$ 122,347	$ 141,998

Due to primary government exceeds due from component units by $9,708,000 for amounts owed to the primary government by Metropolitan Council, Workers' Compensation Assigned Risk Plan, and National Sports Center Foundation because the fiscal year end used by the component units differs from the primary government. The rationale is the same for due from primary government exceeding due to component units by $39,887,000.

Note 6 – Capital Assets

Primary Government

Capital Asset Activity
Year Ended June 30, 2004 (In Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities:				
Capital Assets not Depreciated:				
Land	$ 1,378,064	$ 86,283	$ (1,256)	$ 1,463,091
Buildings, Structures, Improvements	20,263	-	(224)	20,039
Construction in Progress	198,185	83,551	(156,090)	125,646
Infrastructure	4,620,135	504,287	(10,473)	5,113,949
Art and Historical Treasures	100	-	-	100
Total Capital Assets not Depreciated	$ 6,216,747	$ 674,121	$ (168,043)	$ 6,722,825
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 1,393,620	$ 153,325	$ (2,079)	$ 1,544,866
Infrastructure	41,670	2,615	-	44,285
Equipment, Furniture, Fixtures	357,690	35,924	(31,605)	362,009
Total Capital Assets Depreciated	$ 1,792,980	$ 191,864	$ (33,684)	$ 1,951,160
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (584,518)	$ (31,201)	$ 1,958	$ (613,761)
Infrastructure	(3,458)	(5)	-	(3,463)
Equipment, Furniture, Fixtures	(224,208)	(30,758)	25,031	(229,935)
Total Accumulated Depreciation	$ (812,184)	$ (61,964)	$ 26,989	$ (847,159)
Total Capital Assets Depreciated, Net	$ 980,796	$ 129,900	$ (6,695)	$ 1,104,001
Governmental Act. Capital Assets, Net	$ 7,197,543	$ 804,021	$ (174,738)	$ 7,826,826
Business-type Activities:				
Capital Assets not Depreciated:				
Land	$ 59,664	$ 12,398	$ -	$ 72,062
Construction in Progress	82,354	119,081	(110,190)	91,245
Total Capital Assets not Depreciated	$ 142,018	$ 131,479	$ (110,190)	$ 163,307
Capital Assets Depreciated:				
Buildings	$ 1,437,924	$ 124,963	$ -	$ 1,562,887
Library Collections	42,878	6,945	(4,643)	45,180
Improvements, Other than Buildings	16,779	186	(450)	16,515
Equipment, Furniture, Fixtures	291,045	15,983	(24,475)	282,553
Total Capital Assets Depreciated	$ 1,788,626	$ 148,077	$ (29,568)	$ 1,907,135
Accumulated Depreciation for:				
Buildings	$ (739,239)	$ (41,491)	$ 361	$ (780,369)
Library Collections	(22,875)	(7,025)	5,218	(24,682)
Improvements, Other than Buildings	(2,082)	(424)	369	(2,137)
Equipment, Furniture, Fixtures	(188,968)	(21,931)	20,371	(190,528)
Total Accumulated Depreciation	$ (953,164)	$ (70,871)	$ 26,319	$ (997,716)
Total Capital Assets Depreciated, Net	$ 835,462	$ 77,206	$ (3,249)	$ 909,419
Business-type Act. Capital Assets, Net	$ 977,480	$ 208,685	$ (113,439)	$ 1,072,726
Fiduciary Funds:				
Capital Assets not Depreciated:				
Land	$ 429	$ -	$ -	$ 429
Total Capital Assets not Depreciated	$ 429	$ -	$ -	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,745	$ 74	$ (272)	$ 29,547
Equipment, Furniture, Fixtures	5,959	840	(56)	6,743
Total Capital Assets Depreciated	$ 35,704	$ 914	$ (328)	$ 36,290
Accumulated Depreciation for:				
Buildings	$ (1,537)	$ (676)	$ -	$ (2,213)
Equipment, Furniture, Fixtures	(3,569)	(681)	55	(4,195)
Total Accumulated Depreciation	$ (5,106)	$ (1,357)	$ 55	$ (6,408)
Total Capital Assets Depreciated, Net	$ 30,598	$ (443)	$ (273)	$ 29,882
Fiduciary Funds, Capital Assets, Net	$ 31,027	$ (443)	$ (273)	$ 30,311

Art and historical treasures are reported as capital assets that are not depreciated.

Depreciation expense was charged to functions/programs of the primary government as follows:

Primary Government
Depreciation Expense
Year Ended June 30, 2004
(In Thousands)

Governmental Activities:	
Public Safety and Corrections	$ 13,594
Transportation	14,558
Agricultural and Environmental Resources	3,183
Economic and Workforce Development	902
General Education	2,924
Higher Education	-
Health and Human Services	10,626
General Government	5,981
Internal Service Funds	10,196
Total Governmental Activities	$ 61,964
Business-type Activities:	
State Colleges and Universities	$ 67,753
Unemployment Insurance	-
Lottery	538
Other	2,580
Total Business-type Activities	$ 70,871

Capital outlay expenditures in the governmental funds totaled $701,372,000 for fiscal year 2004. Donations of general capital assets received during fiscal year 2004 were valued at $633,000. Transfers from construction in progress to completed construction were $155,044,000. Increases in internal service funds were $8,918,000 and the Permanent School Fund increased by $18,000.

General capital assets purchased with resources provided by outstanding capital lease agreements at June 30, 2004, consisted of equipment with a cost of $62,356,820.

Authorizations and commitments as of June 30, 2004, for the largest construction in progress projects consisted of the following (in thousands):

	Administration Projects	Amateur Sports	Correctional Facilities	Human Services	Transportation
Authorization	$ 76,485	$ 5,000	$ 10,450	$ 3,619	$ 7,000
Expended through June 30, 2004	26,869	-	5,918	70	4,341
Unexpended Commitment	43,705	946	744	182	-
Available Authorization	$ 5,911	$ 4,054	$ 3,788	$ 3,367	$ 2,659

Land in the Permanent School Fund totaling 2,515,231 acres was donated by the federal government and valued at the estimated fair value at the time of donation.

Component Units

Component unit capital assets consisted of the following as of December 31, 2003, or June 30, 2004, as applicable:

Capital Assets
As of December 31, 2003 or June 30, 2004
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Land	$ -	$ 56,355	$ 182,238	$ 2,743	$ 241,336
Buildings and Improvements	-	2,446,922	2,213,935	566	4,661,423
Equipment	2,836	424,824	641,218	1,696	1,070,574
Infrastructure	-	-	291,852	-	291,852
Total	$ 2,836	$ 2,928,101	$ 3,329,243	$ 5,005	$ 6,265,185
Less: Accumulated Depreciation	1,062	884,767	1,466,497	1,656	2,353,982
Net Total	$ 1,774	$ 2,043,334	$ 1,862,746 [1]	$ 3,349	$ 3,911,203

[1] In addition to this amount, the seven component units of the University of Minnesota had combined capital assets with a net value of $53,297,000 as of June 30, 2004.

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, 2004:

Components of Accounts Payable
As of June 30, 2004
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1]	Total
School Aid Programs	$ 1,231,856	$ 127,272	$ 11	$ 1,359,139
Tax Refunds	561,497	-	216	561,713
Medical Assistance	284,060	354,007	-	638,067
Grants	177,044	119,755	231,289	528,088
Salaries and Benefits	46,914	8,466	34,991	90,371
Vendors/Service Providers	32,462	42,029	189,369	263,860
Other	282	6,114	24,580	30,976
Net Payables	$ 2,334,115	$ 657,643	$ 480,456	$ 3,472,214

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 82,063	$ -	$ 2,564	$ 84,627
Vendors/Service Providers	35,685	-	3,486	39,171
Other	15,302	15,196	20,121	50,619
Net Payables	$ 133,050	$ 15,196	$ 26,171	$ 174,417
Total Government-wide Net Payables				$ 3,646,631

[1]Includes $52,215 Internal Service Funds.

Note 8 – Pension and Investment Trust Funds

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

Three plan administrators, who prepare and publish their own stand-alone comprehensive annual financial reports, including financial statements and required supplementary information, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below. See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses.

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

Wells Fargo is the plan administrator for the State Colleges and Universities Retirement Fund. Wells Fargo prepares, but does not publish, its financial report. Copies of this report may be obtained from Minnesota State Colleges and Universities.

Basis of Accounting and Valuation of Investments

The three plan administrators prepare financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which they are earned and become measurable. Expenses are recorded 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.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple employer, cost-sharing plans:

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

  The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Five hundred thirty seven (537) employers participate in this plan. Normal retirement is age 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent; and for coordinated members, 1.2 and 1.7 percent. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. Currently, TRF does not have an unfunded actuarial accrued liability.

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

  The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental subdivisions. Approximately 500 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

  The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have direct contact with inmates. Approximately 80 employers participate in this plan. Normal retirement age is 55. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

- Single employer (state of Minnesota) plans:

  The Correctional Employees Retirement Fund (CERF) covers state employees who have direct responsibility for inmates at Minnesota correctional facilities. Normal retirement age is 55. The annuity is 2.4 percent of average salary for each year of service.

  The Elective State Officers Fund (ESOF) covers the state's constitutional officers. Vesting occurs after eight years. Normal retirement age is 62. The annuity is 2.5 percent of average salary for each year of service. The ESOF is excluded from the Single Employers Plan disclosures since the remaining active employees have retired, terminated or elected coverage under another plan. This plan is closed to new entrants according to Minnesota Statutes, Chapter 352C.

The Judicial Retirement Fund (JRF) covers judges of the supreme court, district courts, county courts, probate courts, and various court referees. Normal retirement age is 65. The annuity is 2.7 percent of average salary for each year of service (3.2 percent for each year after June 30, 1980).

The Legislative Retirement Fund (LRF) covers members of the state's house of representatives and senate. Vesting occurs after six years. Normal retirement age is 62. The annuity ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on length of service.

The State Patrol Retirement Fund (SPRF) covers state patrol officers, crime bureau officers, and various conservation officers who perform enforcement duties. Normal retirement age is 55. The annuity is 3.0 percent of average salary for each year of service.

Funding Policy Information

	Single Employer					Multiple Employer	
	CERF	ESOF	JRF	LRF	SPRF	SERF	TRF
Statutory Authority, Minnesota Chapter	352	352C	490	3A	352B	352	354
Required Contribution Rate of Active Members (%)	5.69	N/A	8.15	9.00	8.40	4.00	5.00
Required Contribution Rate of Employer (%)	7.98	N/A	20.50	N/A	12.60	4.00	5.00

Multiple Employer Plan Required Contributions (In Thousands)

		SERF	TRF
Required Contributions:			
Employee	2004	$ 82,103	$ 159,140
	2003	$ 83,850	$ 155,577
	2002	$ 79,487	$ 152,331
Employer[1]	2004	$ 78,622	$ 151,029
	2003	$ 80,399	$ 149,481
	2002	$ 76,614	$ 142,222

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

Single Employer Plan Disclosures for Current Year
(In Thousands)

	CERF	JRF	LRF	SPRF
Annual Required Contributions (ARC)[1]	$ 20,170	$ 8,619	$ 2,069	$ 8,940
Interest on Net Pension Obligation (NPO)[1]	(664)	(685)	(878)	(2,314)
Amort Adj to ARC[1]	429	636	751	1,465
Annual Pension Cost	$ 19,935	$ 8,570	$ 1,942	$ 8,091
Contributions	(18,375)	(9,753)	(768)	(10,997)
Increase (Decrease) in NPO	$ 1,560	$ (1,183)	$ 1,174	$ (2,906)
NPO, Beginning (Asset)	(7,809)	(8,064)	(10,329)	(27,218)
NPO, Ending (Asset)	$ (6,249)	$ (9,247)	$ (9,155)	$ (30,124)

[1]Components of annual pension cost.

Single Employer Plan Disclosures
(In Thousands)

		CERF	JRF	LRF	SPRF
Annual Pension Cost (APC)	2004	$ 19,935	$ 8,570	$ 1,942	$ 8,091
	2003	$ 19,071	$ 8,986	$ 2,197	$ 7,055
	2002	$ 16,909	$ 8,241	$ 2,998	$ 6,314
Percentage of APC Contributed	2004	92%	114%	40%	136%
	2003	95%	106%	265%	161%
	2002	101%	130%	153%	165%
NPO (End of Year)	2004	$ (6,249)	$ (9,247)	$ (9,155)	$ (30,124)
	2003	$ (7,809)	$ (8,064)	$ (10,329)	$ (27,218)
	2002	$ (8,790)	$ (7,553)	$ (6,696)	$ (22,892)

Actuarial Assumptions for Single Employers

- The actuarial cost method used by all plans is the Entry Age Normal method. The date of actuarial valuation is July 1, 2003, except for the LRF. The most recent date of actuarial valuation for the LRF is July 1, 2002.

- 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 at June 30, 2003, less: 80 percent UAR for fiscal year 2003; 60 percent UAR for fiscal year 2002; 40 percent UAR for fiscal year 2001; and 20 percent UAR for fiscal year 2000.

- Minnesota Statutes or valuation standards do not require an inflation rate assumption to cost the plans.

- Expected investment returns for pre-retirement and postretirement are 8.5 percent for all plans.

- Projected salary increases are graded from 7.75 percent to 5.25 percent for SPRF and CERF. For LRF and JRF, projected salary increases are a level 5.0 percent.

- The payment of earnings on retired reserves in excess of 6.0 percent is accounted for by 6.0 percent postretirement assumptions for all plans. Under the LRF plan, for those persons not yet in pay status, a 5.0 percent postretirement discount rate is used to account for the one-time adjustment applicable at retirement.

- The level percentage of projected payroll is the amortization method used, except for the ESOF plan, which uses the level dollar amortization method.

- The amortization period is through July 1, 2020.

- The amortization period is closed.

Defined Contribution Funds

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds under which the benefits to be received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial valuation of accrued benefit liability nor any actuarially required contribution.

Plan Descriptions and Contribution Information

The Unclassified Employee Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state and specified employees of the Metropolitan Council. Statutory contribution rates are 4.0 percent for employee and 6.0 percent for employer. Vesting occurs immediately, and normal retirement age is 55. Annuity is based on age and value of the participant's account.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. For the faculty, the employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the managerial employees, the employer rate is 6.0 percent and the employee rate is 4.0 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 13,600.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses. There is no vesting period required to receive benefits from this plan. DCF covers approximately 1,000 units of government. At June 30, 2004, there were approximately 6,300 members in the plan.

The Postretirement Health Care Benefits Fund (PHCBF), authorized by Minnesota Statutes, Section 352.98, creates a postretirement health care savings plan or plans, by which public employers and employees may save to cover postretirement health care costs. Contributions to the plan by or on behalf of an employee are held in trust for reimbursement of employee and dependent health-related expenses following retirement from public service. The current plan is based on state employee contributions without any matching provision by the state. A plan participant may request reimbursement until funds accumulated in the participant's account are exhausted.

Defined Contribution Plans
Contributions Made for Fiscal Year 2004
(In Thousands)

	UERF	CURF	DCF	PHCBF
Employee Contributions	$ 4,258	$ 23,033	$ 1,115	$ 37,273
Employer Contributions	$ 5,877	$ 25,869	$ 1,238	N/A

Investment Trust Fund

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

Component Units

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

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

Note 9 – Postretirement Benefits

For certain employees, postretirement benefits are available upon retirement at age 55 under terms of their employment contract. Through fiscal year 2004, the employees involved were primarily conservation officers, correctional counselors at state correctional facilities, highway patrol officers, and State Colleges and Universities faculty entitled to early retirement incentives. If these employees elect retirement at age 55, the state pays the employer's share of health insurance benefits until the employees reach age 65.

The cost of these benefits, which is recognized when paid, was $9,923,000 during fiscal year 2004. Approximately 1,500 former employees currently receive this benefit.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction, and other contracts. These commitments will be partially funded by current reserves for long-term commitments with the remaining resources provided by future bond proceeds, gas tax and motor vehicle registration revenues, and federal grants. Long-term commitments as of June 30, 2004, were as follows:

Primary Government
Long-Term Commitments
As of June 30, 2004
(In Thousands)

Special Revenue Fund:	
Trunk Highway Fund	$ 822,666
Capital Projects Funds:	
General Projects Fund	10,252
Transportation Fund	7,209
Building Fund	339,645
Enterprise Funds:	
State Colleges and Universities	42,286
Total Primary Government	$ 1,222,058

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

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse petroleum storage tank owners for most of their costs to investigate or clean up contamination from petroleum tank releases. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). A significant number of unreported tank contamination sites and cleanup costs presently exist which will require Petrofund expenditures. As of October 2004, the Petrofund has reimbursed eligible applicants approximately $350 million since program inception in 1987. The estimated total payments from the program, which terminates on June 30, 2007, are between $380-$400 million for investigative and cleanup costs.

Remediation Fund

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

Component Units

The University of Minnesota (U of M) has construction projects in progress with an estimated cost of $228,832,000 to complete. These costs will be funded from plant fund assets and state appropriations.

The U of M owns certain steam production facilities that produce steam for heating and cooling for the Twin Cities campuses. By agreement, these facilities are managed, operated, and maintained by an unaffiliated company. The term of the agreement is 5 years and commenced on May 17, 2004. Under the agreement, the U of M must make minimum fixed payments for certain operating and maintenance costs as well as contingent payments based on monthly usage.

The minimum fixed amounts of the steam plant required payments at June 30, 2004, were as follows:

University of Minnesota
Required Steam Plant Payments
(In Thousands)

Fiscal Year Ending June 30	Total
2005	$ 879
2006	879
2007	867
2008	779
2009	683
Total Commitments	$ 4,087

The Metropolitan Council enters into contracts for various purposes, including transit services and construction projects, among others. As of December 31, 2003, unpaid commitments for transit services were approximately $83.5 million. Future commitments for Metropolitan Transit Light Rail were approximately $78.3 million. Future commitments for regional transit services were approximately $20.4 million. Finally, future commitments for Environmental Services were approximately $111.7 million.

Note 11 – Operating Lease Agreements

Operating Leases

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

Lease expenditures for the year ended June 30, 2004, totaled approximately $70,400,000 and $16,679,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2003, totaled approximately $2,986,000 for component units.

Future Minimum Lease Payments
(In Thousands)

Primary Government		Component Units			
Year Ending June 30	Amount	Year Ending June 30	Amount	Year Ending December 31	Amount
2005	$ 66,150	2005	$ 9,763	2004	$ 2,264
2006	55,935	2006	9,537	2005	1,890
2007	48,446	2007	7,478	2006	1,347
2008	37,538	2008	6,473	2007	658
2009	22,877	2009	6,033	2008	656
2010-2014	50,116	2010-2014	18,784	2009-2013	972
2015-2019	5,083	2015-2019	-	2014-2018	109
2020-2024	2,269	2020-2024	-	2019-2023	68
Total	$ 288,414	Total	$ 58,068	2024	13
				Total	$ 7,977

Note 12 – Long-Term Liabilities – Primary Government

The following table is a summary of long-term liabilities as of June 30, 2004, and the changes during fiscal year 2004:

Long-Term Liabilities
Year Ended June 30, 2004
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 3,295,545	$ 438,792	$ 678,841	$ 3,055,496	$ 249,433
Bond Premium	92,387	33,455	8,223	117,619	8,364
Loans	24,198	3,536	8,081	19,653	9,852
Claims	1,453,838	11,675	75,109	1,390,404	106,739
Compensated Absences	231,599	197,551	190,464	238,686	16,353
Workers' Compensation	112,108	12,597	13,159	111,546	11,976
Capital Leases	8,846	1,774	1,535	9,085	4,096
Total	$ 5,218,521	$ 699,380	$ 975,412	$ 4,942,489	$ 406,813
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 125,950	$ 24,207	$ 8,298	$ 141,859	$ 9,492
Bond Premium	1,694	1,848	300	3,242	-
Loans	135,486	271,728	131,511	275,703	272,096
Revenue Bonds	52,925	-	1,515	51,410	1,575
Compensated Absences	102,566	47,770	36,911	113,425	9,900
Workers' Compensation	4,741	2,057	1,605	5,193	1,326
Capital Leases	12,483	5,670	3,285	14,868	2,417
Total	$ 435,845	$ 353,280	$ 183,425	$ 605,700	$ 296,806

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

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

	Governmental Activities			
	General Fund	Special Revenue Funds	Business-type Activities	Total
Liabilities For:				
General Obligation Bonds	$ 2,601,016	$ 454,480	$ 141,859	$ 3,197,355
Bond Premium	117,619	-	3,242	120,861
Loans	-	19,653	275,703	295,356
Revenue Bonds	-	-	51,410	51,410
Claims	104,022	1,286,382	-	1,390,404
Compensated Absences	88,942	149,744	113,425	352,111
Workers' Compensation	86,027	25,519	5,193	116,739
Capital Leases	3,527	5,558	14,868	23,953
Total	$ 3,001,153	$ 1,941,336	$ 605,700	$ 5,548,189

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

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

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 249,433	$ 147,097	$ 9,492	$ 7,483	$ 258,925	$ 154,580
2006	251,336	136,786	9,599	6,486	260,935	143,272
2007	261,434	124,863	9,731	6,036	271,165	130,899
2008	235,485	112,407	9,455	5,552	244,940	117,959
2009	227,481	100,308	9,484	5,075	236,965	105,383
2010-2014	936,363	346,534	43,932	18,407	980,295	364,941
2015-2019	632,252	140,054	33,273	8,362	665,525	148,416
2020-2024	261,712	24,869	16,893	1,664	278,605	26,533
Total	$ 3,055,496	$ 1,132,918	$ 141,859	$ 59,065	$ 3,197,355	$ 1,191,983

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

	Business-type Activities	
Fiscal Year(s)	Principal	Interest
2005	$ 1,575	$ 2,992
2006	1,945	2,895
2007	2,190	2,783
2008	2,060	2,653
2009	2,125	2,514
2010-2014	11,430	10,779
2015-2019	13,150	7,286
2020-2024	14,620	2,945
2025-2029	2,315	177
Total	$ 51,410	$ 35,024

Primary Government
Loans
Principal and Interest Payments
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 9,852	$ 400	$ 272,096	$ 13,055	$ 281,948	$ 13,455
2006	5,448	178	773	203	6,221	381
2007	2,719	58	633	168	3,352	226
2008	1,634	8	499	129	2,133	137
2009	-	-	356	100	356	100
2010-2014	-	-	1,346	170	1,346	170
Total	$ 19,653	$ 644	$ 275,703	$ 13,825	$ 295,356	$ 14,469

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

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

Fiscal Year(s)	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2005	$ 4,096	$ 376	$ 2,417	$ 897	$ 6,513	$ 1,273
2006	3,546	162	1,614	763	5,160	925
2007	1,112	40	1,320	666	2,432	706
2008	239	7	1,226	607	1,465	614
2009	92	2	787	516	879	518
2010-2014	-	-	2,639	1,879	2,639	1,879
2015-2019	-	-	2,119	1,339	2,119	1,339
2020-2024	-	-	1,121	733	1,121	733
2025-2029	-	-	1,025	301	1,025	301
2030-2034	-	-	600	40	600	40
Total	$ 9,085	$ 587	$ 14,868	$ 7,741	$ 23,953	$ 8,328

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 2004, the Department of Finance made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2004 (In Thousands)

General Fund	$ 265,701
Special Revenue Funds:	
Federal Fund	200
Trunk Highway Fund	16,289
Natural Resources Funds	24
Maximum Effort School Loan Fund	13,876
Miscellaneous Special Revenue Fund	4,625
Total Special Revenue Funds	$ 35,014
Capital Projects Funds:	
Building Fund	$ 5,036
Total Capital Projects Funds	$ 5,036
Total Operating Transfers to Debt Service Fund	$ 305,751

General Obligation Bond Issues

On August 1, 2003, $296,645,000 in general obligation state various purpose bonds, $142,500,000 in general obligation state trunk highway bonds, and $20,855,000 in general obligation state refunding bonds were issued at a true interest rate of 4.00 percent. In addition, $3,000,000 of general obligation taxable state various purpose bonds were sold at a true interest rate of 3.42 percent. During fiscal year 2004, $687,139,000 in general obligation bond principal was repaid.

In August 2003, the state refunded $401,865,000 of general obligation bonds with proceeds from a June 2003 current refunding bond sale of $391,680,000 and $10,303,198 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of $11,751,487 and an economic gain of $11,356,612.

In October 2003, the state refunded $23,850,000 of general obligation bonds with proceeds from an August 2003 current refunding bond sale of $20,855,000 and $3,020,304 cash from the Debt Service Fund. As a result of the current refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in cash flow requirements of $1,050,655 and an economic gain of $896,114.

The state has also issued general obligation advance refunding bonds to refund obligations of certain bond issues. The proceeds of the bond issues were placed in special escrow accounts and invested in government securities. These investments have been certified to be sufficient to pay all principal and interest on the bonds when due.

The balance outstanding for all extinguished debt at June 30, 2004, was $66,225,000, which is shown below. The state remains contingently liable to pay the advance refunded general obligation bonds.

General Obligation Bonds
Outstanding Defeased Debt
(In Thousands)

Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 1998	$ 99,700	$ 96,100	$ 66,225	October 1, 2004

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

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding at June 30, 2004. This schedule includes general obligation bonds that were sold for the State Operated Community Services and State Colleges and Universities Funds (enterprise funds).

General Obligation Bonds Authorized, but Unissued and Bonds Outstanding
At June 30, 2004
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	$ 28,435	$ 1,180,072	3.00 – 6.00
State Operated Community Services	-	3,842	3.75 – 7.56
State Transportation	3,431	121,218	3.00 – 6.38
Waste Management	375	4,925	4.00 – 6.00
Water Pollution Control	1,246	88,200	3.00 – 6.00
Maximum Effort School Loan	-	100,100	4.00 – 6.00
Reinvest in Minnesota	629	5,055	4.00 – 6.00
Rural Finance Administration	-	70,100	4.63 – 7.05
Refunding Bonds	-	477,954	1.50 – 5.40
Municipal Energy Building	128	3,440	3.00 – 6.00
Game and Fish Building	-	42	1.50 – 5.00
Trunk Highway	380,225	233,120	1.50 – 5.50
Airport Facilities	-	38,680	5.30 – 7.95
Landfill	-	24,495	4.25 – 6.00
Various Purpose	959,518	846,112	3.00 – 5.62
Total	$ 1,373,987	$ 3,197,355	

Loans Payable

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

Revenue Bonds Payable

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

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

Giants Ridge Outstanding Defeased Debt (In Thousands)				
Refunding Date	Refunding Amount	Refunded Amount	Outstanding Amount	Refunded Bond Call Date
November 1, 2000	$ 3,710	$ 3,710	$ 3,130	October 1, 2012

Claims

Municipal solid waste landfills liability of $175,069,000 for closure and postclosure care is reported for the landfill cleanup program payable from the Remediation Fund (special revenue fund) and the General Fund.

Claims of $58,215,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of $65,320,000 are for certain employees who qualify for postretirement benefits upon retirement at age 55 under terms of their employment contract. See Note 9 – Postretirement Benefits for the amount paid in fiscal year 2004.

The remaining claim amount of $1,091,800,000 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 undiscounted cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2045 for supplementary benefits and 2033 for second injuries.

Compensated Absences

The compensated absences liability for governmental funds of $238,686,000 is primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Workers' Compensation

The governmental funds liability for workers' compensation of $111,546,000 is based on claims filed for injuries to state employees occurring prior to June 30, 2004, 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 2004, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

The following defined benefit funds have the authority to issue, and have issued, revenue bonds, which are not general obligations of the state, but are solely secured by certain pledged assets of the funds. On June 1, 2000, $29,000,000 of revenue bonds were issued. The pledged assets include certain payments made by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF). Minnesota Statutes, Section 356.89, authorized the issuance of these revenue bonds to finance the construction of an administrative office building. The debt service payments on the revenue bonds will be allocated to each fund based on the percentage interest each fund has in the facility. The repayment schedule for the combined three funds follows:

Long-Term Debt Repayment Schedule
Fiduciary Funds
(In Thousands)

Revenue Bonds – SERF, TRF, and PERF

Fiscal Year(s)	Principal	Interest
2005	$ 500	$ 1,594
2006	525	1,567
2007	550	1,539
2008	575	1,509
2009	600	1,478
2010-2014	3,525	6,870
2015-2019	4,650	5,774
2020-2024	6,250	4,258
2025-2029	8,450	2,178
2030-2034	2,025	121
Total	$ 27,650	$ 26,888

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Component Units

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $3,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of bonds outstanding on June 30, 2004, was $1,844,589,000.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.072, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,250,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2004, was $827,438,000.

The Higher Education Services Office (HESO) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2004, the outstanding principal of revenue bonds was $300,000,000.

The University of Minnesota (U of M) issues revenue bonds and general obligation bonds for capital projects. On June 30, 2004, the principal amount of revenue bonds outstanding was $9,260,000 and the principal amount of general obligation bonds outstanding was $588,544,000.

The Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers and transportation, backed by the full faith and credit and taxing powers of MC. MC had $886,854,000 in general obligation bonds outstanding, net of unamortized premium, and $12,200,000 of revenue bonds outstanding on December 31, 2003.

The Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2004, the principal amount of revenue bonds outstanding was $32,020,000.

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

	U of M		MC[1]	
Fiscal Years	Principal	Interest	Principal	Interest
2005	$ 244,355	$ 20,530	$ 76,882	$ 33,078
2006	38,470	12,103	96,435	31,118
2007	38,520	9,725	69,170	27,169
2008	38,270	7,345	58,738	24,256
2009	22,160	4,987	55,217	21,806
2010-2014	40,500	20,075	240,118	76,161
2015-2019	67,050	15,566	185,049	35,224
2020-2024	68,000	9,819	98,276	6,931
2025-2029	17,700	5,224	-	-
2030-2034	12,850	1,146	-	-
	$ 587,875	$ 106,520	$ 879,885	$ 255,743
Unamortized Discounts/Premiums and Issuance Costs	669	-	6,969	-
Total	$ 588,544	$ 106,520	$ 886,854	$ 255,743

[1]MC fiscal year ends December 31.

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

Fiscal Years	U of M Principal	U of M Interest	HFA Principal[1]	HFA Interest	MC[2] Principal	MC[2] Interest
2005	$ 855	$ 554	$ 262,500	$ 73,643	$ 770	$ 609
2006	905	502	138,110	71,183	810	573
2007	955	448	210,955	68,598	845	535
2008	1,015	389	39,695	63,068	890	494
2009	1,080	327	36,395	61,349	935	449
2010-2014	4,450	712	238,665	274,197	5,465	1,468
2015-2019	-	-	240,580	209,289	2,625	146
2020-2024	-	-	237,265	144,657	-	-
2025-2029	-	-	262,055	80,436	-	-
2030-2034	-	-	166,735	23,216	-	-
2035-2039	-	-	20,790	1,999	-	-
2040-2044	-	-	2,890	573	-	-
2045-2049	-	-	670	25	-	-
	$ 9,260	$ 2,932	$ 1,857,305	$ 1,072,233	$ 12,340	$ 4,274
Unamortized Discounts/Premiums and Issuance Costs	-	-	(12,716)	-	(140)	-
Total	$ 9,260	$ 2,932	$ 1,844,589	$ 1,072,233	$ 12,200	$ 4,274

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

[2]MC fiscal year ends December 31.

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

Fiscal Years	HESO Principal	HESO Interest	PFA Principal	PFA Interest	AEDB Principal	AEDB Interest
2005	$ -	$ 3,531	$ 40,595	$ 40,981	$ 4,275	$ 1,815
2006	-	3,531	47,815	38,824	2,405	1,620
2007	714	3,531	47,935	36,494	2,490	1,485
2008	3,429	3,523	48,970	34,163	2,435	1,348
2009	3,429	3,487	52,030	31,805	2,485	1,208
2010-2014	22,693	16,793	269,505	120,680	9,050	4,223
2015-2019	23,310	15,576	258,110	52,504	6,935	1,689
2020-2024	52,416	13,902	62,555	6,224	1,945	136
2025-2029	77,783	9,942	-	-	-	-
2030-2034	77,166	5,250	-	-	-	-
2035-2039	39,060	1,103	-	-	-	-
	$ 300,000	$ 80,169	$ 827,515	$ 361,675	$ 32,020	$ 13,524
Unamortized Discounts/Premiums and Issuance Costs	-	-	(77)	-	-	-
Total	$ 300,000	$ 80,169	$ 827,438	$ 361,675	$ 32,020	$ 13,524

Variable Rate Debt

Higher Education Services Office

Interest rates on the tax-exempt 1992, 1993 and 1994B series of bonds vary weekly based on the determination by the remarketing agent of the lowest rate that would permit the sale of bonds at par plus accrued interest on the date of determination. The variable rate cannot exceed 15 percent per annum. The interest rate for the Series 1992, 1993, and 1994B bonds as of June 30, 2004, and 2003, was 1.10 percent and 1.05 percent, respectively.

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, and tax-exempt Series 2002B bonds, taxable Series 2003A bonds, and tax-exempt Series 2003B, reset every 28 – 35 days, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable London InterBank Offered Rate (LIBOR) rate plus 1.00 percent or 17.00 percent. The interest rates as of June 30, 2004, and 2003, for the Series 1999A bonds were 1.52 percent and 1.13 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2002A and 2002B bonds were 1.38 percent and 1.28 percent and 1.25 percent and 1.08 percent, respectively. The interest rates as of June 30, 2004, and 2003, for the Series 2003A and 2003B bonds were 1.38 percent and 1.30 percent, and 1.20 percent and 1.10 percent, respectively.

In connection with the issuance of the 2003A, 2001A, 2001B, 2001C, and 1999A variable-rate bonds, the U of M entered into floating-to-fixed interest-rate swap agreements for notional amounts tied to the outstanding balance of the bonds. The U of M makes monthly payments at fixed rates between 3.08 percent and 4.40 percent and receives the weighted average rate that was paid to the bondholders during the previous month. The final maturity dates of the swaps are tied to the final maturity dates of the underlying bonds. With the exception of the Series 2001B taxable bonds, the U of M treats these swaps as qualified hedges with respect to such bonds.

In connection with the issuance of the Series 1996A bonds, the U of M has entered into a fixed-to-floating interest-rate swap agreement on a notional amount of $190,000,000. The U of M makes floating-rate interest payments monthly based upon the weekly Bond Market Association Municipal Swap Index. The interest obligation for future years is calculated on the basis of the interest rate in effect at June 30, 2004, of 1.08 percent. The actual rates to be paid to bondholders over the life of the bonds will be at rates determined on the basis of prevailing market conditions. The U of M receives fixed-rate interest payments ranging from 4.45 to 5.43 percent semiannually. The final maturity date of the swap is in 2021, although there are specified notional reductions annually that began in 2001. The U of M treats this swap as a qualified hedge with respect to such bonds.

At June 30, 2004, the U of M had $588,544,000 in outstanding variable rate bonds.

Bond Defeasances

Public Facilities Authority had $51,995,000 various refunding series bonds that were defeased and not reflected in the financial statements as of June 30, 2004.

In prior years, the U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt payments on the old bonds. The amount defeased for general obligation bonds was $112,635,000 with $29,600,000 outstanding at June 30, 2004. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M financial statements.

During the fiscal year ended December 31, 2003, Metropolitan Council issued $132,085,000 in general obligation bonds which refunded the remaining 2004-2017 maturities of the Series 1990PFA, 1991-1PFA, 1991-2PFA, 1992-2PFA, 1994PFA, 1994A, 1996D, and 1994D general obligation bonds. The transactions resulted in an economic gain of $10,778,062 and a reduction of $11,002,331 in future debt service payments.

Note 14 – Landfill Closure and Postclosure

Minnesota Statutes, Section 115B.39, established the closed landfill program to provide environmental response to qualified, state-permitted, closed landfills. There are currently 108 closed sites in the program. Up to four additional sites could enter the program in the near future. The state becomes responsible for the long-term care of these closed municipal solid waste facilities only after certain eligibility requirements are met. The state is responsible, in perpetuity, for performing cleanup and final closure work as well as all maintenance and monitoring functions at these qualifying sites. Funding for the state's perpetual obligation at these landfills comes from the Remediation Fund (special revenue fund) which includes revenues from the Solid Waste Management Tax authorized by Minnesota Statutes, Chapter 297H, insurance recovery proceeds, and financial assurance from previous owners and operators. Additional funding from the sale of state general obligation bonds is used for design and construction work at the publicly-owned landfills in the program. As of June 30, 2004, cumulative expenditures of about $204 million have been disbursed by the Remediation Fund and the bond fund. Estimates show that the total of all payments for the program may reach $537 million. These estimates include costs for planned response actions, costs representing future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and reimbursements.

Actual costs could become higher because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

Note 15 – Segment Information

Segment Information Financial Data
Year Ended June 30, 2004
(In Thousands)

	Giants Ridge	Revenue Fund	MnSCU Mesabi Range/Vermilion Residence Halls	MnSCU Mesabi Range/Vermilion Modular Housing
Condensed Statement of Net Assets				
Assets:				
Current Assets	$ 7,521	$ 46,374	$ 61	$ 118
Restricted Assets	2,666	31,819	450	138
Capital Assets	22,978	94,358	1,440	835
Total Assets	$ 33,165	$ 172,551	$ 1,951	$ 1,091
Liabilities:				
Current Liabilities	$ 2,896	$ 17,574	$ 136	$ 182
Noncurrent Liabilities	15,018	43,204	345	525
Total Liabilities	$ 17,914	$ 60,778	$ 481	$ 707
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 12,773	$ 72,465	$ 1,095	$ 309
Restricted	-	6,095	330	71
Unrestricted	2,478	33,213	45	4
Total Net Assets	$ 15,251	$ 111,773	$ 1,470	$ 384
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	$ 4,881	$ 65,421	$ 394	$ 198
Depreciation Expense	(1,141)	(5,967)	(64)	(28)
Other Operating Expenses	(4,354)	(54,221)	(256)	(101)
Operating Income (Loss)	$ (614)	$ 5,233	$ 74	$ 69
Nonoperating Revenues (Expenses):				
Interest Income	$ 113	$ 800	$ 2	$ 1
Interest Expense	(1,170)	(1,695)	(44)	(36)
Other	587	2,504	-	-
Capital Contributions	256	-	-	-
Transfers-In	5,295	-	16	-
Transfers-Out	(2,000)	-	-	-
Change in Net Assets	$ 2,467	$ 6,842	$ 48	$ 34
Beginning Net Assets	12,784	104,931	1,422	350
Ending Net Assets	$ 15,251	$ 111,773	$ 1,470	$ 384
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	$ 309	$ 12,833	$ 148	$ 132
Noncapital Financing Activities	5,295	-	-	-
Capital and Related Financing Activities	(2,339)	(19,834)	(157)	(142)
Investing Activities	114	853	2	1
Net Increase (Decrease)	$ 3,379	$ (6,148)	$ (7)	$ (9)
Beginning Cash and Cash Equivalents	$ 4,629	$ 59,095	$ 465	$ 147
Ending Cash and Cash Equivalents	$ 8,008	$ 52,947	$ 458	$ 138

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

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

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

Note 16 – Contingent Liabilities

Primary Government

Pension Trust Funds

In addition to the pension trust funds included in the reporting entity (see Note 8 – Pension and Investment Trust Funds), the state is funding a portion of the unfunded liability for other public employee pension funds. Funding formulas contained in state statutes define the state's contributions to these local funds. Funding is provided in the state's biennial budget. The pension trust funds involved, the year-end for which the most current data is available, and the unfunded liabilities are described below (in thousands):

Fund	Liability As Of	Unfunded Liability
Minneapolis Employee Retirement Fund	June 30, 2004	$ 129,751
Minneapolis Teachers Retirement Fund	June 30, 2003	$ 715,069
St. Paul Teachers Retirement Fund	June 30, 2003	$ 290,601
Local Police and Fire Fund [1]	December 31, 2003	$ 224,010

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

All of the unfunded liabilities shown above were computed using the entry age normal actuarial cost (level normal cost) method. Assumptions for interest rates and annual salary growth rates using the single rate future salary increase assumption are as follows: Minneapolis Employee Retirement Fund – preretirement interest, 6 percent – postretirement interest, 5 percent – salary growth, initial increase of 1.0198 percent and 4 percent annually thereafter; Minneapolis Teachers, and St. Paul Teachers – interest, 8.5 percent – salary growth, 5 percent; Minneapolis Police Relief and Minneapolis Fire Department Relief Associations – interest, 6 percent – salary growth, 4 percent; Virginia Fire Department and Fairmont Police Relief Associations – interest, 5 percent – salary growth, 3.5 percent. Additional annual contributions are provided by the state to reduce the unfunded liabilities.

Component Units

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

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

WCARP, through Employers Life Insurance Company of Wausau, has purchased annuities to settle certain claims with the claimant as payee, but for which WCARP remains contingently liable. WCARP eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The present value of annuity contracts in force at December 31, 2003, was approximately $4.2 million.

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

Note 17 – Northwest Airlines Maintenance Facilities

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

As of June 30, 2004, $38,680,000 of the revenue bonds remained outstanding. Of this amount, $22,275,000 is payable primarily from lease payments of NWA, and $16,405,000 is payable primarily from tax increment revenues derived from the Duluth facility and other revenues of the city of Duluth. In the event these revenues are insufficient to make the debt service payments on the revenue bonds, the state may apply certain state-aid payments otherwise payable to the city of Duluth.

On July 1, 1999, $3,435,000 of the revenue bonds were defeased, thereby reducing the outstanding bonds. As of June 30, 2004, $2,445,000 of these defeased bonds remain outstanding. The invested funds, which are held in escrow, will be sufficient to pay the principal on the bonds to their earliest call date.

Note 18 – Equity

Fund Balances – Primary Government

The following table identifies governmental fund balances of the primary government in greater detail than presented on the face of the financial statements:

Primary Government Fund Balances
As of June 30, 2004
(In Thousands)

	General	Federal	Nonmajor Governmental	Fiduciary
Fund Balances:				
Reserved for Encumbrances	$ 65,242	$ -	$ 259,365	$ -
Reserved for Inventory	-	-	15,202	-
Reserved for Long-Term Receivables	50,564	-	248,272	-
Reserved for Long-Term Commitments	-	-	122,940	-
Reserved for Local Governments	-	-	441,027	-
Reserved for Trust Principal	-	-	918,428	-
Reserved for Debt Requirements	-	-	530,879	-
Reserved for Other	4,700	7,093	-	-
Total Reserved Fund Balances	$ 120,506	$ 7,093	$ 2,536,113	$ -
Unreserved Fund Balances:				
Designated for Appropriation Carryover	$ -	$ -	$ 291,809	$ -
Designated for Fund Purposes	-	-	288,309	38,895,818
Total Designated Fund Balance	$ -	$ -	$ 580,118	$ -
Undesignated	(448,465)	-	200,290	-
Total Unreserved Fund Balance	$ (448,465)	$ -	$ 780,408	$ 38,895,818
Total Fund Balance	$ (327,959)	$ 7,093	$ 3,316,521	$ 38,895,818

Reserved Fund Balance

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

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

Reserved for Other of $7,093,000 in the special revenue fund type (Federal Fund) consists primarily of petroleum overcharge fines allocated by the federal courts to be used for energy conservation programs.

Unreserved Fund Balance

Unreserved Fund Balance consists of 1) designated fund balances indicating tentative managerial plans for future use of resources, and 2) undesignated fund balances indicating those unreserved financial resources available for appropriation. A portion of the undesignated fund balances in the Natural Resources funds (special revenue funds) may be appropriated only for specific programs.

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

Fund Balance Designated for Fund Purposes
As of June 30, 2004
(In Thousands)

	Special Revenue Funds
Public Safety and Corrections	$ 21,214
Transportation	27,193
Environmental Resources	53,106
Economic and Workforce Development	61,959
General Education	4,493
Higher Education	541
Health and Human Services	75,685
General Government	42,160
Intergovernmental Aids	1,958
Total	$ 288,309

Deficit Fund Balance

A $20,845,000 deficit total fund balance in the Building Fund (nonmajor governmental fund) is a result of a delayed bond sales. An executive action was implemented to eliminate a forecasted deficit. The authorization in previous legislative sessions for the scheduled June 2004 general obligation bond sale for bonding projects was delayed until July 2004.

Note 19 – Risk Management

Primary Government

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

Risk Management Fund

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

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

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

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

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

Tort Claims

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

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $1,444,000. The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. These costs are paid from each agency's operating budget. During fiscal year 2004, no significant change in claim liability occurred.

State Employee Group Insurance Program

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

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

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

Public Employees Insurance Program

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

PEIP's membership as of June 30, 2004, was 2,950 members and their dependents. The members of the pool include 21 school districts, 73 cities/townships, 3 counties, and 26 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums and will reinsure for claims through its administrators/managed care organizations for Stop-Loss coverage for claims in excess of $65,000.

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

The following tables present changes in the balances of self-insured claims liabilities during the fiscal years ended June 30, 2004, and 2003:

Self-Insured Claim Liabilities
As of June 30, 2004 (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/03	$ 19,711	$ (3,248)	$ 4,749	$ 11,714
Fiscal Year Ended 6/30/04	$ 11,714	$ (713)	$ 2,860	$ 8,141
Tort Claims [1]				
Fiscal Year Ended 6/30/03	$ -	$ 807	$ 807	$ -
Fiscal Year Ended 6/30/04	$ -	$ 818	$ 818	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/03	$ 119,341	$ 10,151	$ 12,643	$ 116,849
Fiscal Year Ended 6/30/04	$ 116,849	$ 14,653	$ 14,764	$ 116,738
State Employee Insurance Plans				
Fiscal Year Ended 6/30/03	$ 40,681	$ 365,268	$ 367,503	$ 38,446
Fiscal Year Ended 6/30/04	$ 38,446	$ 389,309	$ 391,072	$ 36,683

[1]The Office of the Attorney General does not recognize liabilities for Tort Claims. Claims have never exceeded funding appropriated by the legislature.

Public Employee Insurance
Medical
(In Thousands)

	Year Ended June 30 2004	2003
Unpaid Claims and Claim Adjustment Expenses at the Beginning of Year	$ 2,320	$ 2,745
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	19,466	19,715
Increases (Decreases) in Provision for Insured Events of Prior Years	(630)	(400)
Total Incurred Claims and Claim Adjustment Expenses	$ 18,836	$ 19,315
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 17,679	$ 17,418
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,667	2,322
Total Payments	$ 19,346	$ 19,740
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	$ 1,810	$ 2,320

Component Units

Metropolitan Council

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

Liability

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

Workers' Compensation

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 5.5 percent. The self-insurance retention limit for workers' compensation is $1,440,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

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

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

The following table presents changes in the balances of claims liabilities during the fiscal years ended December 31, 2003, and 2002 or June 30, 2004, and 2003, as applicable:

Claims Liabilities (In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council				
Fiscal Year Ended 12/31/02	$ 18,848	$ 7,055	$ 7,255	$ 18,648
Fiscal Year Ended 12/31/03	$ 18,648	$ 10,374	$ 7,227	$ 21,795
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/03	$ 6,492	$ 2,197	$ 1,032	$ 7,657
Fiscal Year Ended 6/30/04	$ 7,657	$ 1,452	$ 1,650	$ 7,459
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/03	$ 9,000	$ 6,489	$ 3,489	$ 12,000
Fiscal Year Ended 6/30/04	$ 12,000	$ 2,601	$ 3,601	$ 11,000
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/03	$ 13,497	$ 112,834	$ 108,864	$ 17,467
Fiscal Year Ended 6/30/04	$ 17,467	$ 121,758	$ 120,806	$ 18,419

Note 20 – Budgetary Basis vs GAAP

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two bases of accounting for the General Fund is provided in the following table.

Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2004
(In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ (327,959)
Less: Reserved Fund Balance	120,506
Undesignated Fund Balance	$ (448,465)
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (376,153)
Tax Refunds Payable	532,704
Human Services Receivable	(33,228)
Deferred Revenue	(7,709)
Other Receivables	(18,304)
Investments at Market	(1,183)
Expenditure Accruals/Adjustments:	
Medical Assistance	284,060
Human Services Grants Payable	44,302
Education Aids	1,224,718
Police and Fire Aid	73,269
Permanent School Fund Reimbursement	(6,568)
Other Payables	13,394
Fund Structure Differences:	
Terminally Funded Pension Plans	8,286
Designated for Appropriation Carryover and Budgetary Reserve	(597,599)
Budgetary Basis:	
Undesignated Fund Balance	$ 691,524

Note 21 – Prior Period Adjustments

Prior Period Adjustment

Primary Government

GASB issued Technical Bulletin No. 2004-01, "Tobacco Settlement Recognition and Financial Reporting Entity Issues" in April 2004, which clarified the accounting principles for recognizing tobacco settlement resources. The recognition of tobacco settlement revenues should be made when domestic shipment (sales) of cigarettes occurs. As a result, during the year ended June 30, 2004, a prior period adjustment of $84,233,000 was recorded on the Government-wide Statement of Activities to recognize tobacco settlement revenues and associated accounts receivable that were understated for the year ended June 30, 2003.

Note 22 – Litigation

1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable or from funds appropriated for the payment of tort claims. The tort claims appropriation for the fiscal year ended June 30, 2004 was $671,000. The tort claims appropriation for the fiscal year ending June 30, 2005, is also $671,000. The maximum limits of liability for tort claims are $300,000 for any one claim and $1,000,000 for any number of claims arising out of a single occurrence.

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

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

   b. *Austin, et al. v. Goodno,* Ramsey County District Court. Plaintiffs, Minnesota Family Investment Program (MFIP) recipients, filed a class action seeking to block changes to the MFIP made during the 2003 legislative sessions including a Supplemental Social Security Income deeming provision, a requirement that a family's Housing and Urban Development (HUD) housing assistance be counted as unearned income and a lowering of the exit level for MFIP from 120% of the federal poverty guidelines to 115% of the federal poverty guidelines. Fiscal year 2004 savings from implementation of the three challenged changes are estimated to be in excess of $20 million. On February 27, 2004, the Court ruled in plaintiffs' favor on cross-motions for summary judgment. The Department of Human Services appealed to the Court of Appeals with argument on October 7, 2004.

   c. *Council of Independent Tobacco Manufacturers of America, et al., v. The State of Minnesota, et al.* Minnesota Supreme Court. Minn. Stat. § 297F.24 (2003) imposes a 35 cent per pack fee on "non settlement cigarettes." A non-settlement cigarette "means a cigarette manufactured by a person other than a manufacturer [1] that ... is making annual Division Managers payments to the state of Minnesota under a settlement of the lawsuit styled as State v. Philip Morris Inc." or [2] that has entered into a similar agreement also requiring annual payments. Plaintiffs challenged enforcement of the statute alleging that it abridges free speech, violates equal protection and due process guarantees, and is a bill of attainder. On November 19, 2003, the District Court upheld §

297F.24 against all of plaintiffs' challenges. On August 24, 2004, the Minnesota Court of Appeals affirmed. On September 23, 2004, plaintiffs filed a petition for review in the Minnesota Supreme Court, which is pending. The fee will generate an estimated $12.9 million over the current biennium. If the Supreme Court accepts review, it will likely issue a decision in the fall of 2005.

d. *ARRM et. al. v. Goodno*; *Masterman, et al. v. Goodno, et al.* These are two consolidated cases in U.S. District Court, in which the first group of plaintiffs is a trade association for residential facilities and an individual plaintiff, and the second group of plaintiffs is an advocacy group and four disabled individuals receiving services under Minnesota's Mental Retardation/Related Conditions (MR/RC) Waiver. All plaintiffs challenge the state's rebasing of MR/RC waiver funding. Plaintiffs allege that rebasing will reduce services that clients receive, reduce funding to facilities, and violate federal law. If plaintiffs are successful in their challenge, Minnesota's MR/RC waiver expenditures may increase by up to $56 million through fiscal year 2005. The federal government has filed a motion to dismiss in *ARRM,* which has not yet been heard. The parties reached a settlement in the *Masterman* lawsuit in late June of 2004. On August 18, 2004, the court issued a ruling on four motions in the *ARRM* case. As to the State, the court denied plaintiff's motion for injunction and dismissed some of plaintiff's claims pursuant to the State's motion to dismiss. The parties are engaged in discovery and exploring whether settlement may be possible.

e. *Hutchinson Technology, Inc. v. Commissioner of Revenue*, Tax Ct. Nos. 7398-R & 7504-R. The Tax Court held: (1) that Hutchinson Technology's wholly-owned FSC subsidiary qualified as a foreign operating corporation under Minn. Stat. § 290.01, subd. 6b; (2) that Hutchinson Technology was not entitled to the dividend received deduction provided under Minn. Stat. § 290.21, subd. 4(a)(1); and (3) that Hutchinson Technology was entitled to the reduction of income for fees received under Minn. Stat. § 290.01, subd. 19(11) (1994). All three issues are currently before the Minnesota Supreme Court. If the Supreme Court rules in favor of the taxpayer on all three of these issues, the Revenue Department estimates a potential revenue loss over the current biennium of approximately $117 million. A Supreme Court decision on these issues is expected in late spring - early summer 2005.

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

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

Note 23 – Subsequent Events

Primary Government

On July 20, 2004, $219,900,000 of general obligation state various purpose bonds and $80,100,000 of general obligation state trunk highway bonds were sold at a true interest rate of 4.03 percent. The bonds were issued to finance the cost of capital improvements. These bonds are backed by the full faith and credit and taxing powers of the state.

On October 19, 2004, $180,000,000 of general obligation state various purpose bonds, $40,000,000 of general obligation state trunk highway bonds, and $171,880,000 of general obligation state refunding bonds were sold at a true interest rate of 3.55 percent. The bonds were issued to finance the cost of capital improvements. These bonds are backed by the full faith and credit and taxing powers of the state.

Component Units

On May 27, 2004, the Minnesota Housing Finance Agency (HFA) approved series resolutions authorizing the issuance of $102,345,000 bonds for the purpose of providing funds for certain HFA home ownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G, were delivered on July 22, 2004.

On June 24, 2004, the HFA approved the remarketing of $38,610,000 convertible option Residential Housing Bonds 2003 Series H to provide funds for certain HFA homeownership programs. These bonds were remarketed on July 22, 2004.

On June 24, 2004, the HFA approved series resolutions authorizing the issuance of $41,510,000 convertible option. The Residential Housing Bonds, 2004 Series H, were delivered on July 22, 2004.

The HFA called for early redemption subsequent to June 30, 2004, for the following bonds:

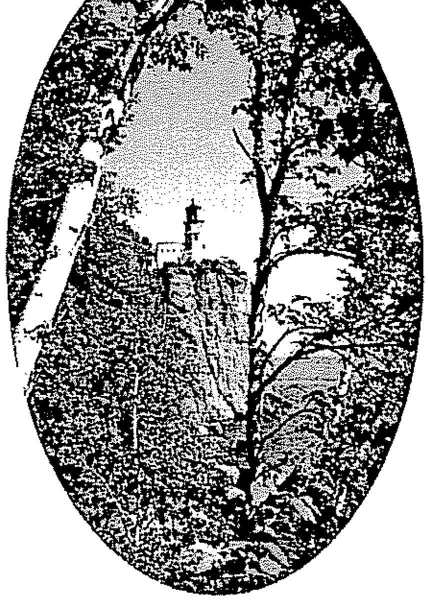
Program Funds	Retirement Date	Original Par Value
Residential Housing Finance	July 1, 2004	$ 8,290,000
Single Family	July 1, 2004	64,665,000
Rental Housing	July 26, 2004	1,640,000
Residential Housing Finance	August 20, 2004	1,670,000
Single Family	August 20, 2004	47,620,000
Rental Housing	September 16, 2004	870,000
Total		$ 124,755,000

On April 1, 2004, Metropolitan Council sold $41,375,000 General Obligation Transit Bond, Series 2004A; $25,000,000 General Obligation Waste Water Treatment Revenue Bonds, Series 2004B; and $6,000,000 General Obligation Park Bonds, Series 2004C.

Minnesota Technology, Incorporated (MTI) will no longer be included in the state's reporting entity as a discretely presented component unit beginning with the year ending June 30, 2005. The state is providing no base funding to MTI after the year ended June 30, 2004.

During July 2004, the Higher Education Services Office (HESO) issued $67,000,000 of 2004 Series A (Taxable) Supplemental Student Loan Program Revenue Bonds and $88,500,000 of 2004 Series B (Tax Exempt) Supplemental Student Loan Program Revenue Bonds.

On August 19, 2004, the Public Facilities Authority authorized the issuance of Clean Water Bond Fund (CWBF) revenue bonds, such principal amount not to exceed $240,000,000, and the amount of this total to be used for refunding outstanding CWBF revenue bonds not to exceed $120,000,000.



Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the state has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified 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 2,700 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
2003	3.40	3.24
2002	3.39	3.30
2001	3.47	3.35
2000	3.47	3.35
1999	3.45	3.33

Bridges and Tunnels

Measurement Scale

Mn/DOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating will be used to determine if the bridge system is being maintained at a serviceable level for the condition of the 2,705 bridges under Mn/DOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have some minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

Good - If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.

Fair - If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.

Poor - If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

Principal Arterial	2003	2002	2001	2000	1999
Fair to Good	96.0%	95.6%	95.9%	96.1%	96.3%

All Other Systems	2003	2002	2001	2000	1999
Fair to Good	96.6%	92.2%	90.8%	89.6%	90.1%

Budgeted and Estimated Costs to Maintain

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

	2004		2003		2002	
	Budget	Actual	Budget	Actual	Budget	Actual
Costs to be Capitalized	$ 260,900	$ 504,288	$ 719,300	$ 333,605	$ 296,500	$ 258,803
Maintenance of System	426,000	227,996	316,400	304,029	417,400	357,823
Total Construction Program	$ 686,900	$ 732,284	$ 1,035,700	$ 637,634	$ 713,900	$ 616,626

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

Actuarial Measures of Pension Funding Progress

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

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

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

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

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

		SPRF	CERF	JRF	LRF
Actuarial Valuation Date	2003[1]	7/1/2003	7/1/2003	7/1/2003	-
	2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
	2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
	2000	-	-	-	7/1/2000
Actuarial Value of Plan Assets	2003	$ 591,521	$ 470,716	$ 134,142	-
	2002	$ 591,383	$ 457,416	$ 131,379	$ 45,501
	2001	$ 572,815	$ 431,134	$ 123,589	$ 42,608
	2000	-	-	-	$ 37,265
Actuarial Accrued Liability	2003	$ 538,980	$ 484,974	$ 176,291	-
	2002	$ 510,344	$ 446,426	$ 171,921	$ 78,070
	2001	$ 489,483	$ 398,633	$ 165,244	$ 75,072
	2000	-	-	-	$ 69,364
Total Unfunded Actuarial Liability (Asset)	2003	$ (52,541)	$ 14,258	$ 42,149	-
	2002	$ (81,039)	$ (10,990)	$ 40,542	$ 32,569
	2001	$ (83,332)	$ (32,501)	$ 41,655	$ 32,464
	2000	-	-	-	$ 32,099
Funded Ratio[2]	2003	110%	97%	76%	-
	2002	116%	102%	76%	58%
	2001	117%	108%	75%	57%
	2000	-	-	-	54%
Annual Covered Payroll	2003	$ 54,175	$ 131,328	$ 33,771	-
	2002	$ 49,278	$ 124,373	$ 31,078	$ 5,089
	2001	$ 48,935	$ 120,947	$ 28,246	$ 5,858
	2000	-	-	-	$ 5,808
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2003	(97%)	11%	125%	-
	2002	(164%)	(9%)	130%	640%
	2001	(170%)	(27%)	147%	554%
	2000	-	-	-	553%

[1]The July 1, 2003, Annual Valuation Report is the most recently issued report available. Effective with the July 1, 2002, Annual Valuation Report, the LRF is included biennially in even-numbered years only.
[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 six years.

	Fiscal and Policy Year Ended (In Thousands)						
	1998	1999	2000	2001	2002	2003	2004
1. Required Contribution and Investment Revenue:							
Earned	$ 2,564	$ 7,713	$ 10,995	$ 18,005	$ 22,149	$ 23,458	$ 22,764
Ceded	195	624	1,031	1,972	2,243	2,321	2,231
Net Earned	$ 2,369	$ 7,089	$ 9,964	$ 16,033	$ 19,906	$ 21,137	$ 20,533
2. Unallocated Expenses	$ 538	$ 1,458	$ 1,983	$ 2,535	$ 2,715	$ 2,528	$ 2,296
3. Estimated Claims and Expenses End of Policy Year:							
Incurred	$ 2,002	$ 5,800	$ 9,972	$ 16,550	$ 21,055	$ 19,715	$ 19,466
Ceded	91	171	772	760	2,513	1,570	1,980
Net Incurred	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486
4. Net Paid (Cumulative) as of:							
End of Policy Year	$ 1,376	$ 4,678	$ 7,944	$ 13,228	$ 15,824	$ 15,848	$ 15,699
One Year Later	1,849	5,817	9,240	15,908	18,091	17,572	
Two Years Later	1,850	5,818	9,243	15,963	18,034		
Three Years Later	1,850	5,818	9,243	15,963			
Four Years Later	1,850	5,818	9,243				
Five Years Later	1,850	5,818					
Six Years Later	1,850						
5. Re-estimated Ceded Claims and Expenses	$ 91	$ 171	$ 772	$ 760	$ 2,513	$ 1,570	$ 1,980
6. Re-estimated Net Incurred Claims and Expenses:							
End of Policy Year	$ 1,911	$ 5,629	$ 9,200	$ 15,790	$ 18,542	$ 18,145	$ 17,486
One Year Later	1,854	5,828	9,253	15,935	18,114	17,595	
Two Years Later	1,850	5,818	9,243	15,963	18,034		
Three Years Later	1,850	5,818	9,243	15,963			
Four Years Later	1,850	5,818	9,243				
Five Years Later	1,850	5,818					
Six Years Later	1,850						
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year	$ (61)	$ 189	$ 43	$ 173	$ (508)	$ (550)	$ -

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.

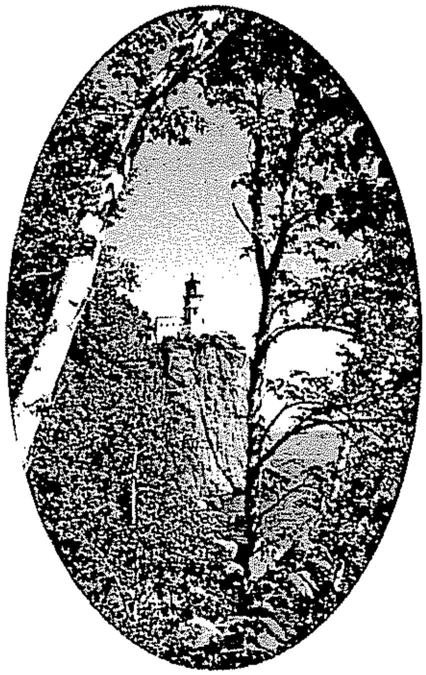
3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage 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.

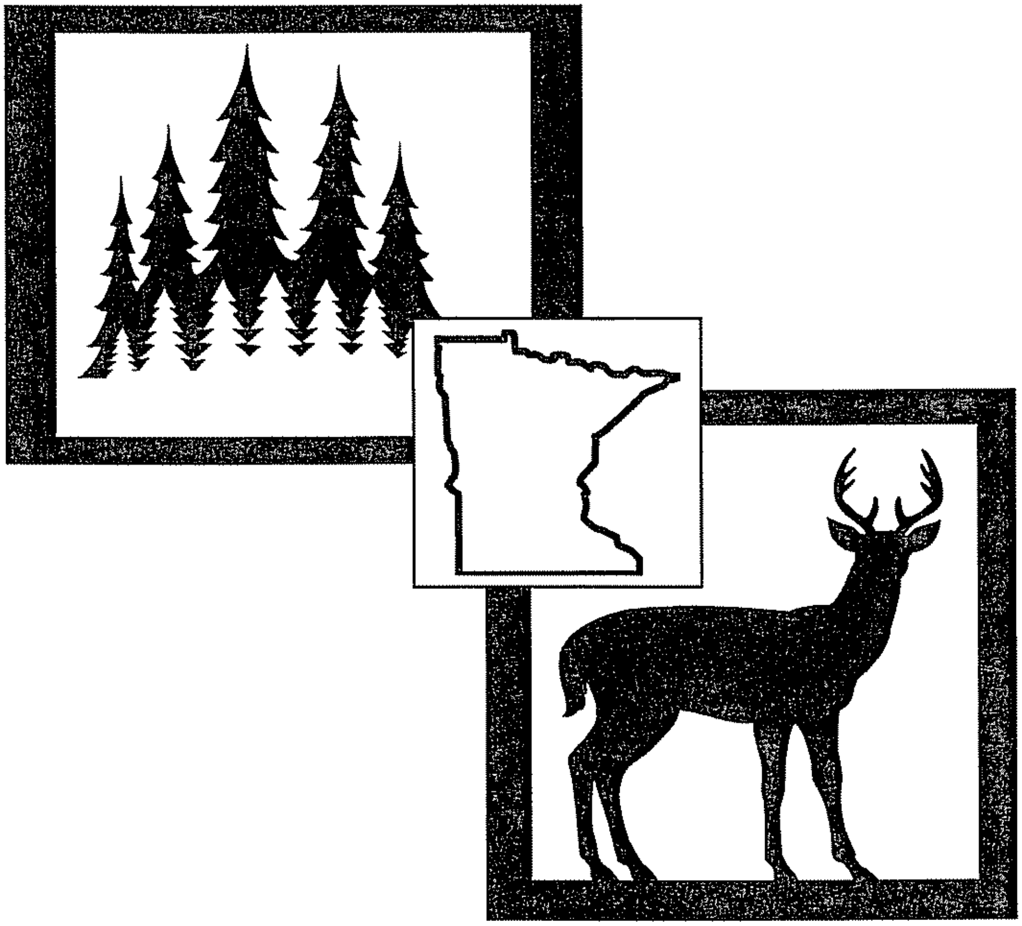
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)

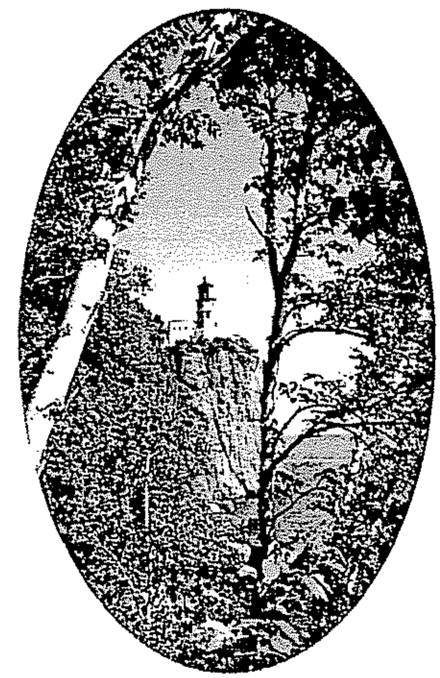
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original 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.



Combining and Individual Fund Statements – Nonmajor Funds

2004 Comprehensive Annual Financial Report





Debt Service

Debt Service Fund

The fund accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.

Permanent Fund

Permanent School Fund

The constitutionally established trust fund receives revenue from investments and the sale of state land and timber for distribution to school districts.

NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
COMBINING BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	SPECIAL REVENUE	DEBT SERVICE	PERMANENT PERMANENT SCHOOL	CAPITAL PROJECTS	TOTAL
ASSETS					
Cash and Cash Equivalents	$ 1,723,664	$ 354,236	$ 101,650	$ 19,893	$ 2,199,443
Investments	354,426	70,828	480,249	-	905,503
Accounts Receivable	328,207	20	2,148	3	330,378
Interfund Receivables	137,725	-	-	-	137,725
Due from Component Units	-	122,347	-	-	122,347
Accrued Investment/Interest Income	4,722	866	3,125	-	8,713
Federal Aid Receivable	87,530	-	-	-	87,530
Inventories	15,202	-	-	-	15,202
Loans and Notes Receivable	234,598	-	-	41,525	276,123
Securities Lending Collateral	194,102	76,829	21,985	-	292,916
Investment in Land	-	-	15,441	-	15,441
Total Assets	$ 3,080,176	$ 625,126	$ 624,598	$ 61,421	$ 4,391,321
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 400,407	$ -	$ -	$ 27,834	$ 428,241
Interfund Payables	91,153	14,156	6,568	31,229	143,106
Due to Component Units	28,565	-	-	9,759	38,324
Deferred Revenue	168,951	3,262	-	-	172,213
Securities Lending Collateral	194,102	76,829	21,985	-	292,916
Total Liabilities	$ 883,178	$ 94,247	$ 28,553	$ 68,822	$ 1,074,800
Fund Balances:					
Reserved Fund Balances:					
Reserved for Encumbrances	$ 259,365	$ -	$ -	$ -	$ 259,365
Reserved for Local Governments	435,652	-	5,375	-	441,027
Reserved for Trust Principal	327,758	-	590,670	-	918,428
Other Reserved Fund Balances	331,475	530,879	-	54,939	917,293
Total Reserved Fund Balances	$ 1,354,250	$ 530,879	$ 596,045	$ 54,939	$ 2,536,113
Unreserved Fund Balances:					
Designated for Appropriation Carryover	$ 291,809	$ -	$ -	$ -	$ 291,809
Designated for Special Revenue Funds	288,309	-	-	-	288,309
Undesignated, reported in:					
Capital Project Funds	-	-	-	(62,340)	(62,340)
Special Revenue Funds	262,630	-	-	-	262,630
Total Unreserved Fund Balances	$ 842,748	$ -	$ -	$ (62,340)	$ 780,408
Total Fund Balances	$ 2,196,998	$ 530,879	$ 596,045	$ (7,401)	$ 3,316,521
Total Liabilities and Fund Balances	$ 3,080,176	$ 625,126	$ 624,598	$ 61,421	$ 4,391,321

NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	SPECIAL REVENUE	DEBT SERVICE	PERMANENT PERMANENT SCHOOL	CAPITAL PROJECTS	TOTAL
Net Revenues:					
Sales Taxes	$ -	$ 1,241	$ -	$ -	$ 1,241
Motor Vehicle Taxes	689,615	-	-	-	689,615
Fuel Taxes	651,261	-	-	-	651,261
Other Taxes	461,664	-	-	-	461,664
Federal Revenues	382,875	-	-	-	382,875
Licenses and Fees	242,094	-	-	-	242,094
Departmental Services	155,042	-	15,631	-	170,673
Investment/Interest Income	71,681	5,361	60,839	226	138,107
Penalties and Fines	16,855	-	14	-	16,869
Securities Lending Income	1,133	648	228	-	2,009
Other Revenues	165,750	9,361	539	4	175,654
Net Revenues	$ 2,837,970	$ 16,611	$ 77,251	$ 230	$ 2,932,062
Expenditures:					
Current:					
Public Safety and Corrections	$ 170,513	$ -	$ -	$ 328	$ 170,841
Transportation	1,177,176	-	-	48,859	1,226,035
Agricultural and Environmental Resources	293,935	-	6,571	57,519	358,025
Economic and Workforce Development	191,563	-	-	8,158	199,721
General Education	(33,344)	-	15,953	8,157	(9,234)
Higher Education	25,788	-	-	45,116	70,904
Health and Human Services	596,375	-	-	-	596,375
General Government	64,781	176	-	27,318	92,275
Intergovernment Aid	209	-	-	-	209
Securities Lending Rebates and Fees	1,062	623	171	-	1,856
Total Current Expenditures	$ 2,488,058	$ 799	$ 22,695	$ 195,455	$ 2,707,007
Capital Outlay	619,014	-	-	58,658	677,672
Debt Service	10,887	407,433	-	-	418,320
Total Expenditures	$ 3,117,959	$ 408,232	$ 22,695	$ 254,113	$ 3,802,999
Excess of Revenues Over (Under) Expenditures	$ (279,989)	$ (391,621)	$ 54,556	$ (253,883)	$ (870,937)
Other Financing Sources (Uses):					
General Obligation Bond Issue Proceeds	$ 171,000	$ 7,500	$ -	$ 239,437	$ 417,937
Refunding Bonds Sale	-	20,855	-	-	20,855
Payment of Refunding Bonds	-	(425,715)	-	-	(425,715)
Bond Issue Premium	-	33,455	-	-	33,455
Transfers-In	1,686,607	305,751	-	-	1,992,358
Transfers-Out	(2,511,895)	-	-	(117,992)	(2,629,887)
Capital Leases	1,390	-	-	-	1,390
Net Other Financing Sources (Uses)	$ (652,898)	$ (58,154)	$ -	$ 121,445	$ (589,607)
Net Change in Fund Balances	$ (932,887)	$ (449,775)	$ 54,556	$ (132,438)	$ (1,460,544)
Fund Balances, Beginning, as Reported	$ 3,128,453	$ 980,654	$ 541,489	$ 125,037	$ 4,775,633
Change in Inventory	1,432	-	-	-	1,432
Fund Balances, Ending	$ 2,196,998	$ 530,879	$ 596,045	$ (7,401)	$ 3,316,521

Trunk Highway Fund

The fund is supported by revenues from the Highway User Tax Distribution Fund and federal grants to plan, design, construct and maintain the state trunk highway system.

Highway User Tax Distribution Fund

The fund receives revenue from taxes on motor vehicles and motor fuels for transfer to various transportation related funds.

State Airports Fund

The fund uses revenue from aviation related taxes and fees to provide technical and financial assistance to municipal airports and to promote aviation safety, planning and regulation.

Municipal State-Aid Street Fund

The fund receives 8.95 percent of the revenue received by the Highway User Tax Distribution Fund primarily for distribution to municipalities for improvement of streets.

County State-Aid Highway Fund

The fund receives 30.75 percent of the revenue received by the Highway User Tax Distribution Fund primarily for distribution to counties for improvement of county roads.

Petroleum Tank Cleanup Fund

The fund receives funding from a fee imposed on petroleum distributors to reimburse responsible parties for most of their costs to clean up environmental contamination from petroleum tanks.

Solid Waste Fund

The fund receives funding from a fee imposed on solid waste haulers to clean up closed municipal landfills.

Minnesota Resources Fund

The fund receives a portion of the cigarette and tobacco taxes, which is appropriated for various natural resource development purposes.

Natural Resources Fund

The fund receives taxes from fuel used in recreational vehicles, and fees and donations which are used to fund management of the related natural resource programs.

Game and Fish Fund

The fund receives revenues from license fees and fines related to hunting and fishing which are spent for related purposes.

Environment and Natural Resources Fund

The fund receives the investment earnings and a portion of the net lottery proceeds in accordance with a plan approved by the Minnesota Future Resource Commission.

Environmental Fund

The fund accounts for activities that monitor and control environmental problems using taxes and fees from activities and industries contributing to environmental problems.

Remediation Fund

The fund accounts for activities that respond to and correct releases of hazardous substances, pollutants, chemicals, and petroleum, as well as environmental actions at qualified landfill facilities.

Iron Range Resources and Rehabilitation Fund

The fund receives revenues from taconite taxes which are used to promote economic development in northeastern Minnesota.

Douglas J. Johnson Economic Protection Trust Fund (formerly: Northeast Minnesota Economic Protection Fund)

The fund receives distribution from taconite production taxes to be held in trust or expended only in economic emergency for the purposes of rehabilitation and diversification of industry in the area largely dependent on the taconite mining industry.

Endowment Fund

The fund receives gifts, donations and endowments which may be expended only for those purposes specified by the donors.

Maximum Effort School Loan Fund

The fund receives bond proceeds and reimbursements from school districts to help finance school district construction projects.

Special Compensation Fund

The fund receives assessments on all insurers for administration of the state workers' compensation program, including enforcement, for reimbursement of certain supplemental benefits, and for payment of claims to employees of uninsured and bankrupt firms.

Health Care Access Fund

The fund receives taxes on health service providers and premiums for programs to help contain the costs of health care, make reforms in health insurance, and provide competitively priced insurance for people unable to obtain affordable coverage.

Medical Education and Research Fund

The fund receives revenues from state and federal government health care assistance programs. These funds are used for medical education activities in the state of Minnesota.

Tobacco Use Prevention Fund

The fund receives tobacco settlement payments as a result of a lawsuit.

Miscellaneous Special Revenue Fund

The fund includes numerous smaller accounts whose revenues are dedicated to a variety of specific purposes.

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	TRUNK HIGHWAY	HIGHWAY USER TAX DISTRIBUTION	STATE AIRPORTS	MUNICIPAL STATE-AID STREET	COUNTY STATE-AID HIGHWAY
ASSETS					
Cash and Cash Equivalents	$ 317,471	$ 5,110	$ 18,658	$ 132,063	$ 382,385
Investments	-	-	-	-	-
Accounts Receivable	8,857	78,371	962	709	2,289
Interfund Receivables	36,328	-	-	5,254	20,006
Accrued Investment/Interest Income	-	-	-	-	-
Federal Aid Receivable	86,548	-	-	150	56
Inventories	15,202	-	-	-	-
Loans and Notes Receivable	-	-	3,547	-	-
Securities Lending Collateral	46,097	-	-	22,416	62,729
Total Assets	$ 510,503	$ 83,481	$ 23,167	$ 160,592	$ 467,465
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 102,208	$ 1,154	$ 5,016	$ 29,815	$ 75,362
Interfund Payables	-	68,786	-	-	-
Due to Component Units	-	-	-	-	-
Deferred Revenue	2,313	6,010	-	-	-
Securities Lending Collateral	46,097	-	-	22,416	62,729
Total Liabilities	$ 150,618	$ 75,950	$ 5,016	$ 52,231	$ 138,091
Fund Balances:					
Reserved Fund Balances:					
Reserved for Encumbrances	$ 154,711	$ 73	$ 4,933	$ 569	$ 1,514
Reserved for Inventory	15,202	-	-	-	-
Reserved for Long-Term Receivables	-	-	3,547	-	-
Reserved for Long-Term Commitments	78,162	-	-	-	-
Reserved for Local Governments	-	-	-	107,792	327,860
Reserved for Trust Principal	-	-	-	-	-
Total Reserved Fund Balances	$ 248,075	$ 73	$ 8,480	$ 108,361	$ 329,374
Unreserved Fund Balances:					
Designated for Appropriation Carryover	$ 111,810	$ 679	$ 5,144	$ -	$ -
Designated for Fund Purposes	-	6,779	4,527	-	-
Undesignated	-	-	-	-	-
Total Unreserved Fund Balances	$ 111,810	$ 7,458	$ 9,671	$ -	$ -
Total Fund Balances	$ 359,885	$ 7,531	$ 18,151	$ 108,361	$ 329,374
Total Liabilities and Fund Balances	$ 510,503	$ 83,481	$ 23,167	$ 160,592	$ 467,465

PETROLEUM TANK CLEANUP	SOLID WASTE	MINNESOTA RESOURCES	NATURAL RESOURCES	GAME AND FISH	ENVIRONMENT AND NATURAL RESOURCES	ENVIRON-MENTAL	REMEDIATION
$ 24,575	$ -	$ 4,384	$ 31,596	$ 30,899	$ 66,397	$ 36,540	$ 53,634
-	-	-	-	2,229	293,247	-	17,761
156	-	-	653	2,179	-	6,105	511
-	-	-	8,021	691	1,466	4,963	-
-	-	-	-	10	1,401	-	31
-	-	-	-	776	-	-	-
-	-	-	-	-	-	-	-
98	-	-	-	-	-	377	-
-	-	-	-	83	11,037	-	414
$ 24,829	$ -	$ 4,384	$ 40,270	$ 36,867	$ 373,548	$ 47,985	$ 72,351
$ 14,191	$ -	$ 466	$ 6,747	$ 5,876	$ 4,394	$ 1,394	$ 6,364
-	-	-	-	-	-	-	-
-	-	-	366	-	554	-	-
147	-	-	-	-	-	3,344	-
-	-	-	-	83	11,037	-	414
$ 14,338	$ -	$ 466	$ 7,113	$ 5,959	$ 15,985	$ 4,738	$ 6,778
$ 9,848	$ -	$ 1,529	$ 3,944	$ 3,091	$ 6,209	$ 607	$ 3,822
-	-	-	-	-	-	-	-
98	-	-	-	-	-	377	-
-	-	-	-	-	-	-	31,364
-	-	-	-	-	-	-	-
-	-	-	-	-	327,758	-	-
$ 9,946	$ -	$ 1,529	$ 3,944	$ 3,091	$ 333,967	$ 984	$ 35,186
$ -	$ -	$ 1,407	$ 11,740	$ 10,288	$ 2,406	$ 5,816	$ 9,104
545	-	-	-	-	21,190	-	-
-	-	982	17,473	17,529	-	36,447	21,283
$ 545	$ -	$ 2,389	$ 29,213	$ 27,817	$ 23,596	$ 42,263	$ 30,387
$ 10,491	$ -	$ 3,918	$ 33,157	$ 30,908	$ 357,563	$ 43,247	$ 65,573
$ 24,829	$ -	$ 4,384	$ 40,270	$ 36,867	$ 373,548	$ 47,985	$ 72,351

CONTINUED

NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
COMBINING BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	IRON RANGE RESOURCES & REHABILITATION	D J JOHNSON ECONOMIC PROTECTION TRUST FUND	ENDOWMENT	MAXIMUM EFFORT SCHOOL LOAN
ASSETS				
Cash and Cash Equivalents	$ 35,787	$ 69,285	$ 13,804	$ 3,846
Investments	-	40,642	547	-
Accounts Receivable	6,584	4	239	-
Interfund Receivables	2,000	-	-	-
Accrued Investment/Interest Income	-	287	3	2,990
Federal Aid Receivable	-	-	-	-
Inventories	-	-	-	-
Loans and Notes Receivable	1,491	24,807	-	106,810
Securities Lending Collateral	-	1,975	-	-
Total Assets	$ 45,862	$ 137,000	$ 14,593	$ 113,646
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 1,571	$ 269	$ 579	$ -
Interfund Payables	-	-	1,209	-
Due to Component Units	-	-	-	-
Deferred Revenue	65	7	-	34,687
Securities Lending Collateral	-	1,975	-	-
Total Liabilities	$ 1,636	$ 2,251	$ 1,788	$ 34,687
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 23,630	$ 5,566	$ 1,003	$ -
Reserved for Inventory	-	-	-	-
Reserved for Long-Term Receivables	1,491	24,807	-	78,959
Reserved for Long-Term Commitments	-	-	-	-
Reserved for Local Governments	-	-	-	-
Reserved for Trust Principal	-	-	-	-
Total Reserved Fund Balances	$ 25,121	$ 30,373	$ 1,003	$ 78,959
Unreserved Fund Balances:				
Designated for Appropriation Carryover	$ 19,105	$ 104,376	$ -	$ -
Designated for Fund Purposes	-	-	11,802	-
Undesignated	-	-	-	-
Total Unreserved Fund Balances	$ 19,105	$ 104,376	$ 11,802	$ -
Total Fund Balances	$ 44,226	$ 134,749	$ 12,805	$ 78,959
Total Liabilities and Fund Balances	$ 45,862	$ 137,000	$ 14,593	$ 113,646

SPECIAL COMPENSATION	HEALTH CARE ACCESS	MEDICAL EDUCATION AND RESEARCH	TOBACCO USE PREVENTION	MISCELLANEOUS SPECIAL REVENUE	TOTAL
$ 27,337	$ 123,382	$ 30,212	$ -	$ 316,299	$ 1,723,664
-	-	-	-	-	354,426
110,264	60,715	-	-	49,609	328,207
-	16,421	26,694	-	15,881	137,725
-	-	-	-	-	4,722
-	-	-	-	-	87,530
-	-	-	-	-	15,202
-	-	-	-	97,468	234,598
-	29,647	-	-	19,704	194,102
$ 137,601	$ 230,165	$ 56,906	$ -	$ 498,961	$ 3,080,176
$ 8,187	$ 33,109	$ 26,656	$ -	$ 77,049	$ 400,407
-	4,516	-	-	16,642	91,153
-	-	27,645	-	-	28,565
109,801	3,374	-	-	9,203	168,951
-	29,647	-	-	19,704	194,102
$ 117,988	$ 70,646	$ 54,301	$ -	$ 122,598	$ 883,178
$ 345	$ 2,314	$ 228	$ -	$ 35,429	$ 259,365
-	-	-	-	-	15,202
-	-	-	-	97,468	206,747
-	-	-	-	-	109,526
-	-	-	-	-	435,652
-	-	-	-	-	327,758
$ 345	$ 2,314	$ 228	$ -	$ 132,897	$ 1,354,250
$ 4,385	$ 5,549	$ -	$ -	$ -	$ 291,809
-	-	-	-	243,466	288,309
14,883	151,656	2,377	-	-	262,630
$ 19,268	$ 157,205	$ 2,377	$ -	$ 243,466	$ 842,748
$ 19,613	$ 159,519	$ 2,605	$ -	$ 376,363	$ 2,196,998
$ 137,601	$ 230,165	$ 56,906	$ -	$ 498,961	$ 3,080,176

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	TRUNK HIGHWAY	HIGHWAY USER TAX DISTRIBUTION	STATE AIRPORTS	MUNICIPAL STATE-AID STREET	COUNTY STATE-AID HIGHWAY
Net Revenues:					
Motor Vehicle Taxes	$ -	$ 671,624	$ 13,122	$ 1,009	$ 3,860
Fuel Taxes	-	647,723	3,538	-	-
Other Taxes	-	-	-	-	-
Federal Revenues	358,235	-	-	180	151
Licenses and Fees	29,573	11,645	334	-	-
Departmental Services	1,179	384	-	-	-
Investment/Interest Income	2,522	793	222	1,451	4,002
Penalties and Fines	2,256	894	-	-	-
Securities Lending Income	233	-	-	134	369
Other Revenues	42,742	144	244	-	-
Net Revenues	$ 436,740	$ 1,333,207	$ 17,460	$ 2,774	$ 8,382
Expenditures:					
Current:					
Public Safety and Corrections	$ 93,210	$ 17,815	$ -	$ -	$ -
Transportation	589,215	472	22,692	144,108	420,689
Agricultural and Environmental Resources	-	-	-	-	-
Economic and Workforce Development	-	-	-	-	-
General Education	-	-	-	-	-
Higher Education	-	-	-	-	-
Health and Human Services	-	-	-	-	-
General Government	192	2,072	-	-	-
Intergovernment Aid	-	-	-	-	-
Securities Lending Rebates and Fees	224	-	-	129	355
Total Current Expenditures	$ 682,841	$ 20,359	$ 22,692	$ 144,237	$ 421,044
Capital Outlay	607,501	-	-	-	-
Debt Service	4,358	-	-	-	-
Total Expenditures	$ 1,294,700	$ 20,359	$ 22,692	$ 144,237	$ 421,044
Excess of Revenues Over (Under) Expenditures	$ (857,960)	$ 1,312,848	$ (5,232)	$ (141,463)	$ (412,662)
Other Financing Sources (Uses):					
General Obligation Bond Issue Proceeds	$ 142,500	$ -	$ -	$ -	$ -
Transfers-In	777,079	-	-	126,205	425,648
Transfers-Out	(16,289)	(1,324,964)	-	-	(14,400)
Capital Leases	-	-	-	-	-
Net Other Financing Sources (Uses)	$ 903,290	$ (1,324,964)	$ -	$ 126,205	$ 411,248
Net Change in Fund Balances	$ 45,330	$ (12,116)	$ (5,232)	$ (15,258)	$ (1,414)
Fund Balances, Beginning, as Reported	$ 313,123	$ 19,647	$ 23,383	$ 123,619	$ 330,788
Change in Fund Structure	-	-	-	-	-
Fund Balances, Beginning, as Restated	$ 313,123	$ 19,647	$ 23,383	$ 123,619	$ 330,788
Change in Inventory	1,432	-	-	-	-
Fund Balances, Ending	$ 359,885	$ 7,531	$ 18,151	$ 108,361	$ 329,374

PETROLEUM TANK CLEANUP	SOLID WASTE	MINNESOTA RESOURCES	NATURAL RESOURCES	GAME AND FISH	ENVIRONMENT AND NATURAL RESOURCES	ENVIRON-MENTAL	REMEDIATION
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	32,275	670
-	-	-	1,915	16,327	-	-	-
25,483	-	-	14,022	55,025	-	18,600	486
-	-	-	9,018	487	-	11	87
281	-	80	134	584	40,428	380	3,978
53	-	-	68	279	-	646	369
-	-	-	-	1	114	-	-
207	-	29	1,186	42	336	13	11,024
$ 26,024	$ -	$ 109	$ 26,343	$ 72,745	$ 40,878	$ 51,925	$ 16,614
$ -	$ -	$ -	$ -	$ -	$ -	$ 48	$ -
-	-	-	-	-	-	-	-
22,485	880	2,452	50,430	77,131	19,715	38,393	32,727
-	-	-	-	-	-	369	225
-	-	-	-	-	75	-	-
-	-	-	-	-	271	-	-
-	-	-	-	-	75	-	178
-	-	15	-	-	415	415	116
-	-	-	-	-	-	-	-
-	-	-	-	1	86	-	-
$ 22,485	$ 880	$ 2,467	$ 50,430	$ 77,132	$ 20,637	$ 39,225	$ 33,246
-	40	361	294	2,735	449	33	871
-	-	-	115	-	-	-	-
$ 22,485	$ 920	$ 2,828	$ 50,839	$ 79,867	$ 21,086	$ 39,258	$ 34,117
$ 3,539	$ (920)	$ (2,719)	$ (24,496)	$ (7,122)	$ 19,792	$ 12,667	$ (17,503)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	24,981	10,090	26,682	-	7,899
(7,899)	-	(567)	(11)	(13)	(15)	(5,134)	(9,905)
-	-	-	-	-	-	-	-
$ (7,899)	$ -	$ (567)	$ 24,970	$ 10,077	$ 26,667	$ (5,134)	$ (2,006)
$ (4,360)	$ (920)	$ (3,286)	$ 474	$ 2,955	$ 46,459	$ 7,533	$ (19,509)
$ 14,851	$ 73,361	$ 7,204	$ 32,683	$ 27,953	$ 311,104	$ 48,355	$ -
-	(72,441)	-	-	-	-	(12,641)	85,082
$ 14,851	$ 920	$ 7,204	$ 32,683	$ 27,953	$ 311,104	$ 35,714	$ 85,082
-	-	-	-	-	-	-	-
$ 10,491	$ -	$ 3,918	$ 33,157	$ 30,908	$ 357,563	$ 43,247	$ 65,573

CONTINUED

NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	IRON RANGE RESOURCES & REHABILITATION	D J JOHNSON ECONOMIC PROTECTION TRUST FUND	ENDOWMENT	MAXIMUM EFFORT SCHOOL LOAN
Net Revenues:				
Motor Vehicle Taxes	$ -	$ -	$ -	$ -
Fuel Taxes	-	-	-	-
Other Taxes	13,061	756	-	-
Federal Revenues	-	-	-	-
Licenses and Fees	-	-	-	-
Departmental Services	304	-	-	-
Investment/Interest Income	438	5,325	254	1,845
Penalties and Fines	-	-	-	-
Securities Lending Income	-	20	-	-
Other Revenues	33	67	7,741	-
Net Revenues	$ 13,836	$ 6,168	$ 7,995	$ 1,845
Expenditures:				
Current:				
Public Safety and Corrections	$ -	$ -	$ 165	$ -
Transportation	-	-	-	-
Agricultural and Environmental Resources	-	-	2,964	-
Economic and Workforce Development	16,110	1,958	89	-
General Education	-	-	1,744	(51,023)
Higher Education	-	-	-	-
Health and Human Services	-	-	759	-
General Government	-	-	828	-
Intergovernment Aid	-	-	-	-
Securities Lending Rebates and Fees	-	15	-	-
Total Current Expenditures	$ 16,110	$ 1,973	$ 6,549	$ (51,023)
Capital Outlay	114	-	464	-
Debt Service	-	-	-	-
Total Expenditures	$ 16,224	$ 1,973	$ 7,013	$ (51,023)
Excess of Revenues Over (Under) Expenditures	$ (2,388)	$ 4,195	$ 982	$ 52,868
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ -	$ -	$ -	$ 28,500
Transfers-In	10,057	-	-	-
Transfers-Out	(5,295)	-	(1,237)	(13,876)
Capital Leases	-	-	-	-
Net Other Financing Sources (Uses)	$ 4,762	$ -	$ (1,237)	$ 14,624
Net Change in Fund Balances	$ 2,374	$ 4,195	$ (255)	$ 67,492
Fund Balances, Beginning, as Reported	$ 41,852	$ 130,554	$ 13,060	$ 11,467
Change in Fund Structure	-	-	-	-
Fund Balances, Beginning, as Restated	$ 41,852	$ 130,554	$ 13,060	$ 11,467
Change in Inventory	-	-	-	-
Fund Balances, Ending	$ 44,226	$ 134,749	$ 12,805	$ 78,959

SPECIAL COMPENSATION	HEALTH CARE ACCESS	MEDICAL EDUCATION AND RESEARCH	TOBACCO USE PREVENTION	MISCELLANEOUS SPECIAL REVENUE	TOTAL
$ -	$ -	$ -	$ -	$ -	$ 689,615
-	-	-	-	-	651,261
109,992	283,515	-	-	21,395	461,664
-	-	-	-	6,067	382,875
1,030	-	-	-	85,896	242,094
785	19,072	-	-	123,715	155,042
591	1,660	-	-	6,713	71,681
3,277	-	-	-	9,013	16,855
-	153	-	-	109	1,133
-	54	1,480	-	100,408	165,750
$ 115,675	$ 304,454	$ 1,480	$ -	$ 353,316	$ 2,837,970
$ -	$ -	$ -	$ -	$ 59,275	$ 170,513
-	-	-	-	-	1,177,176
-	-	-	-	46,758	293,935
102,134	-	-	-	70,678	191,563
-	-	-	-	15,860	(33,344)
-	2,157	-	-	23,360	25,788
-	321,993	60,520	-	212,850	596,375
6,707	1,638	-	-	52,383	64,781
-	-	-	-	209	209
-	147	-	-	105	1,062
$ 108,841	$ 325,935	$ 60,520	$ -	$ 481,478	$ 2,488,058
-	252	-	-	5,900	619,014
-	208	-	-	6,206	10,887
$ 108,841	$ 326,395	$ 60,520	$ -	$ 493,584	$ 3,117,959
$ 6,834	$ (21,941)	$ (59,040)	$ -	$ (140,268)	$ (279,989)
$ -	$ -	$ -	$ -	$ -	$ 171,000
-	4,600	54,813	-	218,553	1,686,607
-	(20,962)	(573,087)	(464,026)	(54,215)	(2,511,895)
-	-	-	-	1,390	1,390
$ -	$ (16,362)	$ (518,274)	$ (464,026)	$ 165,728	$ (652,898)
$ 6,834	$ (38,303)	$ (577,314)	$ (464,026)	$ 25,460	$ (932,887)
$ 12,779	$ 197,822	$ 579,919	$ 464,026	$ 350,903	$ 3,128,453
-	-	-	-	-	-
$ 12,779	$ 197,822	$ 579,919	$ 464,026	$ 350,903	$ 3,128,453
-	-	-	-	-	1,432
$ 19,613	$ 159,519	$ 2,605	$ -	$ 376,363	$ 2,196,998

NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	TRUNK HIGHWAY		HIGHWAY USER TAX DISTRIBUTION	
	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
Net Revenues:				
Motor Vehicle Taxes	$ -	$ -	$ 670,884	$ 710,557
Fuel Taxes	-	-	647,898	619,671
Other Taxes	-	-	-	-
Federal Revenues	348,600	300,580	-	-
Licenses and Fees	-	-	-	-
Departmental Services	35,195	33,031	10,322	1,381
Investment/Interest Income	3,400	2,531	950	705
Other Revenues	44,374	44,317	1,015	128
Net Revenues	$ 431,569	$ 380,459	$ 1,331,069	$ 1,332,442
Expenditures:				
Public Safety and Corrections	$ 91,697	$ 91,696	$ 17,521	$ 17,521
Transportation	1,142,366	1,138,597	472	472
Agricultural and Environmental Resources	-	-	-	-
Economic and Workforce Development	-	-	-	-
Higher Education	-	-	-	-
Health and Human Services	-	-	-	-
General Government	298	298	1,999	1,999
Intergovernment Aid	-	-	-	-
Total Expenditures	$ 1,234,361	$ 1,230,591	$ 19,992	$ 19,992
Excess of Revenues Over (Under) Expenditures	$ (802,792)	$ (850,132)	$ 1,311,077	$ 1,312,450
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ 510,510	$ 142,500	$ -	$ -
Transfers-In	781,416	781,123	-	-
Transfers-Out	(16,289)	(16,289)	(1,332,005)	(1,332,005)
Net Other Financing Sources (Uses)	$ 1,275,637	$ 907,334	$ (1,332,005)	$ (1,332,005)
Net Change in Fund Balances	$ 472,845	$ 57,202	$ (20,928)	$ (19,555)
Fund Balances, Beginning, as Reported	$ 13,435	$ 13,435	$ 20,928	$ 20,928
Prior Period Adjustments	-	(50,598)	-	21
Change in Fund Structure	-	-	-	-
Fund Balances, Beginning, as Restated	$ 13,435	$ (37,163)	$ 20,928	$ 20,949
Fund Balances, Ending	$ 486,280	$ 20,039	$ -	$ 1,394
Less Appropriation Carryover	-	111,810	-	679
Undesignated Fund Balances, Ending	$ 486,280	$ (91,771)	$ -	$ 715

STATE AIRPORTS		SOLID WASTE		MINNESOTA RESOURCES	
FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
$ 15,305	$ 13,122	$ -	$ -	$ -	$ -
3,150	3,466	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
500	342	-	-	-	-
250	223	-	-	-	71
103	244	-	-	-	29
$ 19,308	$ 17,397	$ -	$ -	$ -	$ 100
$ -	$ -	$ -	$ -	$ -	$ -
15,144	15,144	-	-	-	-
-	-	-	-	1,714	1,662
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 15,144	$ 15,144	$ -	$ -	$ 1,714	$ 1,662
$ 4,164	$ 2,253	$ -	$ -	$ (1,714)	$ (1,562)
$ -	$ -	$ -	$ -	$ -	$ -
11	-	-	-	-	-
-	-	-	-	(567)	(567)
$ 11	$ -	$ -	$ -	$ (567)	$ (567)
$ 4,175	$ 2,253	$ -	$ -	$ (2,281)	$ (2,129)
$ 8,734	$ 8,734	$ 68,656	$ 68,656	$ 3,862	$ 3,862
-	593	1,234	1,234	-	648
-	-	(69,890)	(69,890)	-	-
$ 8,734	$ 9,327	$ -	$ -	$ 3,862	$ 4,510
$ 12,909	$ 11,580	$ -	$ -	$ 1,581	$ 2,381
-	5,144	-	-	-	1,407
$ 12,909	$ 6,436	$ -	$ -	$ 1,581	$ 974

CONTINUED

NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS - CONTINUED

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	NATURAL RESOURCES		GAME AND FISH	
	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
Net Revenues:				
Motor Vehicle Taxes	$ -	$ -	$ -	$ -
Fuel Taxes	-	-	-	-
Other Taxes	-	-	-	-
Federal Revenues	-	-	-	-
Licenses and Fees	23,656	23,155	73,115	72,876
Departmental Services	-	-	-	-
Investment/Interest Income	106	134	314	323
Other Revenues	5,443	3,119	280	252
Net Revenues	$ 29,205	$ 26,408	$ 73,709	$ 73,451
Expenditures:				
Public Safety and Corrections	$ -	$ -	$ -	$ -
Transportation	-	-	-	-
Agricultural and Environmental Resources	49,613	49,096	77,158	77,158
Economic and Workforce Development	-	-	-	-
Higher Education	121	121	-	-
Health and Human Services	-	-	-	-
General Government	-	-	-	-
Intergovernment Aid	-	-	-	-
Total Expenditures	$ 49,734	$ 49,217	$ 77,158	$ 77,158
Excess of Revenues Over (Under) Expenditures	$ (20,529)	$ (22,809)	$ (3,449)	$ (3,707)
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ -	$ -	$ -	$ -
Transfers-In	23,424	24,874	9,286	10,087
Transfers-Out	(11)	(11)	(13)	(13)
Net Other Financing Sources (Uses)	$ 23,413	$ 24,863	$ 9,273	$ 10,074
Net Change in Fund Balances	$ 2,884	$ 2,054	$ 5,824	$ 6,367
Fund Balances, Beginning, as Reported	$ 19,084	$ 19,084	$ 18,959	$ 18,959
Prior Period Adjustments	-	899	-	191
Change in Fund Structure	-	-	-	-
Fund Balances, Beginning, as Restated	$ 19,084	$ 19,983	$ 18,959	$ 19,150
Fund Balances, Ending	$ 21,968	$ 22,037	$ 24,783	$ 25,517
Less Appropriation Carryover	-	11,740	-	10,288
Undesignated Fund Balances, Ending	$ 21,968	$ 10,297	$ 24,783	$ 15,229

ENVIRONMENTAL		REMEDIATION		SPECIAL COMPENSATION		HEALTH CARE ACCESS	
FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
33,423	32,532	700	670	5,552	5,312	275,435	270,553
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18,928	18,654	742	572	-	-	25,542	25,232
500	379	796	651	485	580	1,972	1,666
658	659	4,023	11,392	111,015	107,788	-	-
$ 53,509	$ 52,224	$ 6,261	$ 13,285	$ 117,052	$ 113,680	$ 302,949	$ 297,451
$ 49	$ 49	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
35,720	35,720	36,735	36,735	-	-	-	-
-	-	700	700	104,174	104,174	-	-
-	-	-	-	-	-	-	-
-	-	179	179	-	-	317,804	317,804
416	416	116	116	6,729	6,729	1,637	1,637
-	-	-	-	-	-	208	208
$ 36,185	$ 36,185	$ 37,730	$ 37,730	$ 110,903	$ 110,903	$ 319,649	$ 319,649
$ 17,324	$ 16,039	$ (31,469)	$ (24,445)	$ 6,149	$ 2,777	$ (16,700)	$ (22,198)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	8,416	7,899	-	-	4,600	4,600
(5,134)	(5,134)	(10,538)	(10,538)	-	-	(23,119)	(23,119)
$ (5,134)	$ (5,134)	$ (2,122)	$ (2,639)	$ -	$ -	$ (18,519)	$ (18,519)
$ 12,190	$ 10,905	$ (33,591)	$ (27,084)	$ 6,149	$ 2,777	$ (35,219)	$ (40,717)
$ 25,893	$ 25,893	$ -	$ -	$ 16,085	$ 16,085	$ 177,412	$ 177,412
-	701	-	193	-	15	-	273
1,611	1,611	67,708	57,657	-	-	-	-
$ 27,504	$ 28,205	$ 67,708	$ 57,850	$ 16,085	$ 16,100	$ 177,412	$ 177,685
$ 39,694	$ 39,110	$ 34,117	$ 30,766	$ 22,234	$ 18,877	$ 142,193	$ 136,968
-	5,816	-	9,104	-	4,385	-	5,549
$ 39,694	$ 33,294	$ 34,117	$ 21,662	$ 22,234	$ 14,492	$ 142,193	$ 131,419

CONTINUED

NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS - CONTINUED

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	COMBINED TOTALS	
	FINAL BUDGET	ACTUAL
Net Revenues:		
Motor Vehicle Taxes	$ 686,189	$ 723,679
Fuel Taxes	651,048	623,137
Other Taxes	315,110	309,067
Federal Revenues	348,600	300,580
Licenses and Fees	96,771	96,031
Departmental Services	91,229	79,212
Investment/Interest Income	8,773	7,263
Other Revenues	166,911	167,928
Net Revenues	$ 2,364,631	$ 2,306,897
Expenditures:		
Public Safety and Corrections	$ 109,267	$ 109,266
Transportation	1,157,982	1,154,213
Agricultural and Environmental Resources	200,940	200,371
Economic and Workforce Development	104,874	104,874
Higher Education	121	121
Health and Human Services	317,983	317,983
General Government	11,195	11,195
Intergovernment Aid	208	208
Total Expenditures	$ 1,902,570	$ 1,898,231
Excess of Revenues Over (Under) Expenditures	$ 462,061	$ 408,666
Other Financing Sources (Uses):		
General Obligation Bond Issue Proceeds	$ 510,510	$ 142,500
Transfers-In	827,153	828,583
Transfers-Out	(1,387,676)	(1,387,676)
Net Other Financing Sources (Uses)	$ (50,013)	$ (416,593)
Net Change in Fund Balances	$ 412,048	$ (7,927)
Fund Balances, Beginning, as Reported	$ 373,048	$ 373,048
Prior Period Adjustments	1,234	(45,830)
Change in Fund Structure	(571)	(10,622)
Fund Balances, Beginning, as Restated	$ 373,711	$ 316,596
Fund Balances, Ending	$ 785,759	$ 308,669
Less Appropriation Carryover	-	165,922
Undesignated Fund Balances, Ending	$ 785,759	$ 142,747

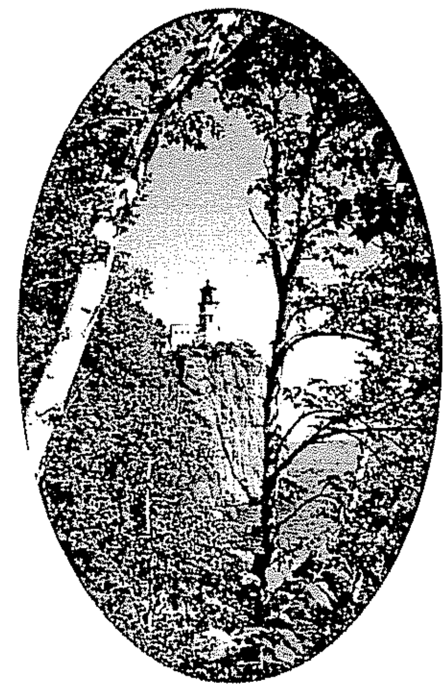
Note to Nonmajor Appropriated Special Revenue Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Budgetary Basis

Year Ended June 30, 2004
(In Thousands)

Budgetary Basis vs GAAP Nonmajor Appropriated Special Revenue Funds

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Combining Statement of Revenues, Expenditures and Changes in Fund Balances for Nonmajor Appropriated Special Revenue Fund - Budget and Actual. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two bases of accounting for the Nonmajor Appropriated Special Revenue Funds is provided in the following table.

	Trunk Highway	Highway User Tax Distribution	State Airports	Solid Waste	Minnesota Resources	Natural Resources	Game and Fish	Environmental	Remediation	Special Compensation	Health Care Access
GAAP Basis Fund Balances:	$ 359,885	$ 7,531	$ 18,151	$ -	$ 3,918	$ 33,157	$ 30,908	$ 43,247	$ 65,573	$ 19,613	$ 159,519
Less: Reserved Fund Balances	248,075	73	8,480	-	1,529	3,944	3,091	984	35,166	345	2,314
Less: Designated Fund Balances	111,810	7,458	9,671	-	1,407	11,740	10,288	5,816	9,104	4,385	5,549
Undesignated Fund Balances	$ -	$ -	$ -	$ -	$ 982	$ 17,473	$ 17,529	$ 36,447	$ 21,283	$ 14,883	$ 151,656
Basis of Accounting Differences											
Revenue Accruals/Adjustments:											
Taxes Receivable	$ -	$ -	$ (532)	$ (2,551)	$ (8)	$ -	$ -	$ (2,724)	$ -	$ -	$ (59,576)
Human Services Receivable	-	-	-	-	-	-	-	-	-	-	(17)
Deferred Revenue	-	-	-	-	-	-	-	-	-	-	6,317
Other Receivables	-	-	-	-	-	(654)	(1,541)	(3,270)	-	(2,452)	-
Expenditure Accruals/Adjustments:											
Transportation	-	-	-	-	-	-	-	-	-	-	-
Family Support, Medical Assistance	-	-	-	-	-	-	-	-	-	-	31,494
Other Payables	25,001	715	2,441	-	-	1,499	(68)	132	43	2,081	1,545
Other Financial Sources (Uses):											
Transfers-In	(30,976)	-	-	-	-	(8,021)	(691)	-	338	-	-
Transfers-Out	-	-	-	-	-	-	-	(16,458)	-	-	-
Fund Structure Differences:											
Other	-	-	-	2,551	-	-	-	19,167	-	-	-
Perspective Differences:											
Reserve for Long-Term Commitments	(85,796)	-	4,527	-	-	-	-	-	-	-	-
Budgetary Basis Undesignated Fund Balances	$ (91,771)	$ 715	$ 6,438	$ -	$ 974	$ 10,297	$ 15,229	$ 33,294	$ 21,662	$ 14,492	$ 131,419



Building Fund

The fund receives revenue from the sale of state bonds to provide funds for the acquisition, maintenance, and betterment of state lands and buildings and to make grants and loans to local governments for the acquisition and betterment of other public land and buildings.

General Projects Fund

The fund receives monies appropriated from the General Fund for building, maintenance, or capital improvement projects.

Transportation Fund

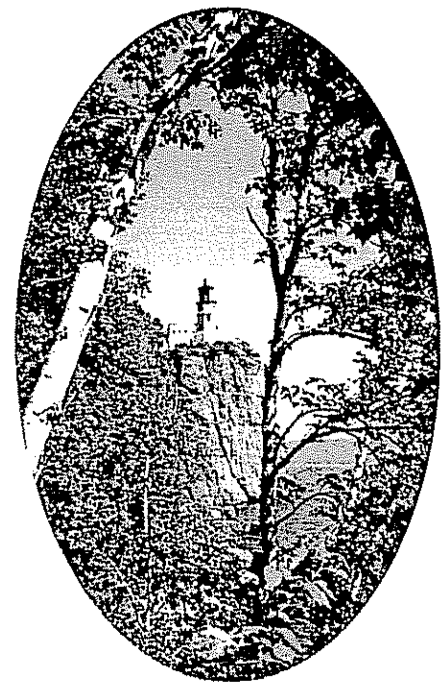
The fund receives proceeds of transportation bonds, General Fund appropriations and federal grants for the construction or reconstruction of state and locally owned bridges.

NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	BUILDING	GENERAL PROJECTS	TRANSPORTATION	TOTAL
ASSETS				
Cash and Cash Equivalents	$ -	$ 8,104	$ 11,789	$ 19,893
Accounts Receivable	3	-	-	3
Loans and Notes Receivable	41,495	30	-	41,525
Total Assets	$ 41,498	$ 8,134	$ 11,789	$ 61,421
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 23,732	$ 557	$ 3,545	$ 27,834
Interfund Payables	29,976	218	1,035	31,229
Due to Component Units	8,635	1,124	-	9,759
Total Liabilities	$ 62,343	$ 1,899	$ 4,580	$ 68,822
Fund Balances:				
Reserved Fund Balance:				
Reserved for Long-Term Receivables	$ 41,495	$ 30	$ -	$ 41,525
Reserved for Long-Term Commitments	-	6,205	7,209	13,414
Total Reserved Fund Balances	$ 41,495	$ 6,235	$ 7,209	$ 54,939
Unreserved Fund Balance:				
Undesignated	$ (62,340)	$ -	$ -	$ (62,340)
Total Fund Balances	$ (20,845)	$ 6,235	$ 7,209	$ (7,401)
Total Liabilities and Fund Balances	$ 41,498	$ 8,134	$ 11,789	$ 61,421

NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	BUILDING	GENERAL PROJECTS	TRANSPORTATION	TOTAL
Net Revenues:				
Investment/Interest Income	$ 223	$ 3	$ -	$ 226
Other Revenues	-	4	-	4
Net Revenues	$ 223	$ 7	$ -	$ 230
Expenditures:				
Current:				
Public Safety and Corrections	$ -	$ 328	$ -	$ 328
Transportation	17,405	2,096	29,358	48,859
Agricultural and Environmental Resources	55,062	2,457	-	57,519
Economic and Workforce Development	7,350	808	-	8,158
General Education	7,095	1,062	-	8,157
Higher Education	44,884	232	-	45,116
General Government	25,432	1,886	-	27,318
Total Current Expenditures	$ 157,228	$ 8,869	$ 29,358	$ 195,455
Capital Outlay	58,394	264	-	58,658
Total Expenditures	$ 215,622	$ 9,133	$ 29,358	$ 254,113
Excess of Revenues Over (Under) Expenditures	$ (215,399)	$ (9,126)	$ (29,358)	$ (253,883)
Other Financing Sources (Uses):				
General Obligation Bond Issue Proceeds	$ 215,089	$ -	$ 24,348	$ 239,437
Transfers-Out	(69,828)	(48,164)	-	(117,992)
Net Other Financing Sources (Uses)	$ 145,261	$ (48,164)	$ 24,348	$ 121,445
Net Change in Fund Balances	$ (70,138)	$ (57,290)	$ (5,010)	$ (132,438)
Fund Balances, Beginning, as Reported	$ 49,293	$ 63,525	$ 12,219	$ 125,037
Fund Balances, Ending	$ (20,845)	$ 6,235	$ 7,209	$ (7,401)



Behavioral Services Fund

The fund accounts for the activity of state regional treatment centers for chemical dependency treatment services and for the activity of state neurorehabilitation services.

Enterprise Activities Fund

The fund includes various minor activities providing services to the general public or local governmental units.

Giants Ridge Fund

The fund accounts for a recreation area established to foster economic development and tourism within St. Louis County.

Minnesota Correctional Industries Fund

The fund accounts for the activity of state correctional industries which facilitates offender rehabilitation by providing facilities and assistance for manufacturing and marketing goods primarily to governmental entities.

Public Employees Insurance Fund

The fund provides life insurance and hospital, medical, and dental benefit coverage to public employees and other eligible persons.

State Lottery Fund

The fund accounts for the operations of the state lottery. Forty percent (40%) of the net proceeds are transferred to the Environment and Natural Resources Trust Fund, with the remainder transferred to the General Fund.

State Operated Community Services Fund

The fund accounts for waiver residential and day treatment and rehabilitation services for individuals with developmental disabilities.

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 11,778	$ 5,009	$ 5,342	$ 8,494
Accounts Receivable	8,481	1,125	53	2,783
Interfund Receivables	-	467	-	-
Accrued Investment/Interest Income	-	-	18	-
Inventories	-	862	256	7,761
Deferred Costs	-	1	-	-
Other Assets	-	-	1,852	455
Total Current Assets	$ 20,259	$ 7,464	$ 7,521	$ 19,493
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ -	$ 2,666	$ -
Depreciable Capital Assets (Net)	1,333	153	22,048	3,197
Nondepreciable Capital Assets	-	-	930	-
Total Noncurrent Assets	$ 1,333	$ 153	$ 25,644	$ 3,197
Total Assets	$ 21,592	$ 7,617	$ 33,165	$ 22,690
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 3,503	$ 2,916	$ 334	$ 1,857
Interfund Payables	-	-	2,000	-
Unearned Revenue	-	175	-	-
Accrued Bond Interest Payable	-	-	180	-
General Obligation Bonds Payable	-	-	-	-
Revenue Bonds Payable	-	-	310	-
Capital Leases	-	-	51	-
Compensated Absences Payable	343	20	21	80
Other Liabilities	1,119	-	-	8
Total Current Liabilities	$ 4,965	$ 3,111	$ 2,896	$ 1,945
Noncurrent Liabilities:				
General Obligation Bonds Payable	$ -	$ -	$ -	$ -
Revenue Bonds Payable	-	-	14,870	-
Capital Leases	-	-	21	-
Compensated Absences Payable	1,929	281	127	830
Total Noncurrent Liabilities	$ 1,929	$ 281	$ 15,018	$ 830
Total Liabilities	$ 6,894	$ 3,392	$ 17,914	$ 2,775
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 1,333	$ 153	$ 12,773	$ 3,197
Unrestricted	13,365	4,072	2,478	16,718
Total Net Assets	$ 14,698	$ 4,225	$ 15,251	$ 19,915

PUBLIC EMPLOYEES INSURANCE	STATE LOTTERY	STATE OPERATED COMMUNITY SERVICES	TOTAL
$ 3,819	$ 17,135	$ 21,515	$ 73,092
407	6,222	5,885	24,956
-	-	-	467
-	-	-	18
-	695	-	9,574
-	515	-	516
-	-	137	2,444
$ 4,226	$ 24,567	$ 27,537	$ 111,067
$ -	$ -	$ -	$ 2,666
-	934	6,291	33,956
-	-	786	1,716
$ -	$ 934	$ 7,077	$ 38,338
$ 4,226	$ 25,501	$ 34,614	$ 149,405
$ 2,223	$ 12,349	$ 2,989	$ 26,171
-	12,040	-	14,040
566	204	-	945
-	-	54	234
-	-	221	221
-	-	-	310
-	-	351	402
1	71	865	1,401
-	-	-	1,127
$ 2,790	$ 24,664	$ 4,480	$ 44,851
$ -	$ -	$ 3,621	$ 3,621
-	-	-	14,870
-	-	680	701
27	837	4,734	8,765
$ 27	$ 837	$ 9,035	$ 27,957
$ 2,817	$ 25,501	$ 13,515	$ 72,808
$ -	$ -	$ 994	$ 18,450
1,409	-	20,105	58,147
$ 1,409	$ -	$ 21,099	$ 76,597

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
Operating Revenues:				
Net Sales	$ -	$ 2,099	$ 4,272	$ 29,906
Rental and Service Fees	37,143	6,189	109	1,272
Insurance Premiums	-	-	-	-
Other Income	68	-	500	1,092
Total Operating Revenues	$ 37,211	$ 8,288	$ 4,881	$ 32,270
Less: Cost of Goods Sold	-	549	-	26,276
Gross Margin	$ 37,211	$ 7,739	$ 4,881	$ 5,994
Operating Expenses:				
Purchased Services	$ 992	$ 1,166	$ 1,977	$ 42
Salaries and Fringe Benefits	24,087	2,546	1,991	2,617
Claims	-	-	-	-
Depreciation	199	42	1,141	85
Amortization	-	-	71	-
Supplies and Materials	1,843	96	166	205
Indirect Costs	4,667	103	-	505
Other Expenses	3,142	-	149	306
Total Operating Expenses	$ 34,930	$ 3,953	$ 5,495	$ 3,760
Operating Income (Loss)	$ 2,281	$ 3,786	$ (614)	$ 2,234
Nonoperating Revenues (Expenses):				
Investment Income	$ 113	$ -	$ 113	$ 81
Other Nonoperating Revenues	-	3	590	142
Interest and Financing Costs	-	-	(1,170)	-
Other Nonoperating Expenses	-	(2,804)	(3)	-
Gain (Loss) on Disposal of Capital Assets	(8)	2	-	17
Total Nonoperating Revenues (Expenses)	$ 105	$ (2,799)	$ (470)	$ 240
Income (Loss) Before Transfers & Contributions	$ 2,386	$ 987	$ (1,084)	$ 2,474
Capital Contributions	-	-	256	-
Transfers-In	-	-	5,295	-
Transfers-Out	-	-	(2,000)	-
Change in Net Assets	$ 2,386	$ 987	$ 2,467	$ 2,474
Net Assets, Beginning, as Reported	$ 12,312	$ 3,238	$ 12,784	$ 17,441
Net Assets, Ending	$ 14,698	$ 4,225	$ 15,251	$ 19,915

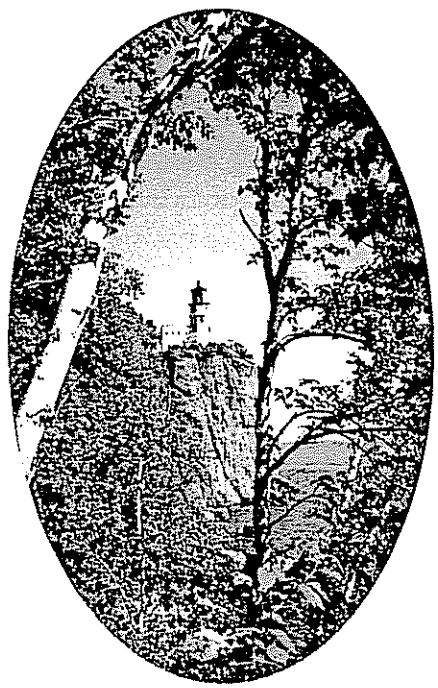
PUBLIC EMPLOYEES INSURANCE	STATE LOTTERY	STATE OPERATED COMMUNITY SERVICES	TOTAL
$ -	$ 386,919	$ -	$ 423,196
-	-	65,119	109,832
22,561	-	-	22,561
413	881	855	3,809
$ 22,974	$ 387,800	$ 65,974	$ 559,398
-	263,500	-	290,325
$ 22,974	$ 124,300	$ 65,974	$ 269,073
$ 4,255	$ 11,228	$ 408	$ 20,068
235	11,004	53,550	96,030
17,103	-	-	17,103
-	538	1,113	3,118
-	-	-	71
-	562	2,293	5,165
11	-	4,127	9,413
26	718	4,416	8,757
$ 21,630	$ 24,050	$ 65,907	$ 159,725
$ 1,344	$ 100,250	$ 67	$ 109,348
$ 36	$ 461	$ 283	$ 1,087
-	-	-	735
-	-	(438)	(1,608)
-	-	-	(2,807)
-	-	(41)	(30)
$ 36	$ 461	$ (196)	$ (2,623)
$ 1,380	$ 100,711	$ (129)	$ 106,725
-	-	-	256
-	-	-	5,295
-	(100,711)	-	(102,711)
$ 1,380	$ -	$ (129)	$ 9,565
$ 29	$ -	$ 21,228	$ 67,032
$ 1,409	$ -	$ 21,099	$ 76,597

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
Cash Flows from Operating Activities:				
Receipts from Customers	$ 34,450	$ 7,994	$ 4,902	$ 31,614
Receipts from Other Revenue	68	-	-	962
Payments to Claimants	-	-	-	-
Payments to Suppliers	(9,002)	(2,068)	(2,591)	(18,544)
Payments to Employees	(23,940)	(2,476)	(2,002)	(9,575)
Payments to Others	-	-	-	
Net Cash Flows from Operating Activities	$ 1,576	$ 3,450	$ 309	$ 4,457
Cash Flows from Noncapital Financing Activities:				
Transfers-In	$ -	$ -	$ 5,295	$ -
Transfers-Out	(3,200)	-	-	-
Advances to Other Funds	-	(10)	-	-
Other Nonoperating Expense	-	(2,847)	-	(524)
Net Cash Flows from Noncapital Financing Activities	$ (3,200)	$ (2,857)	$ 5,295	$ (524)
Cash Flows from Capital and Related Financing Activities:				
Investment in Capital Assets	$ (52)	$ (95)	$ (940)	$ (133)
Proceeds from Disposal of Capital Assets	-	36	-	159
Capital Lease Payments	-	-	-	-
Repayment of Bond Principal	-	-	(310)	-
Interest Paid	-	-	(1,089)	-
Net Cash Flows from Capital and Related Financing Activities	$ (52)	$ (59)	$ (2,339)	$ 26
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments	$ -	$ -	$ -	$ -
Investment Earnings	110	-	114	81
Net Cash Flows from Investing Activities	$ 110	$ -	$ 114	$ 81
Net Increase (Decrease) in Cash and Cash Equivalents	$ (1,566)	$ 534	$ 3,379	$ 4,040
Cash and Cash Equivalents, Beginning, as Reported	$ 13,344	$ 4,475	$ 4,629	$ 4,454
Cash and Cash Equivalents, Ending	$ 11,778	$ 5,009	$ 8,008	$ 8,494

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Operating Income (Loss)	$ 2,281	$ 3,786	$ (614)	$ 2,234
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation	$ 199	$ 46	$ 1,141	$ 456
Change in Valuation of Assets	-	-	-	-
Amortization	-	-	71	-
Change in Assets and Liabilities:				
Accounts Receivable	(2,695)	(287)	21	469
Inventories	-	(93)	(109)	(153)
Other Assets	-	10	-	990
Accounts Payable	924	(39)	(190)	481
Compensated Absences Payable	(2)	35	(11)	26
Unearned Revenues	-	(8)	-	-
Other Liabilities	869	-	-	(46)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ (705)	$ (336)	$ 923	$ 2,223
Net Cash Flows from Operating Activities	$ 1,576	$ 3,450	$ 309	$ 4,457

PUBLIC EMPLOYEES INSURANCE	STATE LOTTERY	STATE OPERATED COMMUNITY SERVICES	TOTAL
$ 23,138	$ 386,088	$ 62,439	$ 550,625
-	110	855	1,995
(16,950)	-	-	(16,950)
(4,264)	(50,194)	(11,133)	(97,796)
(219)	(11,329)	(52,290)	(101,831)
(19)	(229,269)	-	(229,288)
$ 1,686	$ 95,406	$ (129)	$ 106,755
$ -	$ -	$ -	$ 5,295
-	(101,408)	-	(104,608)
-	-	-	(10)
-	-	-	(3,371)
$ -	$ (101,408)	$ -	$ (102,694)
$ -	$ (233)	$ (1,808)	$ (3,261)
-	-	-	195
-	-	(273)	(273)
-	-	(212)	(522)
-	-	(458)	(1,547)
$ -	$ (233)	$ (2,751)	$ (5,408)
$	$ 3,467	$ -	$ 3,467
36	461	305	1,107
$ 36	$ 3,928	$ 305	$ 4,574
$ 1,722	$ (2,307)	$ (2,575)	$ 3,227
$ 2,097	$ 19,442	$ 24,090	$ 72,531
$ 3,819	$ 17,135	$ 21,515	$ 75,758
$ 1,344	$ 100,250	$ 67	$ 109,348
$ -	$ 538	$ 1,113	$ 3,493
-	349	-	349
-	-	-	71
1,457	-	(2,680)	(3,715)
-	155	-	(200)
-	235	(2)	1,233
(477)	(5,796)	399	(4,698)
14	(325)	974	711
(652)	-	-	(660)
-	-	-	823
$ 342	$ (4,844)	$ (196)	$ (2,593)
$ 1,686	$ 95,406	$ (129)	$ 106,755



Central Motor Pool Fund

The fund accounts for the operation of a fleet of passenger vehicles and the state vehicle maintenance garage.

Central Services Fund

The fund accounts for miscellaneous centralized support services provided to state agencies.

Central Stores Fund

The fund accounts for the operation of centralized supplies purchasing, storage, and distribution.

Employee Insurance Fund

The fund accounts for employee health and life insurance premiums and makes payments based on insurance benefits provided to employees.

Intertechnologies Fund

The fund accounts for the operation of statewide communication and information systems.

Plant Management Fund

The fund accounts for the cost of maintenance and operation of state owned buildings and grounds in the capitol complex.

Risk Management Fund

The fund accounts for the providing of liability insurance, primarily automobile, to state agencies.

State Printer Fund

The fund accounts for the operation of print and central mail services.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2004

	CENTRAL MOTOR POOL	CENTRAL SERVICES	CENTRAL STORES	EMPLOYEE INSURANCE
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 391	$ 740	$ 757	$ 109,479
Investments	-	-	-	20,819
Accounts Receivable	1,411	453	406	3,386
Interfund Receivables	-	-	-	-
Accrued Investment/Interest Income	-	-	-	324
Inventories	16	-	690	-
Deferred Costs	-	-	-	-
Securities Lending Collateral	-	-	-	23,320
Total Current Assets	$ 1,818	$ 1,193	$ 1,853	$ 157,328
Noncurrent Assets:				
Deferred Costs	$ -	$ -	$ -	$ -
Depreciable Capital Assets (Net)	15,729	-	2	20
Total Noncurrent Assets	$ 15,729	$ -	$ 2	$ 20
Total Assets	$ 17,547	$ 1,193	$ 1,855	$ 157,348
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 667	$ 128	$ 279	$ 48,990
Interfund Payables	-	-	-	-
Unearned Revenue	-	19	-	4,603
Loans Payable	5,243	-	-	-
Compensated Absences Payable	6	16	5	13
Securities Lending Collateral	-	-	-	23,320
Total Current Liabilities	$ 5,916	$ 163	$ 284	$ 76,926
Noncurrent Liabilities:				
Loans Payable	$ 4,987	$ -	$ -	$ -
Compensated Absences Payable	73	213	106	201
Advances from Other Funds	4,700	-	-	-
Total Noncurrent Liabilities	$ 9,760	$ 213	$ 106	$ 201
Total Liabilities	$ 15,676	$ 376	$ 390	$ 77,127
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 5,499	$ -	$ 2	$ 20
Unrestricted	(3,628)	817	1,463	80,201
Total Net Assets	$ 1,871	$ 817	$ 1,465	$ 80,221

INTER-TECHNOLOGIES	PLANT MANAGEMENT	RISK MANAGEMENT	STATE PRINTER	TOTAL
$ 7,056	$ 11,583	$ 14,460	$ 197	$ 144,663
-	-	-	-	20,819
12,672	2,073	170	112	20,683
-	-	-	27	27
-	-	-	-	324
-	206	-	-	912
892	-	234	-	1,126
-	-	-	-	23,320
$ 20,620	$ 13,862	$ 14,864	$ 336	$ 211,874
$ 697	$ -	$ -	$ -	$ 697
8,651	625	11	41	25,079
$ 9,348	$ 625	$ 11	$ 41	$ 25,776
$ 29,968	$ 14,487	$ 14,875	$ 377	$ 237,650
$ 5,002	$ 1,617	$ 8,249	$ 57	$ 64,989
-	90	27	467	584
-	-	295	-	4,917
4,563	46	-	-	9,852
156	88	2	4	290
-	-	-	-	23,320
$ 9,721	$ 1,841	$ 8,573	$ 528	$ 103,952
$ 4,798	$ 16	$ -	$ -	$ 9,801
2,126	947	43	45	3,754
-	-	-	-	4,700
$ 6,924	$ 963	$ 43	$ 45	$ 18,255
$ 16,645	$ 2,804	$ 8,616	$ 573	$ 122,207
$ (555)	$ 563	$ 11	$ 41	$ 5,581
13,878	11,120	6,248	(237)	109,862
$ 13,323	$ 11,683	$ 6,259	$ (196)	$ 115,443

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	CENTRAL MOTOR POOL	CENTRAL SERVICES	CENTRAL STORES	EMPLOYEE INSURANCE
Operating Revenues:				
Net Sales	$ -	$ 1,807	$ 6,339	$ -
Rental and Service Fees	12,329	1,245	-	-
Insurance Premiums	-	-	-	463,671
Other Income	310	-	-	5,878
Total Operating Revenues	$ 12,639	$ 3,052	$ 6,339	$ 469,549
Less: Cost of Goods Sold	-	495	5,076	-
Gross Margin	$ 12,639	$ 2,557	$ 1,263	$ 469,549
Operating Expenses:				
Purchased Services	$ 1,697	$ 364	$ 528	$ 69,348
Salaries and Fringe Benefits	746	2,275	623	2,830
Claims	-	-	-	389,309
Depreciation	4,965	2	2	16
Amortization	-	-	-	-
Supplies and Materials	3,239	41	13	22
Indirect Costs	441	25	200	176
Other Expenses	-	-	-	3,113
Total Operating Expenses	$ 11,088	$ 2,707	$ 1,366	$ 464,814
Operating Income (Loss)	$ 1,551	$ (150)	$ (103)	$ 4,735
Nonoperating Revenues (Expenses):				
Investment Income	$ 122	$ -	$ -	$ 1,298
Securities Lending Income	-	-	-	132
Other Nonoperating Revenue	-	-	-	-
Interest and Financing Costs	(447)	-	-	-
Securities Lending Rebates and Fees	-	-	-	(127)
Other Nonoperating Expenses	-	-	-	-
Gain (Loss) on Disposal of Capital Assets	(32)	1	-	-
Total Nonoperating Revenues (Expenses)	$ (357)	$ 1	$ -	$ 1,303
Income (Loss) Before Transfers	$ 1,194	$ (149)	$ (103)	$ 6,038
Transfers-Out	-	-	-	-
Change in Net Assets	$ 1,194	$ (149)	$ (103)	$ 6,038
Net Assets, Beginning, As Reported	$ 677	$ 966	$ 1,568	$ 74,183
Net Assets, Ending	$ 1,871	$ 817	$ 1,465	$ 80,221

INTER-TECHNOLOGIES	PLANT MANAGEMENT	RISK MANAGEMENT	STATE PRINTER	TOTAL
$ -	$ -	$ -	$ 797	$ 8,943
76,183	38,471	-	-	128,228
-	-	9,988	-	473,659
23	-	3	-	6,214
$ 76,206	$ 38,471	$ 9,991	$ 797	$ 617,044
-	-	-	-	5,571
$ 76,206	$ 38,471	$ 9,991	$ 797	$ 611,473
$ 40,851	$ 105	$ 3,955	$ 233	$ 117,081
22,514	11,243	719	347	41,297
-	-	2,860	-	392,169
4,863	195	4	64	10,111
85	-	-	-	85
2,269	1,449	24	27	7,084
1,044	599	55	-	2,540
798	9,219	93	-	13,223
$ 72,424	$ 22,810	$ 7,710	$ 671	$ 583,590
$ 3,782	$ 15,661	$ 2,281	$ 126	$ 27,883
$ 124	$ -	$ 155	$ -	$ 1,699
-	-	-	-	132
57	-	-	-	57
(399)	-	-	(21)	(867)
-	-	-	-	(127)
(2,000)	-	(1,668)	-	(3,668)
45	2	-	(393)	(377)
$ (2,173)	$ 2	$ (1,513)	$ (414)	$ (3,151)
$ 1,609	$ 15,663	$ 768	$ (288)	$ 24,732
-	(14,411)	-	-	(14,411)
$ 1,609	$ 1,252	$ 768	$ (288)	$ 10,321
$ 11,714	$ 10,431	$ 5,491	$ 92	$ 105,122
$ 13,323	$ 11,683	$ 6,259	$ (196)	$ 115,443

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	CENTRAL MOTOR POOL	CENTRAL SERVICES	CENTRAL STORES	EMPLOYEE INSURANCE
Cash Flows from Operating Activities:				
Receipts from Customers	$ 12,185	$ 3,180	$ 6,405	$ 464,632
Receipts from Other Revenue	310	-	-	5,736
Payments to Claimants	-	-	-	(383,098)
Payments to Suppliers	(5,250)	(1,083)	(5,776)	(81,524)
Payments to Employees	(738)	(2,275)	(622)	(2,162)
Payments to Others	-	-	-	(1,606)
Net Cash Flows from Operating Activities	$ 6,507	$ (178)	$ 7	$ 1,978
Cash Flows from Noncapital Financing Activities:				
Transfers-Out	$ -	$ -	$ -	$ -
Advances from Other Funds	5,300	-	-	-
Repayments of Advances from Other Funds	(6,247)	-	-	-
Other Nonoperating Expense	-	-	-	-
Net Cash Flows from Noncapital Financing Activities	$ (947)	$ -	$ -	$ -
Cash Flows from Capital and Related Financing Activities:				
Capital Contributions	$ -	$ -	$ -	$ -
Investment in Capital Assets	(4,923)	-	-	-
Proceeds from Disposal of Capital Assets	1,826	1	-	-
Proceeds from Loans	4,838	-	-	-
Capital Lease Payments	-	-	-	-
Repayment of Loan Principal	(7,113)	-	-	-
Interest Paid	(470)	-	-	-
Net Cash Flows from Capital and Related Financing Activities	$ (5,842)	$ 1	$ -	$ -
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments	$ -	$ -	$ -	$ 4,996
Purchase of Investments	-	-	-	(5,229)
Investment Earnings	122	-	-	2,542
Net Cash Flows from Investing Activities	$ 122	$ -	$ -	$ 2,309
Net Increase (Decrease) in Cash and Cash Equivalents	$ (160)	$ (177)	$ 7	$ 4,287
Cash and Cash Equivalents, Beginning	$ 551	$ 917	$ 750	$ 105,192
Cash and Cash Equivalents, Ending	$ 391	$ 740	$ 757	$ 109,479
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Operating Income (Loss)	$ 1,551	$ (150)	$ (103)	$ 4,735
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation	$ 4,965	$ 2	$ 2	$ 16
Amortization	-	-	-	-
Change in Assets and Liabilities:				
Accounts Receivable	(143)	115	66	2,018
Inventories	3	9	75	-
Other Assets	-	-	-	-
Accounts Payable	123	(157)	(27)	(4,825)
Compensated Absences Payable	8	(16)	(6)	(45)
Unearned Revenues	-	19	-	79
Other Liabilities	-	-	-	-
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 4,956	$ (28)	$ 110	$ (2,757)
Net Cash Flows from Operating Activities	$ 6,507	$ (178)	$ 7	$ 1,978
Noncash Investing, Capital and Financing Activities:				
Disposal of Capital Assets	$ -	$ -	$ -	$ -
Accrual of Computer Equipment as an Investment in Capital Assets	-	-	-	-
Trade-In Allowance for Investment in Capital Assets	-	-	-	-
Change in Capital Asset Threshold	-	-	-	-

INTER-TECHNOLOGIES	PLANT MANAGEMENT	RISK MANAGEMENT	STATE PRINTER	TOTAL
$ 75,715	$ 39,300	$ 9,767	$ 814	$ 611,998
23	305	3	-	6,377
-	-	(2,404)	-	(385,502)
(45,446)	(10,891)	(4,127)	(586)	(154,683)
(22,320)	(11,141)	(744)	(580)	(40,582)
-		-	-	(1,606)
$ 7,972	$ 17,573	$ 2,495	$ (352)	$ 36,002
$ -	$ (14,411)	$ -	$ -	$ (14,411)
-	-	-	-	5,300
-	-	-	(37)	(6,284)
(3,002)	-	(1,668)	-	(4,670)
$ (3,002)	$ (14,411)	$ (1,668)	$ (37)	$ (20,065)
$ 23	$ -	$ -	$ -	$ 23
(3,710)	(29)	(15)	-	(8,677)
-	2	-	510	2,339
2,385	-	-	-	7,223
-	-	-	(59)	(59)
(4,610)	(79)	-	(61)	(11,863)
(354)	-	-	(4)	(828)
$ (6,266)	$ (106)	$ (15)	$ 386	$ (11,842)
$ -	$ -	$ -	$ -	$ 4,996
-	-	-	-	(5,229)
124	-	155	-	2,943
$ 124	$ -	$ 155	$ -	$ 2,710
$ (1,172)	$ 3,056	$ 967	$ (3)	$ 6,805
$ 8,228	$ 8,527	$ 13,493	$ 200	$ 137,858
$ 7,056	$ 11,583	$ 14,460	$ 197	$ 144,663
$ 3,782	$ 15,661	$ 2,281	$ 126	$ 27,883
$ 4,863	$ 195	$ 4	$ 64	$ 10,111
85	-	-	-	85
(468)	1,147	3,989	21	6,745
-	74	-	22	183
(382)	-	29	-	(353)
42	470	(3,766)	(523)	(8,663)
50	29	(26)	(58)	(64)
-	-	(16)	(4)	78
-	(3)	-	-	(3)
$ 4,190	$ 1,912	$ 214	$ (478)	$ 8,119
$ 7,972	$ 17,573	$ 2,495	$ (352)	$ 36,002
$ -	$ -	$ -	$ 1,975	$ 1,975
457	-	-	-	457
116	-	-	-	116
(2,258)	-	-	-	(2,258)

Minnesota State Retirement System

Correctional Employees Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to state employees who have direct responsibility for offenders at Minnesota correctional facilities.

Elective State Officers Fund

The fund includes resources accumulated to pay present and future retirement annuities for the state's constitutional officers.

Judicial Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible district, municipal, county and probate court judges, supreme court justices and various court referees.

Legislative Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities for members of the state legislature.

Postretirement Health Care Benefits Fund

The fund includes contributions by or on behalf of employees and accumulated earnings for reimbursement of health-related expenses of the employee or dependents after retirement.

State Deferred Compensation Fund

The fund includes the portion of the plan where participants have selected investment options provided by the State Board of Investment.

State Employees Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to state and University of Minnesota employees not covered by other pension funds.

State Patrol Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible state patrol officers, conservation officers, and crime bureau personnel.

Unclassified Employees Retirement Fund

The fund includes the aggregate of unclassified employee share accounts which are either refunded or used to purchase a retirement annuity upon termination of service.

Teachers Retirement Association

Teachers Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities for members of both the basic and coordinated teachers retirement plans.

State Colleges and Universities

College and University Retirement Fund

The fund includes unclassified teachers, librarians, administrators, and certain other staff members who have been employed fulltime for a minimum of two academic years.

Public Employees Retirement Association

Defined Contribution Fund

The fund is an IRC Section 401(a) deferred compensation plan administered by the Public Employees Retirement Association.

Police and Fire Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible police officers and firefighters.

Public Employees Correctional Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible employees of various local units of government.

Public Employees Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible employees of various local units of government.

PENSION TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

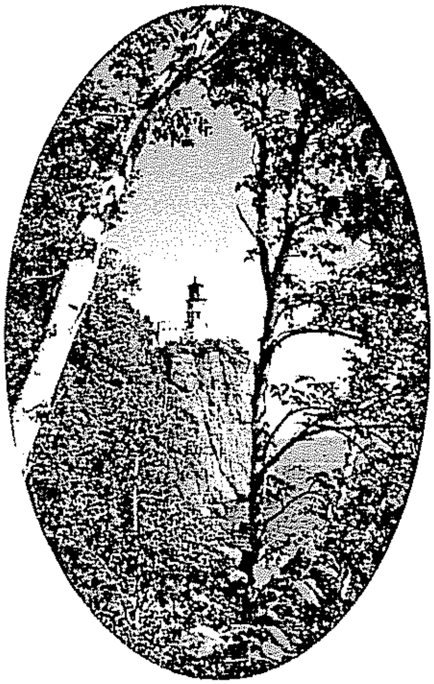
	MINNESOTA STATE RETIREMENT SYSTEM				
	CORRECTIONAL EMPLOYEES RETIREMENT	ELECTIVE STATE OFFICERS	JUDICIAL RETIREMENT	LEGISLATIVE RETIREMENT	POSTRETIREMENT HEALTH CARE BENEFITS
ASSETS					
Cash and Cash Equivalents	$ 4,187	$ -	$ 5,183	$ -	$ 2,319
Investment Pools, at fair value:					
Cash Equivalent Investments	$ 28,913	$ -	$ 11,949	$ 2,424	$ 23,046
Investments:					
Commercial Paper	$ 555	$ -	$ 149	$ 45	$ 26
US Treasury Obligations	19,781	-	5,318	1,592	969
Mortgage Backed	47,917	-	12,883	3,856	2,555
Corporate Obligations	28,586	-	7,686	2,300	17,262
Foreign and Other Obligations	1,439	-	387	116	68
Corporate Stocks	273,451	-	71,451	20,856	8,273
Other Equity	37,811	-	7,068	1,317	3
Total Investments	$ 409,540	$ -	$ 104,942	$ 30,082	$ 29,156
Accrued Interest and Dividends	$ 1,189	$ -	$ 315	$ 93	$ 117
Securities Trades Receivables (Payables)	(14,391)	-	(3,881)	(1,165)	(684)
Total Investment Pool Participation	$ 425,251	$ -	$ 113,325	$ 31,434	$ 51,635
Receivables:					
Employer Contributions	$ 449	$ -	$ 83	$ -	$ -
Member Contributions	320	-	30	-	2,013
Interfund Receivables	-	-	2	-	-
Other Receivables	-	204	1	8,082	-
Accrued Interest and Dividends	8	-	2	-	-
Total Receivables	$ 777	$ 204	$ 118	$ 8,082	$ 2,013
Securities Lending Collateral	$ 47,253	$ -	$ 13,109	$ 3,704	$ 1,615
Depreciable Capital Assets (Net)	-	-	-	-	-
Nondepreciable Capital Assets	-	-	-	-	-
Total Assets	$ 477,468	$ 204	$ 131,735	$ 43,220	$ 57,582
LIABILITIES					
Accounts Payable	$ 87	$ -	$ 11	$ 3	$ -
Interfund Payables	270	1	28	23	1,443
Unearned Revenue	-	-	10	-	-
Accrued Expense	-	-	-	-	-
Revenue Bonds Payable	-	-	-	-	-
Bond Interest	-	-	-	-	-
Compensated Absences Payable	-	-	-	-	-
Securities Lending Collateral	47,253	-	13,109	3,704	1,615
Total Liabilities	$ 47,610	$ 1	$ 13,158	$ 3,730	$ 3,058
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 429,858	$ 203	$ 118,577	$ 39,490	$ 54,524

	MINNESOTA STATE RETIREMENT SYSTEM			TEACHERS RETIREMENT ASSOCIATION	
STATE DEFERRED COMPENSATION	STATE EMPLOYEES RETIREMENT	STATE PATROL RETIREMENT	UNCLASSIFIED EMPLOYEES RETIREMENT	TEACHERS RETIREMENT	STATE COLLEGES AND UNIVERSITIES RETIREMENT
$ -	$ 47,373	$ 9,518	$ 5,277	$ 3,724	$ 700
$ 153,309	$ 467,848	$ 35,452	$ 17,978	$ 1,061,747	$ 21,427
$ -	$ 8,980	$ 665	$ 83	$ 19,981	$ 42
-	319,921	23,688	4,119	711,825	3,457
-	774,943	57,383	16,463	1,724,298	19,147
-	462,317	34,233	48,483	1,028,686	52,509
-	23,267	1,723	214	51,767	111
-	4,434,825	323,869	171,233	9,748,461	502,591
-	630,106	39,896	9	1,221,085	4
$ -	$ 6,654,359	$ 481,457	$ 240,604	$ 14,506,103	$ 577,861
$ 61	$ 19,266	$ 1,417	$ 785	$ 42,599	$ 996
-	(232,693)	(17,260)	(2,171)	(518,547)	(1,124)
$ 153,370	$ 6,908,780	$ 501,066	$ 257,196	$ 15,091,902	$ 599,160
$ -	$ 3,540	$ 272	$ 175	$ 6,466	$ -
-	3,540	182	123	-	-
-	5,006	-	74	-	-
-	50	1	-	-	-
-	158	7	-	272	-
$ -	$ 12,294	$ 462	$ 372	$ 6,738	$ -
$ -	$ 765,372	$ 56,324	$ 15,864	$ 1,693,375	$ 16,793
-	6,119	-	-	11,803	-
-	88	-	-	171	-
$ 153,370	$ 7,740,026	$ 567,370	$ 278,709	$ 16,807,713	$ 616,653
$ 1	$ 1,869	$ 79	$ -	$ 6,846	$ -
-	74	92	3,151	-	-
-	-	-	-	-	-
-	-	-	-	41	-
-	5,586	-	-	11,060	-
-	26	-	-	53	-
-	505	-	-	534	-
-	765,372	56,324	15,864	1,693,375	16,793
$ 1	$ 773,432	$ 56,495	$ 19,015	$ 1,711,909	$ 16,793
$ 153,369	$ 6,966,594	$ 510,875	$ 259,694	$ 15,095,804	$ 599,860

CONTINUED

PENSION TRUST FUNDS (CONTINUED)
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2004
(IN THOUSANDS)

	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION				
	DEFINED CONTRIBUTION	POLICE AND FIRE	PUBLIC EMPLOYEES CORRECTIONAL	PUBLIC EMPLOYEES RETIREMENT	TOTAL
ASSETS					
Cash and Cash Equivalents	$ -	$ -	$ -	$ 349	$ 78,630
Investment Pools, at fair value:					
Cash Equivalent Investments	$ 2,043	$ 285,523	$ 6,204	$ 701,057	$ 2,818,920
Investments:					
Commercial Paper	$ 8	$ 5,373	$ 91	$ 13,206	$ 49,204
US Treasury Obligations	382	191,413	3,228	470,469	1,756,162
Mortgaged Backed	1,421	463,663	7,819	1,139,641	4,271,989
Corporate Obligations	3,928	276,613	4,664	679,889	2,647,156
Foreign and Other Obligations	21	13,921	235	34,215	127,484
Corporate Stocks	13,302	2,642,190	46,467	6,448,728	24,705,697
Other Equity	-	360,126	8,944	816,916	3,123,285
Total Investments	$ 19,062	$ 3,953,299	$ 71,448	$ 9,603,064	$ 36,680,977
Accrued Interest and Dividends	$ 63	$ 11,424	$ 196	$ 27,999	$ 106,520
Securities Trades Receivables (Payables)	(214)	(139,289)	(2,338)	(342,591)	(1,276,348)
Total Investment Pool Participation	$ 20,954	$ 4,110,957	$ 75,510	$ 9,989,529	$ 38,330,069
Receivables:					
Employer Contributions	$ -	$ -	$ -	$ -	$ 10,985
Member Contributions	-	-	-	-	6,208
Interfund Receivables	15	479	7	976	6,559
Other Receivables	67	28,885	145	7,147	44,582
Accrued Interest and Dividends	-	-	-	-	447
Total Receivables	$ 82	$ 29,364	$ 152	$ 8,123	$ 68,781
Securities Lending Collateral	$ 1,281	$ 456,990	$ 8,014	$ 1,119,166	$ 4,198,860
Depreciable Capital Assets (Net)	-	-	-	11,960	29,882
Nondepreciable Capital Assets	-	-	-	170	429
Total Assets	$ 22,317	$ 4,597,311	$ 83,676	$ 11,129,297	$ 42,706,651
LIABILITIES					
Accounts Payable	$ -	$ 1,133	$ 23	$ 2,876	$ 12,928
Interfund Payables	130	684	162	501	6,559
Unearned Revenue	-	-	-	-	10
Accrued Expense	-	-	-	-	41
Revenue Bonds Payable	-	-	-	11,004	27,650
Bond Interest	-	-	-	-	79
Compensated Absences Payable	-	-	-	664	1,703
Securities Lending Collateral	1,281	456,990	8,014	1,119,166	4,198,860
Total Liabilities	$ 1,411	$ 458,807	$ 8,199	$ 1,134,211	$ 4,247,830
Net Assets Held in Trust for Pension Benefits and Pool Participants	$ 20,906	$ 4,138,504	$ 75,477	$ 9,995,086	$ 38,458,821



PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	MINNESOTA STATE RETIREMENT SYSTEM				
	CORRECTIONAL EMPLOYEES RETIREMENT	ELECTIVE STATE OFFICERS	JUDICIAL RETIREMENT	LEGISLATIVE RETIREMENT	POSTRETIREMENT HEALTH CARE BENEFITS
Additions:					
Contributions:					
Employer	$ 10,627	$ -	$ 7,110	$ -	$ -
Member	7,748	-	2,643	343	37,273
Contributions From Other Sources	-	382	-	425	-
Total Contributions	$ 18,375	$ 382	$ 9,753	$ 768	$ 37,273
Net Investment Income:					
Investment Income	$ 57,567	$ -	$ 17,046	$ 5,611	$ 1,403
Less: Investment Expense	(552)	-	(145)	(43)	-
Net Investment Income	$ 57,015	$ -	$ 16,901	$ 5,568	$ 1,403
Securities Lending Revenues (Expenses):					
Securities Lending Income	$ 501	$ -	$ 137	$ 39	$ 17
Borrower Rebates	(320)	-	(88)	(25)	(12)
Management Fees	(42)	-	(11)	(3)	(1)
Net Securities Lending Revenue	$ 139	$ -	$ 38	$ 11	$ 4
Total Investment Income	$ 57,154	$ -	$ 16,939	$ 5,579	$ 1,407
Transfers From Other Funds	$ 79	$ -	$ 2	$ -	$ -
Other Additions	-	-	10	-	230
Total Additions	$ 75,608	$ 382	$ 26,704	$ 6,347	$ 38,910
Deductions:					
Benefits	$ 21,299	$ 381	$ 13,520	$ 5,766	$ 7,899
Refunds/Withdrawals	721	-	-	-	1,361
Administrative Expenses	528	1	66	23	763
Transfers to Other Funds	-	-	-	-	-
Total Deductions	$ 22,548	$ 382	$ 13,586	$ 5,789	$ 10,023
Net Increase (Decrease)	$ 53,060	$ -	$ 13,118	$ 558	$ 28,887
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 376,798	$ 203	$ 105,459	$ 38,932	$ 25,637
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 429,858	$ 203	$ 118,577	$ 39,490	$ 54,524

	MINNESOTA STATE RETIREMENT SYSTEM				TEACHERS RETIREMENT ASSOCIATION	
	STATE DEFERRED COMPENSATION	STATE EMPLOYEES RETIREMENT	STATE PATROL RETIREMENT	UNCLASSIFIED EMPLOYEES RETIREMENT	TEACHERS RETIREMENT	STATE COLLEGES AND UNIVERSITIES RETIREMENT
	$ -	$ 78,622	$ 6,504	$ 5,877	$ 151,029	$ 25,869
	164,334	82,103	4,493	4,258	159,140	23,033
	-	-	-	-	3,366	6,116
	$ 164,334	$ 160,725	$ 10,997	$ 10,135	$ 313,535	$ 55,018
	$ 77,738	$ 986,353	$ 73,645	$ 31,297	$ 2,220,277	$ 72,924
	(460)	(8,974)	(667)	-	(20,451)	-
	$ 77,278	$ 977,379	$ 72,978	$ 31,297	$ 2,199,826	$ 72,924
	$ -	$ 8,113	$ 596	$ 192	$ 17,921	$ 216
	-	(5,177)	(381)	(123)	(11,457)	(134)
	-	(684)	(50)	(16)	(1,503)	(19)
	$ -	$ 2,252	$ 165	$ 53	$ 4,961	$ 63
	$ 77,278	$ 979,631	$ 73,143	$ 31,350	$ 2,204,787	$ 72,987
	$ -	$ 7,398	$ -	$ 522	$ -	$ -
	-	478	59	30	3,900	9,515
	$ 241,612	$ 1,148,232	$ 84,199	$ 42,037	$ 2,522,222	$ 137,520
	$ -	$ 328,545	$ 35,501	$ -	$ 1,005,044	$ -
	701,161	10,777	17	6,206	6,862	41,032
	-	5,768	224	293	16,118	2,003
	-	601	-	7,400	-	-
	$ 701,161	$ 345,691	$ 35,742	$ 13,899	$ 1,028,024	$ 43,035
	$ (459,549)	$ 802,541	$ 48,457	$ 28,138	$ 1,494,198	$ 94,485
	$ 612,918	$ 6,164,053	$ 462,418	$ 231,556	$ 13,601,606	$ 505,375
	$ 153,369	$ 6,966,594	$ 510,875	$ 259,694	$ 15,095,804	$ 599,860

CONTINUED

PENSION TRUST FUNDS (CONTINUED) COMBINING STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION				
	DEFINED CONTRIBUTION	POLICE AND FIRE	PUBLIC EMPLOYEES CORRECTIONAL	PUBLIC EMPLOYEES RETIREMENT	TOTAL
Additions:					
Contributions:					
Employer	$ 1,238	$ 52,769	$ 10,029	$ 225,744	$ 575,418
Member	1,115	36,313	6,672	215,697	745,165
Contributions From Other Sources	-	-	-	-	10,289
Total Contributions	$ 2,353	$ 89,082	$ 16,701	$ 441,441	$ 1,330,872
Net Investment Income:					
Investment Income	$ 2,402	$ 582,022	$ 9,190	$ 1,444,270	$ 5,581,745
Less: Investment Expense	-	(5,359)	(82)	(12,899)	(49,632)
Net Investment Income	$ 2,402	$ 576,663	$ 9,108	$ 1,431,371	$ 5,532,113
Securities Lending Revenues (Expenses):					
Securities Lending Income	$ 8	$ 4,842	$ 85	$ 11,849	$ 44,516
Borrower Rebates	(5)	(3,091)	(54)	(7,571)	(28,438)
Management Fees	(1)	(407)	(7)	(995)	(3,739)
Net Securities Lending Revenue	$ 2	$ 1,344	$ 24	$ 3,283	$ 12,339
Total Investment Income	$ 2,404	$ 578,007	$ 9,132	$ 1,434,654	$ 5,544,452
Transfers From Other Funds	$ -	$ -	$ -	$ -	$ 8,001
Other Additions	-	2,733	4	4,437	21,396
Total Additions	$ 4,757	$ 669,822	$ 25,837	$ 1,880,532	$ 6,904,721
Deductions:					
Benefits	$ -	$ 237,442	$ 805	$ 687,124	$ 2,343,326
Refunds/Withdrawals	1,152	644	588	22,556	793,077
Administrative Expenses	101	1,253	167	11,555	38,863
Transfers to Other Funds	-	-	-	-	8,001
Total Deductions	$ 1,253	$ 239,339	$ 1,560	$ 721,235	$ 3,183,267
Net Increase (Decrease)	$ 3,504	$ 430,483	$ 24,277	$ 1,159,297	$ 3,721,454
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning	$ 17,402	$ 3,708,021	$ 51,200	$ 8,835,789	$ 34,737,367
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending	$ 20,906	$ 4,138,504	$ 75,477	$ 9,995,086	$ 38,458,821

Agency Fund

This fund accounts for resources held in a custodial capacity for other governmental units, private organizations, or individuals.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
MISCELLANEOUS AGENCY				
ASSETS				
Cash and Cash Equivalents	$ 47,840	$ 965,973	$ 968,199	$ 45,614
Accounts Receivable	11,820	12,301	15,126	8,995
Total Assets	$ 59,660	$ 978,274	$ 983,325	$ 54,609
LIABILITIES				
Accounts Payable	$ 21,479	$ 34,762	$ 27,444	$ 28,797
Funds Held in Trust	38,181	943,512	955,881	25,812
Total Liabilities	$ 59,660	$ 978,274	$ 983,325	$ 54,609

Nonmajor Component Unit Funds

Agricultural and Economic Development Board

The board administers programs for agricultural and economic development.

Higher Education Services Office

The office makes and guarantees loans to qualified post secondary students.

Minnesota Partnership for Action Against Tobacco

The partnership issues grants to health, community, and academic organizations throughout Minnesota in support of research and cessation activities that will encourage and help tobacco users quit.

Minnesota Technology, Incorporated

The agency provides financial assistance to new or existing small and medium sized businesses in greater Minnesota, to stimulate economic growth and job creation.

National Sports Center Foundation

The foundation is under contract with the Minnesota Amateur Sports Commission to maintain and operate the National Sports Center facility. The primary purpose of the facility is to hold youth-oriented athletic and other non-athletic functions and events.

Public Facilities Authority

The authority provides financial assistance to eligible municipalities with high cost wastewater infrastructure projects.

Rural Finance Authority

The authority administers state agriculture programs.

Workers' Compensation Assigned Risk Plan

The plan is the source of workers' compensation and employers' liability coverage for Minnesota employers who have been unable to obtain an insurance policy through the voluntary market.

NONMAJOR COMPONENT UNIT FUNDS
COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2003 AND JUNE 30, 2004
(IN THOUSANDS)

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	HIGHER EDUCATION SERVICES OFFICE	MINNESOTA PARTNERSHIP FOR ACTION AGAINST TOBACCO	MINNESOTA TECHNOLOGY INCORPORATED	NATIONAL SPORTS CENTER FOUNDATION
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 10,876	$ 42,159	$ 2	$ 3,096	$ 681
Investments	-	9,503	143,239	-	-
Accounts Receivable	-	2,290	8,801	203	382
Due from Primary Government	-	-	-	-	247
Accrued Investment/Interest Income	223	1,833	-	-	-
Federal Aid Receivable	-	-	-	804	-
Inventories	-	-	-	-	36
Deferred Costs	-	2,018	-	-	17
Loans and Notes Receivable	4,668	63,673	-	-	-
Securities Lending Collateral	-	-	5,602	-	-
Other Assets	1,000	112	26	-	-
Total Current Assets	$ 16,767	$ 121,588	$ 157,670	$ 4,103	$ 1,363
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ -	$ 32,797	$ -	$ -	$ -
Investments-Restricted	18,310	-	-	-	-
Accounts Receivable-Restricted	-	-	-	-	2,028
Investments	-	-	-	-	-
Accounts Receivable	-	-	19,300	-	-
Loans and Notes Receivable	20,177	426,503	-	-	-
Depreciable Capital Assets (Net)	-	34	65	149	358
Nondepreciable Capital Assets	-	-	-	-	2,743
Other Assets	-	-	-	-	-
Total Noncurrent Assets	$ 38,487	$ 459,334	$ 19,365	$ 149	$ 5,129
Total Assets	$ 55,254	$ 580,922	$ 177,035	$ 4,252	$ 6,492
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ -	$ 2,796	$ 719	$ 331	$ 683
Due to Primary Government	-	-	-	-	2,467
Unearned Revenue	-	-	-	-	200
Accrued Bond Interest Payable	810	-	-	-	-
Loans and Notes Payable	-	-	-	-	27
Revenue Bonds Payable	4,275	-	-	-	-
Grants Payable	-	-	2,998	-	-
Claims Payable	-	-	-	-	-
Compensated Absences Payable	-	23	-	-	-
Securities Lending Collateral	-	-	5,602	-	-
Other Liabilities	-	-	39	-	-
Total Current Liabilities	$ 5,085	$ 2,819	$ 9,358	$ 331	$ 3,377
Noncurrent Liabilities:					
Due to Primary Government	$ -	$ -	$ -	$ -	$ -
Loans and Notes Payable	-	-	-	-	2,587
Revenue Bonds Payable	27,745	300,000	-	-	-
Claims Payable	-	-	-	-	-
Compensated Absences Payable	-	431	-	-	-
Other Liabilities	-	-	1,276	-	-
Total Noncurrent Liabilities	$ 27,745	$ 300,431	$ 1,276	$ -	$ 2,587
Total Liabilities	$ 32,830	$ 303,250	$ 10,634	$ 331	$ 5,964
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ -	$ 34	$ 65	$ 149	$ 621
Restricted	19,186	277,166	-	-	-
Unrestricted	3,238	472	166,336	3,772	(93)
Total Net Assets	$ 22,424	$ 277,672	$ 166,401	$ 3,921	$ 528

PUBLIC FACILITIES AUTHORITY	RURAL FINANCE AUTHORITY	WORKERS' COMPENSATION ASSIGNED RISK PLAN	TOTAL
$ 214,715	$ 15,987	$ 17,599	$ 305,115
19,121	-	242,054	413,917
-	-	52,581	64,257
-	-	-	247
15,067	-	1,423	18,546
99	-	-	903
-	-	-	36
-	-	2,063	4,098
52,990	5,000	-	126,331
21,512	-	-	27,114
-	-	-	1,138
$ 323,504	$ 20,987	$ 315,720	$ 961,702
$ -	$ -	$ -	$ 32,797
-	-	-	18,310
-	-	-	2,028
185,869	-	-	185,869
-	-	248,345	267,645
1,072,080	40,313	-	1,559,073
-	-	-	606
-	-	-	2,743
3,679	-	-	3,679
$ 1,261,628	$ 40,313	$ 248,345	$ 2,072,750
$ 1,585,132	$ 61,300	$ 564,065	$ 3,034,452
$ 596	$ -	$ 12,175	$ 17,300
-	14,000	7,241	23,708
-	-	50,107	50,307
13,778	-	-	14,588
-	-	-	27
40,595	-	-	44,870
-	-	-	2,998
-	-	62,699	62,699
12	-	-	35
21,512	-	-	27,114
-	-	-	39
$ 76,493	$ 14,000	$ 132,222	$ 243,685
$ -	$ 46,423	$ -	$ 46,423
-	-	-	2,587
786,843	-	-	1,114,588
-	-	397,301	397,301
172	-	-	603
1,552	-	-	2,828
$ 788,567	$ 46,423	$ 397,301	$ 1,564,330
$ 865,060	$ 60,423	$ 529,523	$ 1,808,015
$ -	$ -	$ -	$ 869
717,867	-	-	1,014,219
2,205	877	34,542	211,349
$ 720,072	$ 877	$ 34,542	$ 1,226,437

NONMAJOR COMPONENT UNIT FUNDS
COMBINING STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2003 AND JUNE 30, 2004
(IN THOUSANDS)

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	HIGHER EDUCATION SERVICES OFFICE	MINNESOTA PARTNERSHIP FOR ACTION AGAINST TOBACCO	MINNESOTA TECHNOLOGY INCORPORATED	NATIONAL SPORTS CENTER FOUNDATION
Net Expenses:					
Total Expenses	$ 3,407	$ 162,930	$ 11,074	$ 6,839	$ 8,001
Program Revenues:					
Charges for Services	$ 171	$ 16,537	$ -	$ 3,307	$ 7,454
Operating Grants and Contributions	-	4,326	-	2,024	-
Net (Expense) Revenue	$ (3,236)	$ (142,067)	$ (11,074)	$ (1,508)	$ (547)
General Revenues:					
Investment Income	$ 1,986	$ 967	$ 19,116	$ 67	$ -
Other Revenues	-	-	1,900	-	609
Total General Revenues	$ 1,986	$ 967	$ 21,016	$ 67	$ 609
State Grants Not Restricted	$ -	$ 144,716	$ -	$ 3,000	$ -
Total General Revenue, Grants	$ 1,986	$ 145,683	$ 21,016	$ 3,067	$ 609
Change in Net Assets	$ (1,250)	$ 3,616	$ 9,942	$ 1,559	$ 62
Net Assets, Beginning, as Reported	$ 23,674	$ 274,056	$ 156,459	$ 2,362	$ 466
Net Assets, Ending	$ 22,424	$ 277,672	$ 166,401	$ 3,921	$ 528

PUBLIC FACILITIES AUTHORITY	RURAL FINANCE AUTHORITY	WORKERS' COMPENSATION ASSIGNED RISK PLAN	TOTAL
$ 58,135	$ 4,987	$ 148,683	$ 404,056
$ 35,657	$ 6	$ 90,871	$ 154,003
12,773	-	-	19,123
$ (9,705)	$ (4,981)	$ (57,812)	$ (230,930)
$ -	$ 4,678	$ 12,667	$ 39,481
216	-	7,453	10,178
$ 216	$ 4,678	$ 20,120	$ 49,659
$ 2	$ -	$ -	$ 147,718
$ 218	$ 4,678	$ 20,120	$ 197,377
$ (9,487)	$ (303)	$ (37,692)	$ (33,553)
$ 729,559	$ 1,180	$ 72,234	$ 1,259,990
$ 720,072	$ 877	$ 34,542	$ 1,226,437

NONMAJOR COMPONENT UNITS
NOT ISSUING SEPARATELY AUDITED FINANCIAL STATEMENTS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

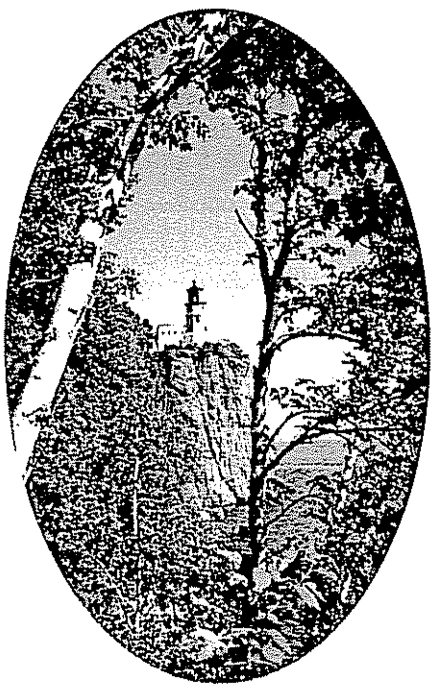
	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	RURAL FINANCE AUTHORITY	TOTAL
Operating Revenues:			
Loan Interest Income	$ 2,044	$ 2,947	$ 4,991
Investment /Interest Income	-	1,731	1,731
Rental and Service Fees	-	6	6
Other Income	113	-	113
Total Operating Revenues	$ 2,157	$ 4,684	$ 6,841
Operating Expenses:			
Bond Interest Expense	$ 1,869	$ -	$ 1,869
Economic and Manpower Development	38	4,987	5,025
Total Operating Expenses	$ 1,907	$ 4,987	$ 6,894
Operating Income (Loss)	$ 250	$ (303)	$ (53)
Nonoperating Revenues (Expenses):			
Gain (Loss) on Disposal of Capital Assets	$ (1,500)	$ -	$ (1,500)
Total Nonoperating Revenues (Expenses)	$ (1,500)	$ -	$ (1,500)
Change in Net Assets	$ (1,250)	$ (303)	$ (1,553)
Net Assets, Beginning, as Reported	$ 23,674	$ 1,180	$ 24,854
Net Assets, Ending	$ 22,424	$ 877	$ 23,301

NONMAJOR COMPONENT UNITS
NOT ISSUING SEPARATELY AUDITED FINANCIAL STATEMENTS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	RURAL FINANCE AUTHORITY	TOTAL
Cash Flows from Operating Activities:			
Receipts from Customers	$ 6,359	$ 10,796	$ 17,155
Receipts from Other Revenue	646	159	805
Payments to Claimants	(6,855)	(4,260)	(11,115)
Payments to Suppliers	(38)	-	(38)
Payments to Others	(139)	(7,420)	(7,559)
Net Cash Flows from Operating Activities	$ (27)	$ (725)	$ (752)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond Sales	$ 4,000	$ -	$ 4,000
Loan Issuances	(4,107)	-	(4,107)
Net Cash Flows from Capital and Related Financing Activities	$ (107)	$ -	$ (107)
Cash Flows from Investing Activities:			
Proceeds from Sales and Maturities of Investments	$ 8,362	$ -	$ 8,362
Purchase of Investments	(9,062)	-	(9,062)
Net Cash Flows from Investing Activities	$ (700)	$ -	$ (700)
Net Increase (Decrease) in Cash and Cash Equivalents	$ (834)	$ (725)	$ (1,559)
Cash and Cash Equivalents, Beginning, as Reported	$ 11,710	$ 16,712	$ 28,422
Cash and Cash Equivalents, Ending	$ 10,876	$ 15,987	$ 26,863

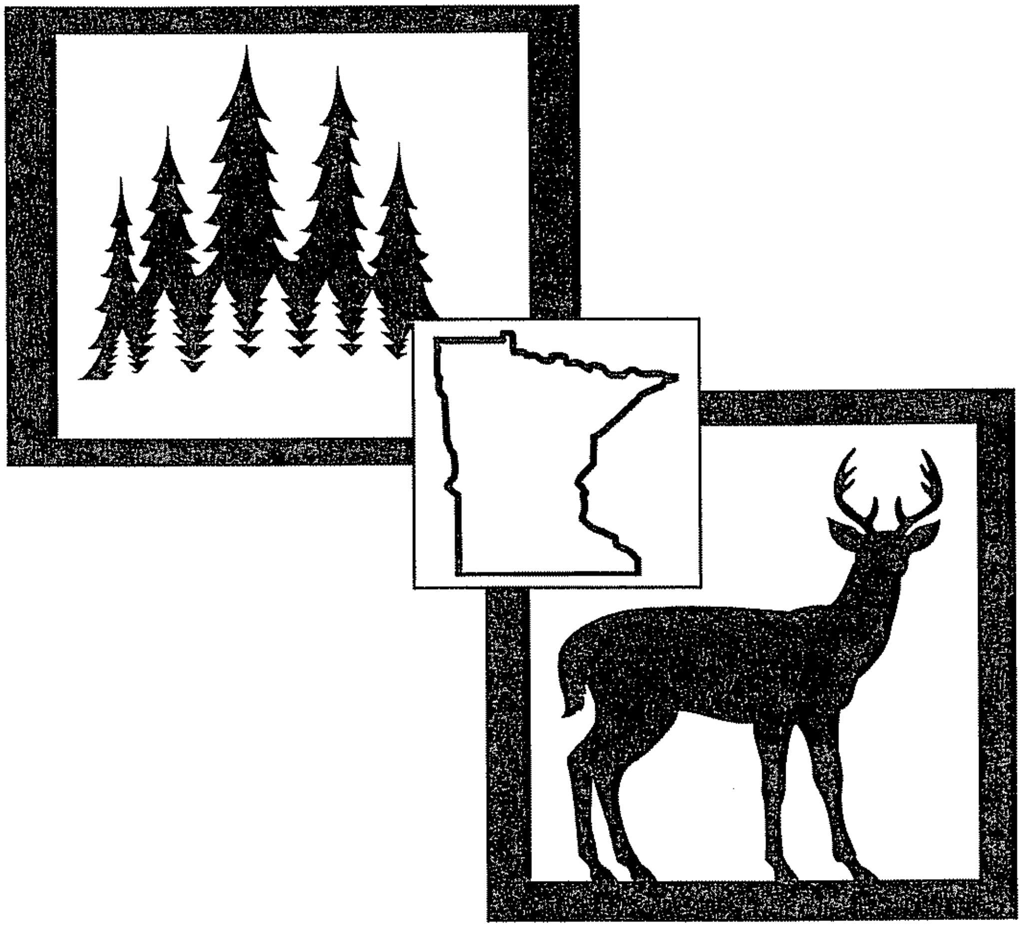
	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	RURAL FINANCE AUTHORITY	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	$ 250	$ (303)	$ (53)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:			
Loan Principal Receipts	$ 4,323	$ 10,796	$ 15,119
Loan Principal Repayments		(4,260)	(4,260)
Bond Principal Repayments	(4,390)	-	(4,390)
Change in Valuation of Assets	1,500	-	1,500
Other Receipts (Payments)	(1,710)	-	(1,710)
Change in Assets and Liabilities:			
Accounts Payable	-	(262)	(262)
Due to Primary Government	-	(6,696)	(6,696)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ (277)	$ (422)	$ (699)
Net Cash Flows from Operating Activities	$ (27)	$ (725)	$ (752)

During fiscal year 2003, the Agricultural and Economic Development Board wrote-off a loan of $2,507,000 and took possession of secured assets from Excelsior Henderson. At June 30, 2004 these secured assets are valued at $1,000,000.



General Obligation Debt Schedule

2004 Comprehensive Annual Financial Report



GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED

June 30, 2004

(In Thousands)

Purpose of Issue	Law Authorizing	Total Authorization	Previously Issued	Remaining Authorization
Municipal Energy Building	1983,Ch.323	$ 29,979.9	$ 29,935.0	$ 44.9
Building [7, 8, 9, 10]	1987,Ch.400	369,687.2	369,560.5	126.7
Water Pollution Control	1987,Ch.400	66,747.0	66,740.0	7.0
Building [7, 8, 9, 10]	1989,Ch.300	112,865.4	112,235.0	630.4
Building [7, 8, 9, 10]	1990,Ch.610	270,129.1	270,126.0	3.1
Wetlands/Reinvest in MN	1991,Ch.354	27,989.0	27,360.0	629.0
Building [7, 8, 9]	1992,Ch.558	202,134.0	196,910.0	5,224.0
Waste Management	1992,Ch.558	2,000.0	1,625.0	375.0
Transportation	1992,Ch.558	17,500.0	17,368.0	132.0
Building [7, 9]	1993,Ch.373	39,605.6	38,355.0	1,250.6
Transportation	1993,Ch.373	9,900.0	9,480.0	420.0
Building [4, 6, 8]	1994,Ch.643	526,505.9	523,814.0	2,691.9
Municipal Energy Building	1994,Ch.643	4,000.0	3,975.0	25.0
Transportation [6]	1994,Ch.643	34,948.7	34,820.0	128.7
Water Pollution Control	X1995, Ch.2	718.6	710.0	8.6
Building [4, 7]	1996, Ch. 463	479,422.2	478,005.0	1,417.2
Municipal Energy Building	1996, Ch. 463	3,908.3	3,850.0	58.3
Water Pollution Control	1996, Ch. 463	25,450.0	24,450.0	1,000.0
Building	1997, Ch. 246	82,599.9	82,400.0	199.9
Water Pollution Control	1997, Ch. 246	4,000.0	3,770.0	230.0
Transportation	1997, Ch. 246	3,000.0	2,985.0	15.0
Building [4]	X1997, Ch. 2	38,308.1	36,515.0	1,793.1
Building [1, 4]	1998, Ch. 404	101,053.2	100,695.0	358.2
Building [1, 4, 5]	1999, Ch. 240	441,105.0	426,365.0	14,740.0
Transportation [5]	1999, Ch. 240	28,440.0	27,105.0	1,335.0
Transportation [3]	2000, Ch. 479	7,000.0	5,600.0	1,400.0
Trunk Highway	2000, Ch. 479	100,100.0	99,500.0	600.0
Various Purpose [3]	2000, Ch. 492	535,060.0	467,380.0	67,680.0
Various Purpose [2]	X2001, Ch. 12	118,205.0	101,850.0	16,355.0
Various Purpose	2002, Ch. 280	7,800.0	0.0	7,800.0
Various Purpose	2002, Ch. 374	75,120.0	72,460.0	2,660.0
Various Purpose [1]	2002, Ch. 393	977,635.0	333,442.0	644,193.0
Trunk Highway	X2002, Ch. 1	10,115.0	10,000.0	115.0
Various Purpose	X2002, Ch. 1	16,315.0	7,400.0	8,915.0
Trunk Highway	X2003, Ch. 19, Art. 4	110,110.0	102,000.0	8,110.0
Trunk Highway	X2003, Ch. 19, Art. 3	400,400.0	29,000.0	371,400.0
Various Purpose	X2003, Ch. 20	236,915.0	25,000.0	211,915.0
Totals		$ 5,516,772.1	$ 4,142,785.5	$ 1,373,986.6

(1) The Governor vetoed $352,923,000 of appropriations for capital projects to be funded from Laws 2002, Chapter 393. The Governor will request that the bond authorization be reduced to match the appropriations in the 2005 Legislative Session. Laws of 2002, Chapter 393 also corrected the bond authorization reported in footnote 3 below by increasing the bond authorization of Laws 1998, Chapter 404 by $2,700,000 and reducing the bond authorization of Laws 1999, Chapter 240 by the $2,700,000.

(2) The Governor vetoed $1,000,000 of appropriations for capital projects to be funded from Special Session Laws 2001, Chapter 12. The Governor will request that the bond authorization be reduced to match the appropriations in the 2005 Legislative Session.

(3) Laws of 2001, Chapter 55 converted $7 million of transportation improvement projects authorized in Laws 2000, Chapter 479 from general fund to Transportation Bonds and converted capital projects authorized in Laws 2000, Chapter 492 to be financed from Various Purpose general obligation bonds to general fund cash.

(4) Laws 2000, Chapter 492 reduced Building Bonds authorizations as follows: Laws 1994, Chapter 643 by $1,964.000; Laws 1996, Chapter 463 by $1,855,000; Special Session Laws 1997, Chapter 2 by $10,000,000; Laws 1998, Chapter 404 by $2,700,000; and Laws 1999, Chapter 240 by $4,000,000. The $2,700,000 bond authorization reduction for Laws of 1998, Chapter 404 was for the cancellation of projects actually authorized by Laws of 1999, Chapter 240.

(5) The Governor vetoed $23,605,000 of appropriations for capital projects and $10,440,000 of appropriations for transportation projects to be funded from Laws 1999, Chapter 240. The Governor will request that the bond authorization be reduced to match the appropriations in the 2005 Legislative Session.

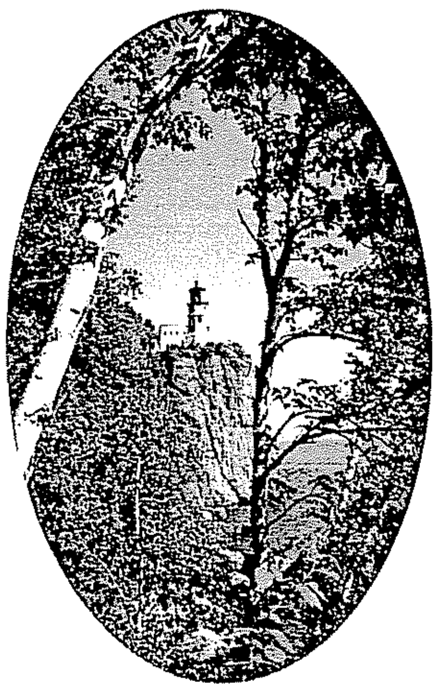
(6) Laws 1998, Chapter 404 reduced Building Bond authorization in Laws 1994, Chapter 643 by $1,350,000. Laws 1998, Chapter 404 also reduced Transportation Bond authorization in Laws 1994, Chapter 643 by $10,000,000.

(7) Laws 1997, Chapter 202 reduced Building Bond authorizations as follows: Laws 1987, Chapter 400 by $295,000; Laws 1989, Chapter 300 by $3,335,000; Laws 1990, Chapter 610 by $9,260,000; Laws 1992, Chapter 558 by $6,590,000; Laws 1993, Chapter 373 by $10,000; and Laws 1996, Chapter 463 by $37,285,000. Laws 1997, Chapter 202 also reduced: Transportation Bonds authorized in Laws 1990, Chapter 610 by $165,000; Reinvest in Minnesota Bond authorization in Laws 1990, Chapter 610 by $20,000; and Airport Facility Bond authorization in Laws 1991, Chapter 350 by $48,765,000.

(8) Special Session Laws 1995, Chapter 2 reduced Building Bond authorizations as follows: Laws 1987, Chapter 400 by $50,000; Laws 1989, Chapter 300 by $65,000; Laws 1990, Chapter 610 by $580,000; Laws 1992, Chapter 558 by $5,000; and Laws 1994, Chapter 643 by $1,245,000. Special Session Laws 1995, Chapter 2 also reduced the Transportation Bond authorization in Laws 1987, Chapter 400 by $10,000.

(9) Laws 1994, Chapter 643 reduced Building Bond authorizations as follows: Laws 1987, Chapter 400 by $240,000; Laws 1989, Chapter 300 by $895,000; Laws 1990, Chapter 610 by $115,000; Laws 1992, Chapter 558 by $65,000; and Laws 1993, Chapter 373 by $15,000.

(10) Laws 1993, Chapter 373 reduced Building Bond authorizations as follows: Laws 1987, Chapter 400 by $700,000; Laws 1989, Chapter 300 by $2,550,000; and Laws 1990, Chapter 610 by $2,500,000.



Statistical Section

The statistical tables showing computation of legal debt margin and overlapping debt, which are usually included in a Comprehensive Annual Financial Report, are not applicable to the state's operations and are not presented in this report.

Minnesota's data privacy laws prevent disclosing the names of principal taxpayers.

State of Minnesota
General Government Revenues By Source [1]
General, Special Revenue and Debt Service Funds
Fiscal Years 1995-2004
(In Thousands)

	1995	1996	1997	1998
Individual Income Taxes	$ 3,774,855	$ 4,129,026	$ 4,757,086	$ 5,146,586
Corporate Income Taxes	667,542	696,393	665,321	746,720
Sales Tax	2,728,525	2,933,886	3,013,188	3,254,757
Property Tax	N/A	N/A	N/A	N/A
Motor Vehicle Taxes	763,466	830,790	888,143	964,680
Gasoline and Special Fuel Taxes	484,573	520,702	542,896	557,556
Other Taxes	1,055,161	1,072,085	1,097,663	1,100,359
Federal Revenues	3,157,038	3,384,598	3,498,849	3,643,217
Other Revenues	964,623	1,217,204	1,299,714	1,449,177
Net Revenues	$ 13,595,783	$ 14,784,684	$ 15,762,860	$ 16,863,052

State of Minnesota
General Governmental Expenditures By Function and Net Transfers-Out [1]
General, Special Revenue and Debt Service Funds
Fiscal Years 1995-2004
(In Thousands)

	1995	1996	1997	1998
Current Expenditures:				
Protection of Persons/Property	$ 196,981	$ 202,535	$ 230,252	$ 235,346
Transportation	374,194	351,712	403,806	426,775
Resource Management	233,167	273,961	283,296	286,312
Economic/Manpower Development	263,451	191,283	209,404	209,431
Education	562,672	723,923	869,754	900,590
Health and Social Services	698,295	736,466	849,510	888,461
General Government	258,609	273,786	274,908	290,327
Capital Outlay	330,482	419,555	418,796	472,906
Debt Service	285,344	522,296	378,707	371,916
Grants and Subsidies	9,068,110	9,920,296	10,160,159	10,419,601
Total Expenditures	$ 12,271,305	$ 13,615,813	$ 14,078,592	$ 14,501,665
Net Operating Transfers-Out [2]	277,012	302,618	317,092	648,977
Total Expenditures and Net Transfers-Out	$ 12,548,317	$ 13,918,431	$ 14,395,684	$ 15,150,642

[1] Revenues and expenditures are accounted for on the modified accrual basis.

[2] Net operating transfers-out are reduced by bond proceeds of the special revenue funds for the following years (in thousands):

1995	$14,025	1998	$ 3,400	2001	$46,490	2004	$171,000
1996	$13,990	1999	$ 7,100	2002	$96,000		
1997	$12,650	2000	$ 2,000	2003	$15,400		

1999	2000	2001	2002	2003	2004
$ 5,695,664	$ 5,591,326	$ 5,924,978	$ 5,439,186	$ 5,477,799	$ 5,836,790
767,364	834,243	709,702	454,318	572,689	648,837
2,119,403	3,114,521	3,020,094	3,795,942	3,822,453	3,959,236
N/A	N/A	N/A	305,573 (3)	585,416	599,622
1,046,703	1,135,693	1,016,437	1,111,953	1,109,090	1,096,890
587,954	611,112	611,528	611,886	645,886	651,261
1,184,104	1,219,179	1,399,013	1,357,595	1,502,508	1,639,352
3,726,654	4,205,802	4,495,512	4,650,483	5,265,603	5,550,606
1,718,857	1,619,680	1,631,081	1,782,164	1,666,773	1,679,338
$ 16,846,703	$ 18,331,556	$ 18,808,345	$ 19,509,100	$ 20,648,217	$ 21,661,932

1999	2000	2001	2002(4)	2003(4)	2004(4)
$ 254,063	$ 268,499	$ 305,176	N/A	N/A	N/A
426,365	451,697	493,602	N/A	N/A	N/A
310,784	326,437	338,456	N/A	N/A	N/A
237,105	230,606	253,357	N/A	N/A	N/A
987,823	1,028,794	1,112,716	N/A	N/A	N/A
884,747	919,925	872,935	N/A	N/A	N/A
321,744	329,102	398,541	N/A	N/A	N/A
504,123	581,256	551,603	N/A	N/A	N/A
653,028	446,939	461,044	N/A	N/A	N/A
11,381,301	11,970,060	13,152,055	N/A	N/A	N/A
$ 15,961,083	$ 16,553,315	$ 17,939,485	N/A	N/A	N/A
545,435	800,360	520,807	N/A	N/A	N/A
$ 16,506,518	$ 17,353,675	$ 18,460,292	N/A	N/A	N/A

(3) 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. The levy for taxes payable in 2002 were $592,000,000 and for 2003 were $594,000,000. 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.

(4) See the following page for information on a new function structure beginning with 2002.

State of Minnesota
General Governmental Expenditures By Function and Net Transfers-Out
General, Special Revenue and Debt Service Funds
Fiscal Year 2002 - 2004
(In Thousands)

	2002	2003	2004
Current Expenditures:			
Public Safety and Corrections	$ 695,171	$ 742,281	$ 711,560
Transportation	1,555,645	1,663,764	1,598,588
Agricultural and Environmental Resources	549,533	510,772	511,273
Economic and Workforce Development	742,114	722,234	640,932
General Education	5,417,774	6,893,718	6,488,523
Higher Education	794,915	769,339	700,290
Health and Human Services	7,111,373	8,091,315	8,229,553
General Government	603,672	604,355	589,734
Intergovernment Aid	1,287,768	1,480,533	1,355,683
Securities Lending Rebates and Fees	24,459	6,081	3,683
Capital Outlay	446,080	524,814	642,714
Debt Service	384,422	420,658	437,960
Total Expenditures	$ 19,612,926	$ 22,429,864	$ 21,910,493
Net Operating Transfers-Out	315,989	396,759	167,979
Total Expenditures and Net Transfers-Out	$ 19,928,915	$ 22,826,623	$ 22,078,472

Beginning with fiscal year 2002, new functions were established and changes were made to expenditures assigned to particular functions to provide more meaningful information. The major changes in functions include:

1) The Education function was separated into General Education (K-12) and Higher Education functions.

2) Grants and Subsidies have been allocated to specific functions.

3) Intergovernmental Aid was created as a new function.

Additionally, expenditures were reassigned, mainly at the agency level, to more appropriate functions. As an example, Department of Corrections expenditures were moved from the former Health and Social Services function to the new Public Safety and Corrections function.

These changes affect the comparability of prior year statistical information to fiscal years 2002 through 2004.

For 2002, Health and Human Services, and Health Care were reported as separate functions. The functions were combined for 2003.

State of Minnesota
Assessed Value of Taxable Property
1995-2004

Year of Assessment	Real Property	Personal Property	Tax Assessed Value/ Tax Capacity	Percentage Increase Per Year
1995	$ 3,350,007,524	$ 147,560,824	$ 3,497,568,348	6.09
1996	3,594,280,546	154,793,236	3,749,073,782	7.19
1997	3,500,012,129	136,978,564	3,636,990,693	(2.99)
1998	3,479,953,266	124,043,585	3,603,996,851	(0.91)
1999	3,713,253,053	129,817,042	3,843,070,095	6.63
2000	4,135,617,985	131,768,174	4,267,386,159	11.04
2001	3,335,640,103	80,179,049	3,415,819,152	(19.96)
2002	3,666,903,140	83,167,280	3,750,070,420	9.79
2003	4,052,664,473	88,305,759	4,140,970,232	10.42
2004 (est.)	4,563,780,740	92,976,246	4,656,756,986	12.45

Source: Minnesota Department of Revenue

State of Minnesota
Market Value of Taxable Property
1995-2004

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Increase Per Year
1995	$ 177,163,788,491	$ 3,282,461,951	$ 180,446,250,442	6.24
1996	189,112,448,343	3,440,030,594	192,552,478,937	6.71
1997	202,875,382,657	3,515,300,071	206,390,682,728	7.19
1998	219,034,138,639	3,641,069,248	222,675,207,887	7.89
1999	237,547,128,291	3,931,268,879	241,478,397,170	8.44
2000	260,679,384,015	4,003,570,517	264,682,954,532	9.61
2001	288,122,487,520	4,114,925,467	292,237,412,987	10.41
2002	320,941,481,217	4,263,859,610	325,205,340,827	11.28
2003	359,163,493,421	4,524,446,900	363,687,940,321	11.83
2004 (est.)	407,180,851,312	4,767,623,100	411,948,474,412	13.26

Source: Minnesota Department of Revenue

State of Minnesota
Schedule of General Obligation Bonded Debt
Per Capita
Fiscal Years 1995-2004
(In Thousands)

Year	General Obligation Bonded Debt	Bonded Debt Per Capita
1995	$ 1,892,169	406.4
1996	2,162,015	458.7
1997	2,160,719	453.6
1998	2,506,939	520.9
1999	2,384,195	489.2
2000	2,527,281	512.5
2001	2,588,155	520.5
2002	3,032,095	604.0
2003	3,421,495	676.3
2004 (est.)	3,197,355	625.8

State of Minnesota
Schedule of Ratio of Annual Debt Service For General Obligation
Bonded Debt to General Expenditures
Fiscal Years 1995-2004
(In Thousands)

Year	Principal	Interest	Total Debt Service	General Expenditures [1]	Percent of Expenditures
1995	$ 160,666	$ 99,036	$ 259,702	$ 12,271,305	2.12
1996	169,780	102,747	272,527	13,615,813	2.00
1997	171,295	180,991	352,286	14,078,592	2.50
1998	184,820	147,297	332,117	14,501,665	2.29
1999	444,941	137,776	582,717	15,961,083	3.65
2000	267,888	123,288	391,176	16,553,315	2.36
2001	279,525	133,038	412,563	17,939,485	2.30
2002	227,379	134,034	361,413	19,612,926	1.84
2003	275,718	144,940	420,658	22,429,864	1.88
2004	253,127	184,833	437,960	21,910,493	2.00

[1] Includes the General, Special Revenue and Debt Service Funds

State of Minnesota
Schedule of Revenue Bond Coverage - In Thousands
State University Board Revenue Fund
Fiscal Years 1995-2004

Year	Gross Revenue[1]	Direct Operating Expenses[2]	Net Available For Debt Service	Principal[3]	Interest	Total	Coverage Ratio
1995	$ 41,492	$ 31,715	$ 9,777	$ 945	$ 2,217	$ 3,162	3.09
1996	45,105	34,491	10,614	1,420	2,200	3,620	2.93
1997	46,036	34,508	11,528	1,450	1,974	3,424	3.37
1998	45,481	38,321	7,160	1,520	2,003	3,523	2.03
1999	48,857	40,449	8,408	2,185	1,888	4,073	2.06
2000	51,470	38,543	12,927	665	1,813	2,478	5.22
2001	54,385	42,343	12,042	27,390	2,933	30,323	0.40
2002	55,964	47,830	8,134	-	-	-	N/A
2003	60,606	47,599	13,007	-	2,247	2,247	5.79
2004	66,221	54,221	12,000	1,065	1,695	2,760	4.35

State of Minnesota
Schedule of Revenue Bond Coverage - In Thousands
Vermilion Community College Dormitory, Segment of College and University Enterprise Activities
Fiscal Years 1995-2004

Year	Gross Revenue[1]	Direct Operating Expenses[2]	Net Available For Debt Service	Principal	Interest	Total	Coverage Ratio
1995	$ 425	$ 126	$ 299	$ 83	$ 161	$ 244	1.23
1996	448	230	218	42	116	158	1.38
1997	495	172	323	99	145	244	1.32
1998	506	163	343	119	134	253	1.36
1999	536	158	378	99	126	225	1.68
2000	596	169	427	105	118	223	1.91
2001	555	329	226	110	110	220	1.03
2002	544	309	235	120	101	221	1.06
2003	570	335	235	130	96	226	1.04
2004	595	332	263	140	86	226	1.16

State of Minnesota
Schedule of Revenue Bond Coverage - In Thousands
Giants Ridge - Fiscal Years 1995-2004

Year	Gross Revenue[1]	Direct Operating Expenses[2]	Net Available For Debt Service	Principal	Interest	Total	Coverage Ratio
2001[4]	$ 4,718	$ 3,982	$ 736	$ -	$ 1,066	$ 1,066	0.69
2002	3,455	4,070	(615)	200	151	351	(1.75)
2003	3,128	3,876	(748)	310	574	884	(0.85)
2004	4,994	4,283	711	310	1,170	1,480	0.48

(1) Proceeds from grants and subsidies and investment income from nonoperating revenues are included.
(2) Depreciation, amortization, bad debt, interest and financing expenses are not included.
(3) Revenue bonds were defeased in June 2001 and reissued in February 2002.
(4) Revenue bonds of $16.0 million for Giants Ridge were issued on November 1, 2000.

Employment Mix in Minnesota - 1995-2004 (In Thousands)

Category	1995	1996	1997	1998
Manufacturing Durable	243.6	244.8	254.2	262.3
Manufacturing Non-Durable	182.3	183.5	179.9	181.8
Mining	7.9	7.9	7.9	8.1
Construction	82.7	88.7	93.5	101.8
Transportation/Public Utilities	117.0	119.7	123.6	127.6
Trade	576.7	592.9	600.3	613.9
Finance/Insurance/Real Estate	138.2	142.5	146.4	156.2
Service	659.4	685.1	712.3	741.8
Government	332.2	332.4	366.8	366.5
Agriculture	72.9	78.1	71.9	67.2
Total Employed	2,412.9	2,475.6	2,556.8	2,627.2

Source: Minnesota Department of Employment and Economic Development

Minnesota Based Companies Included in the Fortune 500 (In Thousands)

Rank			
2003	2002	Company	Sales
23	25	Target	$ 48,163,000
54	63	United Health Group	28,823,000
78	91	Best Buy	22,673,000
99	81	Supervalu	19,160,400
105	110	Minnesota Mining & Manufacturing (3M)	18,232,000
133	123	U.S. Bancorp	15,354,400
186	235	General Mills	10,506,000
207	193	Northwest Airlines	9,510,000
212	237	Cenex Harvest States	9,398,500
227	207	St. Paul Companies	8,958,000
254	180	Xcel Energy	7,938,500
263	276	Medtronic	7,665,200
284	N/A	Thrivent Financial for Lutherans	6,575,200
308	297	Land O'Lakes	5,978,100
411	408	Hormel Foods	4,200,300
433	410	Nash Finch	3,971,500
451	457	Ecolab	3,761,800
467	464	C.H. Robinson Worldwide	3,613,600
498	470	PepsiAmericas	3,236,800

Source: Fortune Magazine, dated April 5, 2004

State of Minnesota
Average Daily Public School Membership

School Year	Kindergarten	Elementary	Secondary	All Grades
1994-95	65,732	380,891	360,777	807,400
1995-96	66,672	383,458	372,345	822,475
1996-97	63,575	375,683	371,147	810,405
1997-98	64,501	383,904	389,293	837,698
1998-99	59,280	384,641	396,999	840,920
1999-00	57,686	383,682	399,059	840,427
2000-01	57,564	381,893	402,578	842,035
2001-02	56,527	376,421	405,512	838,460
2002-03	58,757	364,376	413,721	836,854
2003-04	59,330	360,279	412,430	832,039

Source: Minnesota Department of Education

1999	2000	2001	2002	2003	2004
260.3	262.1	252.3	240.4	232.7	217.0
179.2	177.1	177.8	172.6	165.2	127.3
7.4	7.4	6.0	5.3	5.3	6.0
112.1	114.3	123.5	121.7	121.4	125.1
130.5	129.8	133.7	127.0	124.3	92.1
619.3	630.6	633.9	632.0	627.8	676.1
160.3	163.2	161.6	161.6	168.1	176.0
765.8	789.6	806.8	814.0	819.4	843.5
373.2	386.9	381.5	382.0	387.4	388.6
64.0	66.2	59.0	58.0	59.6	70.6
2,672.1	2,727.2	2,736.1	2,714.6	2,711.2	2,722.3

Assets	Rank	Net Income	Rank
$ 31,392,000	113	$ 1,841,000	62
17,634,000	179	1,825,000	63
7,663,000	301	99,000	378
5,896,200	341	257,000	298
17,593,000	180	2,403,000	49
189,286,000	23	3,732,600	30
18,227,000	177	917,000	123
14,158,000	213	248,000	303
3,808,000	398	123,800	358
39,563,000	91	661,000	167
18,264,400	176	622,500	183
12,320,800	233	1,599,800	70
49,355,000	73	23,800	424
3,070,900	429	106,500	370
2,393,100	457	185,800	333
886,400	499	35,100	416
3,228,900	423	277,300	288
908,100	498	114,100	367
3,582,400	413	157,600	341

Minnesota Commercial Bank Deposits
1995-2004
(In Millions)

Year	Bank Deposits
1995	$ 46,809
1996	51,361
1997	71,706
1998	98,769
1999	106,441
2000	117,864
2001	121,275
2002	69,257
2003	75,797
2004	74,318

Sources: *Federal Deposit Insurance Corporation*
Minnesota Department of Revenue, Unpublished

Minnesota Population, Per Capita Personal Income and Unemployment Rate
1995-2004

Year	Population (In Thousands)	Personal Income	Unemployment Rate Percent
1995	4,660	$ 24,295	3.7
1996	4,713	25,904	4.0
1997	4,763	27,086	3.3
1998	4,813	29,092	2.5
1999	4,874	30,105	2.8
2000	4,931	31,935	3.3
2001	4,972	32,791	3.7
2002	5,020	34,071	4.4
2003	5,059	35,400	4.7
2004 (est.)	5,109	36,016	4.9

Sources: *Minnesota Department of Employment and Economic Development*
U.S. Department of Commerce

State of Minnesota
New Housing Units Authorized in Permit-Issuing Localities
1995-2004
(In Thousands)

Year	Valuation	Year	Valuation
1995	$ 2,589,746	2000	$ 4,203,928
1996	2,902,560	2001	4,576,087
1997	2,757,956	2002	5,369,212
1998	3,485,224	2003	6,269,475
1999	4,052,716	2004	N/A

Source: *U.S. Bureau of the Census Construction Reports*

State of Minnesota
Miscellaneous Statistics
June 30, 2004

Date of Statehood	May 11, 1858 - 32nd State
Land Area - 12th Largest State	84,068 Square Miles
Higher Education (Institutions):	
2 Year State Community Colleges	8
4 Year State Universities	7
University of Minnesota	4
2 Year Technical Colleges	6
2 Year Consolidated Community/Technical Colleges	16
4 Year Private Colleges	29
2 Year Private Colleges	3
Private Professional Schools	5
Private Vocational Schools	87
Trade Routes:	
Miles of Highways	135,295
Miles of Main Line Railroad Track	4,533
Public Airports	141
Waterways -	
Lake Superior	
Mississippi River	
Recreation:	
Lakes	11,842
State Forests	58
Area of State Forests	3,200,000 Acres
State Parks	66
Area of State Parks	267,325 Acres

Sources: Higher Education Services Office
Minnesota State Colleges and Universities
Department of Natural Resources
Department of Transportation